

The Bank's regional Agencies

By Phil Eckersley, the Bank's Agent for Northern Ireland and Pamela Webber, of the Bank's Inflation Report and Bulletin Division.

This article describes the work of the Bank's regional Agencies, updating that published in the November 1997 Quarterly Bulletin.⁽¹⁾ It outlines, in particular, the contribution of the Agencies to the work of the Monetary Policy Committee.

The Agencies' role

The Agencies' main function is to provide economic intelligence to the Monetary Policy Committee (MPC) every month ahead of its interest rate decision. Though regional representatives have been providing economic intelligence since 1930 (see the box on page 93), the Bank's independence since 1997 has increased the importance of that work in the monetary policy process. Between them the Bank's Agents and Deputy Agents hold 8,000 meetings with business contacts each year in order to take the temperature of the UK economy. In addition, the Agents facilitate regular visits by Committee members to the regions in order to hear first hand about business conditions.

These arrangements allow the MPC greater access to additional sources of information on a regional and sectoral basis. Moreover, they provide the MPC with access to more timely news than is available through the publication of official statistics, considerably aiding the MPC in analysing the latest economic developments.

Developments to the contact base

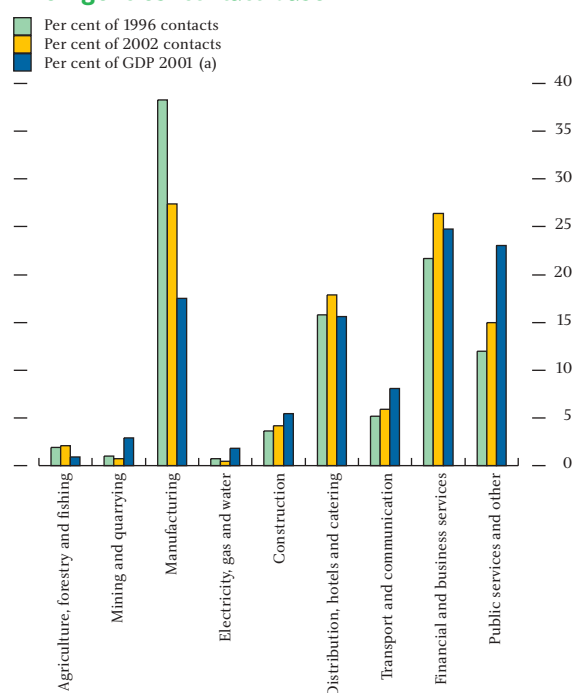
Over the past five years, the Agencies have improved the nature and quality of the information gathered for the MPC. They aim to maintain a contact base that broadly mirrors the sectoral breakdown of GDP in their regions. The sectoral breakdown of activity in the regions acts as a guide to the number of contacts rather than as a target.

Historically, the manufacturing sector has been over represented, although manufacturing contacts do provide indirect information on other sectors as well.

The Agencies have traditionally had relatively little contact with public services, such as public administration and health, because much of the information is available centrally from the government. For this reason, a lower proportion of contacts is in the public sector than would be implied by share of economic activity.

But outside the public sector, Agencies have attempted to improve sectoral coverage by adding contacts in sectors where a review of coverage had identified weakness. Chart 1 illustrates the progress on reducing the overdependence on manufacturing contacts, as well

Chart 1
The Agencies' contact base



(a) Guide to contact mix in 2002 is based on 2001 GDP shares.

(1) Beverly, J (1997), 'The Bank's regional Agencies', *Bank of England Quarterly Bulletin*, November, pages 424–27.

