



**BANK OF ENGLAND**

# News release

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## **Bank of England Quarterly Bulletin - 2010 Q3**

The 2010 Q3 issue of the Bank of England Quarterly Bulletin is published today. It contains the following articles and reports:

- *Foreword*, by Spencer Dale, Chief Economist and Executive Director - Monetary Analysis and Statistics.
- *Markets and operations*. This regular quarterly commentary discusses recent developments in sterling financial markets, including the Bank's official operations. Following heightened concerns earlier in the year, sentiment in financial markets improved in June and July, before deteriorating somewhat in August. Concerns about sovereign default risk in some European countries persisted. Moreover, doubts remained about the durability and speed of the global economic recovery going forward.
- *Understanding the price of new lending to households*. This article explores the factors behind the rise in the price of new household borrowing relative to Bank Rate, using a simple decomposition of new lending rates into lenders' funding costs, credit risk charges and a residual that includes both lenders' operating costs and mark-ups. Higher spreads on long-term wholesale funding costs faced by lenders have been a key contributor. But other factors also appear to have played a role, reflected in a pickup in the residual component. That needs to be interpreted with caution but, among other things, it is consistent with lenders increasing mark-ups over marginal costs for new lending, which may reflect a need to build higher capital levels within the banking sector.
- *Interpreting the world trade collapse*. This article explores the explanations that have been put forward to explain the collapse in global trade during the recent recession. Evidence suggests that the fall in world trade largely reflected a fall in global demand that was concentrated in import-intensive investment spending. In addition, the increasing globalisation of production processes and supply chains over recent decades means that international trade flows have become more responsive to shifts in global demand. Other factors, including the tighter availability of specialist trade finance, may have played a secondary role.

- *What can we learn from surveys of business expectations?* In the past, sharp falls in surveys of businesses' output expectations have typically provided an indication of upcoming recessions. But they have also on occasion given false signals. Small moves in survey balances appear to contain relatively little useful information. This article considers the factors that influence survey measures of businesses' expectations and techniques that may help distinguish whether movements in them are meaningful or not. But it concludes that this must ultimately be a matter of judgement.
- *Residential property auction prices.* This article asks whether auction price data can help to provide a timely read on the housing market. Residential property auction price data have certain advantages and, empirically, they do appear to offer an early insight into developments in the housing market. But, as with any data, they must be interpreted with care.
- *Chief Economists' Workshop: state-of-the-art modelling for central banks.* This report summarises the key points that emerged from the seventh Chief Economists' Workshop, hosted at the Bank of England, which took as its theme 'state-of-the-art modelling for central banks'.

#### **Note to Editors**

Copies of the Quarterly Bulletin are available from:

Publications Group, Bank of England, Threadneedle Street, EC2R 8AH

(Tel: 020 7601 4030; fax 020 7601 3298) or the Quarterly Bulletin Page

<http://www.bankofengland.co.uk/publications/Pages/quarterlybulletin/default.aspx>