BANK OF ENGLAND

Speech

Prospects for the UK Economy and Challenges for Monetary Policy

Speech given by

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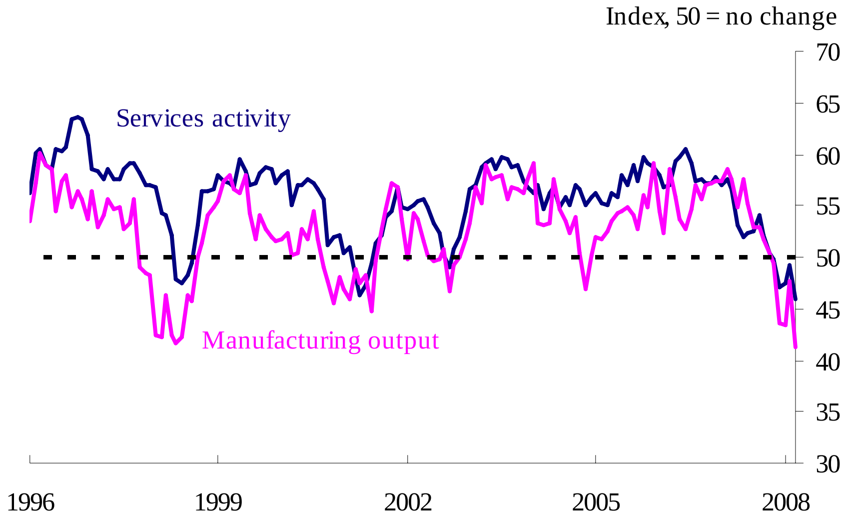
The last month has seen a period of exceptional and unprecedented turmoil in the global financial system and on financial markets. It was just a month ago, on the weekend of the 13th and 14th September, that it became clear that Lehman Brothers was heading for bankruptcy. Since then we have seen a sustained period of acute financial turbulence on both sides of the Atlantic, leading to further bank failures, takeovers and nationalisations. There has also been a very sharp decline in stock markets, accompanied by extreme volatility. At the end of last week, the FTSE All Share index closed 27% below its level four weeks ago. These developments have, in turn, met with dramatic responses from the authorities – the "Paulson Plan" in the United States, last week's recapitalisation package for the major UK banks and the actions which have flowed from that today, as well as commitments made at the G7 and by EU leaders over the weekend.

This latest period of financial turbulence has been aggravated and reinforced by an accumulation of downbeat news about the health of the real economy, both in the UK and globally. Here in the UK, the business surveys released in September and early this month have given a much gloomier picture than we were seeing through the summer – suggesting that output is now falling across the economy, as Chart 1 shows. The latest reports from the Bank of England Agents are in line with this view of a further weakening in business activity and future economic prospects.[1]

Chart 1: CIPS survey activity measures



Source: CIPS survey

[1] The Agents' Summary of UK Business Conditions for September 2008 will be released alongside the MPC Minutes on Wednesday 22nd October.

The combination of exceptional turbulence in the financial system and evidence of a further softening in the real economy has significantly shifted the balance of risks for the UK economic outlook. As the level of economic activity weakens in the UK and globally, inflationary pressures are receding. The risk of a prolonged and severe period of falling demand and output – resulting in much more excess capacity than is necessary to ensure inflation returns to target – has correspondingly increased.

That was the economic backdrop to the decision of the Monetary Policy Committee (MPC) to cut the UK Bank Rate by 50 basis points last Wednesday – a day earlier than we would normally have made an interest rate decision. Emergency meetings of the MPC are rare – this was only the second in over eleven years. But they highlight our flexibility to act when the situation demands a response. By bringing forward its meeting and decision, the MPC was able to participate in a co-ordinated interest rate cut aimed at countering a weakening of global economic conditions as well as adjusting monetary policy in response to the changing balance of risks in the UK. In doing this, the Committee acted independently and under the terms of its legal mandate. Even though the circumstances were exceptional, the method of reaching our decision followed our usual procedures – with members voting individually on a proposition put by the Governor. The votes cast and the arguments put at the meeting will be available for all to see in next week's minutes.