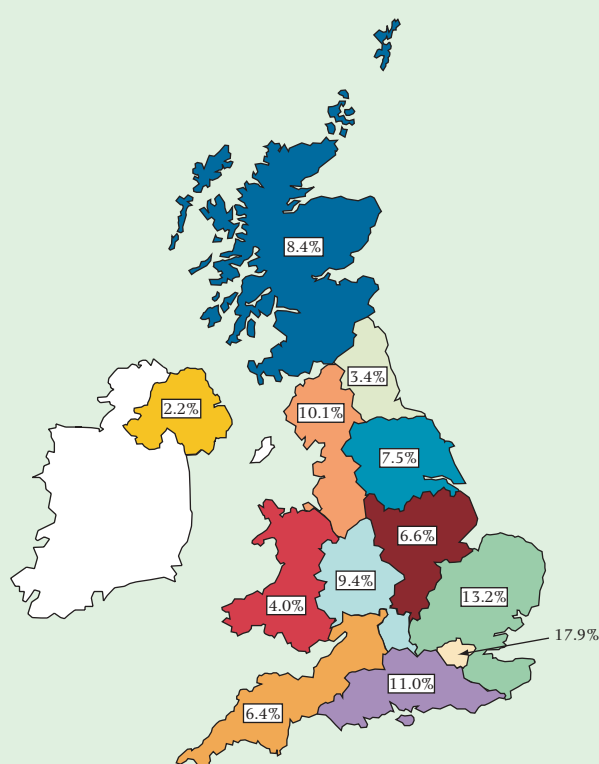
An historical perspective

The Bank's regional representation, which has evolved into the current network of Agencies, began when the first Branches were established in 1826–28 to deal with problems caused by the failure of local banknote-issuing banks. The network of Branches grew and changed during the 19th century, but their basic responsibility was still to provide a banking and banknote distribution service in their areas. From 1930 onwards, the Branches were required to send confidential reports on economic and business conditions, drawn from local industrial and commercial contacts, to Head Office in London. In recent years these reports and the use to which they are put have developed considerably. The Bank was restructured in 1994 and industrial liaison work (including the work of the Agencies) was integrated within the Monetary Analysis area of the Bank. After a review of the Bank's regional coverage in 1995–96, it was decided to terminate banking in the Branches—Birmingham, Bristol, Leeds, Manchester and Newcastle—and concentrate banknote distribution from London (Head Office and Printing Works in Debden, Essex) and Leeds. The Birmingham, Bristol, Manchester and Newcastle Branches were each replaced by an Agency. Leeds is also the site of a new Agency, with banknote business run as a separate operation. Additional Agencies were opened in Greater London, Wales and the East Midlands.

The current network of twelve Agencies was completed in 2000, when the Agency for Northern Ireland was opened in Belfast. At the same time, the operations in Liverpool and Manchester were amalgamated to form the Agency for the North West with offices in both cities. And a separate office for the Agency covering the South East and East Anglia was opened in Cambridge to complement the London office. Another office for the

South West Agency is due to be established in Exeter in 2003. The staffing of the Agencies now typically comprises an Agent, a Deputy Agent and up to three additional support team members.

The geographical coverage of a number of Agencies is consistent with the official standard planning regions; others reflect economic and geographic considerations. Agency premises are located in the principal metropolitan and business centres, and spread across the country. The map shows the areas currently covered by each of the twelve Agencies, together with the proportion of UK output, based on 1998 weights, that they cover.



as achieving a better mix of other sectors covered. Additionally, since some service sector areas are dominated by small and medium-sized enterprises (SMEs), each Agency has established panels of small firms representatives which meet regularly to discuss developments in their business. This has also helped increase the coverage of the SME sector. Using regional GDP data broken down by county, individual agencies have been able to achieve good geographical coverage within their own regions.

The identification of potential new contacts is a continuous process at each Agency, as contacts are lost through business closure, take-over or as individual contacts move on. Agencies also review their contact list regularly to ensure that sectoral and geographical coverage is maintained.

Briefing the MPC

The Agencies provide information to the MPC through a number of channels.⁽¹⁾ Their most comprehensive

(1) Bean, C and Jenkinson, N (2001), 'The formulation of monetary policy at the Bank of England', *Bank of England Quarterly Bulletin*, Winter, pages 434–41 provides a detailed description of all the briefing which the MPC receives on a monthly basis.

assessment of economic developments each month comes via their monthly report.

The monthly economic report

Each Agency produces a confidential monthly economic report (MER) based on discussions with a cross-section of companies, in terms of sector, location and size. The report covers demand, both domestic and export, costs and prices, labour market and pay developments.

Agencies are asked particularly to identify any changes in trend. The information gathered through a programme of company visits is supplemented with evidence from business and public sector organisations—regional CBI Councils, Chambers of Commerce, universities and the press. The MERs are distilled into a monthly Agents' national summary. A quarterly Agents' summary of business conditions is also published in the *Inflation Report*.

Pre-MPC

Each month, typically on the Friday preceding the policy decision, the MPC is briefed fully on the current economic and market developments by senior Bank staff at the so-called pre-MPC meeting. Four Agents, one each from the North, Midlands and South of England and one from Scotland, Wales or Northern Ireland, plus three Deputy Agents attend the pre-MPC meetings. Two of the Agents deliver a presentation to the Committee each month, the first on a special topic chosen by the Committee and the second on key economic issues arising out of the visits undertaken during the latest month—the Agents' update.

The Agents' special topic

Each month, the Committee decides whether some targeted questioning by the Agencies could usefully supplement official data or seek to explain puzzling developments in the economy. When the required information is identified and specific questions are agreed, each Agency approaches a subset of its contacts to seek feedback. The Agents are asked to present the results of their investigations at the following pre-MPC meeting.

The Committee sometimes asks the Agencies to carry out a survey among their contact base in a form similar to that of a previous year, although more often it requires the Agencies to survey their contacts on a new area of interest that may have developed recently. An example of the latter is the special topic for

November 2001, which asked companies how their plans had changed following the events of 11 September 2001. More recently, the MPC was puzzled that the sharp decline in goods export volumes shown in official data for 2002 Q4 did not seem consistent with official data on production for export by manufacturers. Agencies were asked to find out whether their contacts had increased or reduced export sales in 2002 Q4 relative to Q3.