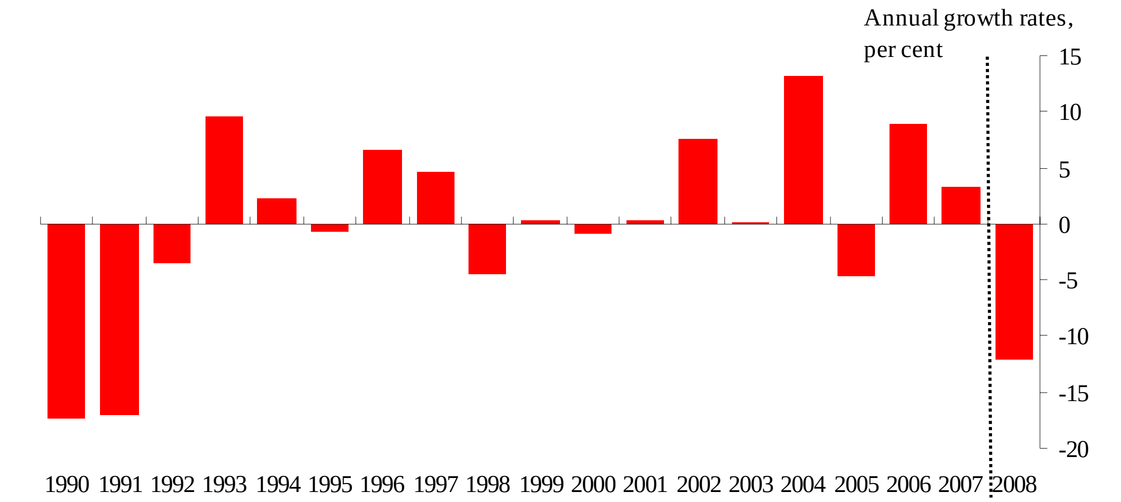
These recent events have inevitably increased concerns about the outlook for the UK economy and highlighted the issue of how monetary policy should respond in the current situation. These are the issues I will address today, while recognising that the backdrop of financial turbulence greatly adds to the uncertainties we are currently facing.

The recent performance of the UK economy

Any assessment of the economic outlook needs to take into account the factors responsible for the recent deterioration in economic conditions. In my view, the latest weakening in UK demand and output conditions reflects an intensification of the downward pressures which were already present over the summer, plus the impact of two additional factors – a deterioration in UK export markets and the potential impact of a stock cycle.

In the first half of this year, domestic demand in the UK had already been squeezed by the two big global shocks hitting the economy. Rising energy and food prices had depressed the growth of real disposable incomes causing consumers to cut back on other areas of expenditure. Uncertainty created by the "credit crunch" reinforced this consumer slowdown and was causing firms to become more cautious about investment spending. Restrictions on credit were also having an impact – particularly in property markets. As Chart 2 shows, private sector housing and related investment in the first half of this year was already over 12% down on a year ago – the sharpest fall seen since the early 1990s.