The questions may be asked as part of pre-planned meetings and are usually worded so that respondents have to choose from a number of alternative answers. Questionnaires may also be sent to contacts, or the topic may be discussed over the telephone. The number of responses varies between months from 150 to more than 300, according to the detail in the question being posed. Agencies rely on co-operation from contacts and are conscious of the need not to make excessive demands for information.

In presenting the results, responses are weighted according to turnover or employment of participating companies. In some cases a balance of responses, as used in Confederation of British Industry and British Chambers of Commerce surveys, is presented. Over the period August 1997 to March 2003 there have been 59 presentations covering 31 different topics, including 6 presentations each on investment and pay prospects and 5 on inventories.

The Agents' update

The Agents' update attempts to draw together the views of all the regions to present an overall UK picture. Though key regional differences are highlighted where appropriate. Unlike the more comprehensive MER, the presentation is focused on selected key issues; either covering areas in which the MPC has expressed particular interest, or reflecting significant developments identified by the Agents in the course of their contact visits. The Agents' update provides the MPC with a more timely assessment than is available through published official statistics

Other economic reporting

Prices and wages

The Agents also use contact visits to gather quite detailed information on price movements over and above that needed for the main body of their economic reporting. This information is helpful in the production

of the internal short-term inflation forecasts in Head Office, which are provided regularly to the MPC.

In a similar vein, Agencies collect information on pay settlements from their contacts. This forms part of the Bank's settlements database, which is used to provide an indication of labour market pressures and earnings growth within the economy. The data can be broken down by sector, thus providing an indication of differing developments, in manufacturing and services for example.

Structural issues

In addition to the conjunctural assessment that the Agents provide as part of the monthly MPC cycle, they are also able to provide information on longer-term trends or new structural developments. Briefing notes are produced jointly by the Agents and staff of the Structural Economic Analysis Division in Monetary Analysis. A recent example was a study of the extent and impact of e-commerce.

MPC and other regional visits

The Agencies facilitate meetings with their business contacts for the MPC. In 2002, 50 visits were organised by the Agencies for Committee members. A similar number is expected to take place in 2003.

The Agencies are also involved in the organisation of regional Court meetings. The Court is the governing body of the Bank. It consists of the Bank's Governor, two Deputy Governors, and 16 non-executive Directors. The Court determines the Bank's objectives and strategy, other than those relating to monetary policy. Additionally, it aims to ensure the effective discharge of the Bank's functions and the most efficient use of the Bank's resources. The first meeting of Court outside London organised by the Agencies took place in Birmingham in 1999. Since then, Court has met in Edinburgh (2000), Leeds (2001), Cardiff (2001) and Liverpool (2002). Members of the MPC also attend these meetings. Court will convene in Nottingham in 2003, and at other regional locations in the future. The formal meeting of Court is supplemented by sessions with local business and government contacts for a two-way exchange of views on recent economic developments.

Agencies also arrange visits for staff from Head Office. Agency offices plan programmes for the visitors, giving

them the opportunity to meet contacts and to improve their appreciation of regional and sectoral economic conditions from a business perspective.

Representational developments

The Agencies continue to have a high profile externally and in the past five years they have been involved in an increasing amount of representational activity, including speaking engagements and presentations. A major part of Agencies' communications work involves explaining the Bank's monetary policy role. This includes elaborating on the reasons underpinning monetary policy decisions, and the judgments involved. All Agencies now present the details of the Bank's quarterly *Inflation Report* to business audiences in their regions.

These initiatives form part of the Bank's work on building a 'constituency for low inflation'—improving the understanding of how sustainable economic growth depends on maintaining price stability. As part of this initiative the Bank has produced a pamphlet for business people, which outlines the arguments in favour of low inflation. Another key component is a schools competition, Target 2 point 5, which is run jointly with *The Times* newspaper.

Target 2 point 5 schools competition

In the past three years the Agencies have been involved in judging the Bank's schools challenge, Target 2 point 5.

The Challenge attracts entries from over 250 schools from all over the United Kingdom. It requires students to take on the role of the MPC and give a view on the interest rate required to hit the inflation target. The first regional heats take place in November (there were 36 in November 2000 and 40 in 2001 and 2002). These regional heats are judged by the Agent and Deputy Agent from the region, plus a member of staff from the Monetary Analysis area. Following the regional heats, the winners go to the area finals in February, which produce six national finalists. The national final, held at the Bank of England in London, is hosted by Sir Edward George, Governor of the Bank and Chairman of the MPC.

Other representational activity

Agencies have acted as an important conduit for information about the practical implications of the euro for business. The Agencies also undertake work for the

Financial Stability wing of the Bank, for example on sources of funding for small firms and the financing of ethnic-minority-owned firms.

Foreign central banks' interest in Agency work

In recent years several foreign central banks have shown an interest in the work carried out by the Agencies. The

Agents have discussed their work and liaised directly with counterparts in other parts of the world, ranging from Europe, North America, former Soviet republics to Australasia. Central banks in several countries have established, or are considering setting up, networks of regional units to gather economic information, quite similar to the Bank of England's Agencies.