Chart 2: Private sector housing investment

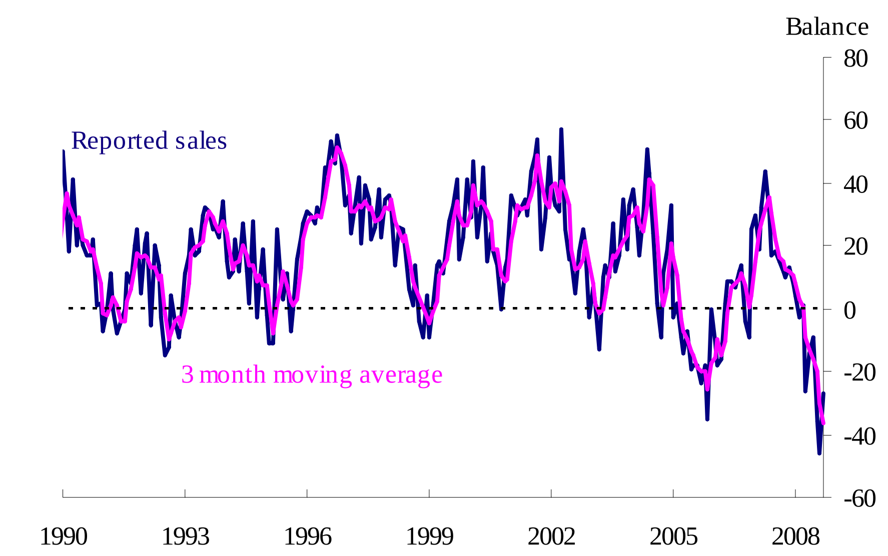


Source: Office for National Statistics, National Accounts

Note: 2008 data shows the annual change in private sector housing investment for 2008H1

As we have moved into the autumn, both these dampening factors on domestic demand have intensified. As the energy companies have passed through their latest round of price rises and food price inflation has risen further, the squeeze on disposable income has increased. The financial turmoil over the last month has undoubtedly added to the uncertainty faced by households and firms, causing them to become even more cautious about major spending decisions. And a further tightening in credit conditions is signalled by the Bank of England's latest survey, reinforcing the downward trends in property markets and increasing the downward pressure on business investment and household spending.

Chart 3: Retail sales growth – CBI survey



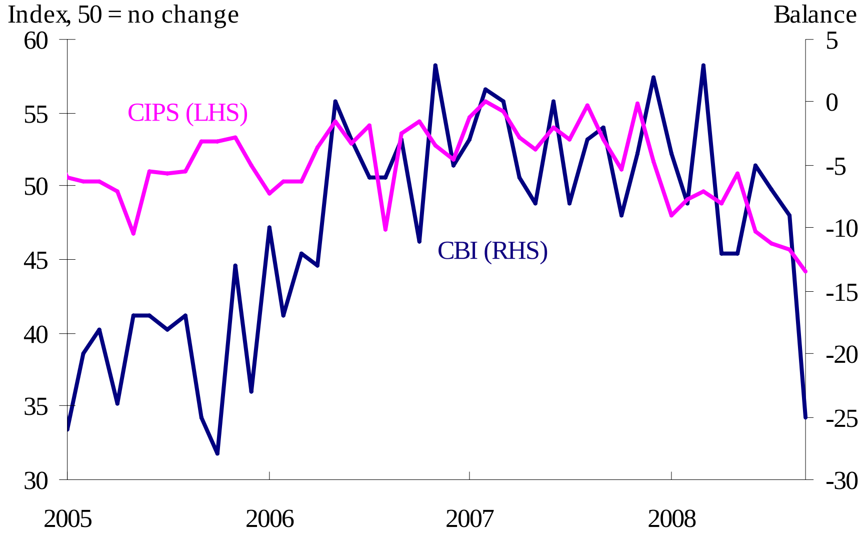
Source: CBI Distributive Trades survey

Note: The CBI survey measure is based on the percentage balance of retailers reporting an increase in the volume of sales on a year ago, less the percentage reporting a decrease.

In terms of consumer spending, the CBI Distributive Trades Survey shows the weakest performance in terms of retail volumes since the survey began in the early 1980s – as Chart 3 shows. Though the other two main sources of retail sales data – the official figures and the British Retail Consortium survey – are not yet available for September, in recent months all three data sources have shown a sharp weakening in the sales of durable and household goods. The impact of recent economic trends on major purchases is also highlighted by the September car sales figures, which show new car registrations down by over 20% on a year ago. Meanwhile, the latest data from the housing market also continue to point to further price falls and weakening activity.

In addition to this intensification of the downward pressure on domestic demand which was already evident over the summer, there appear to be two additional ingredients which are likely to reinforce the current weakness of the UK economy over the months ahead.

Chart 4: Export orders



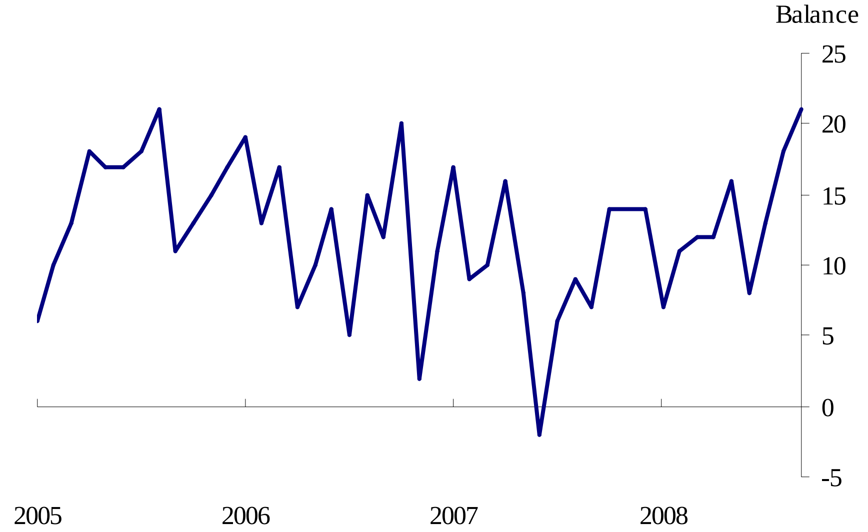
Source: CBI monthly trends and CIPS survey

Note: The CBI survey measure is based on the percentage balance of firms reporting export orders above or below normal. The CIPS survey measure is based on the percentage balance of firms reporting an increase in new export orders over the last month, less the percentage reporting a decrease.

The first is a softening in export order books, which had been holding up well earlier in the year, supported by a competitive value of the pound against the euro. The most recent business surveys show a significant weakening in export demand, as Chart 4 shows. This appears to be associated with weakness in the economies of continental Europe – the UK's most important export market – which is adding to the global slowdown in economic activity.

A second development which threatens to add to the weakness of demand and output is the impact of a classic stock cycle. Recent business surveys have shown a sharp increase in the level of stocks of unsold goods relative to the level companies regard as adequate or desirable, particularly in manufacturing industry (Chart 5).

Chart 5: Manufacturing stock levels



Source: CBI monthly trends enquiry

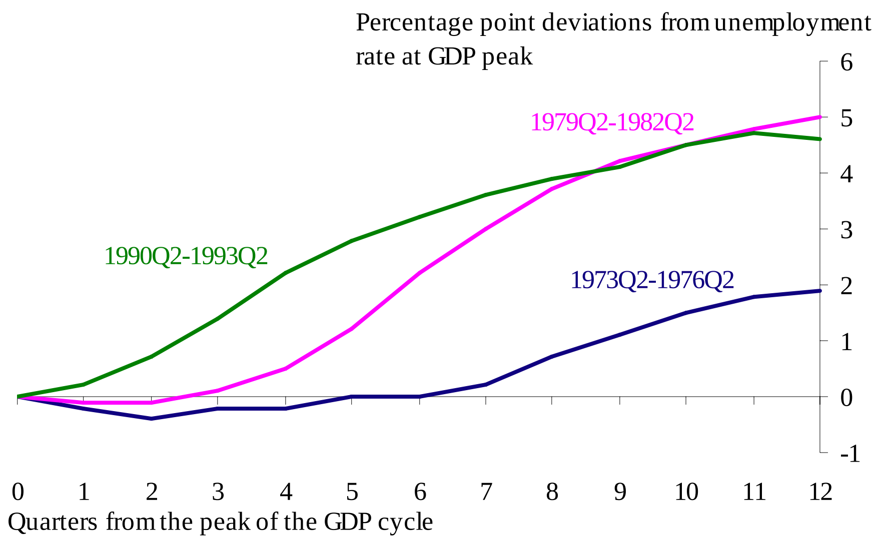
Note: The CBI survey measure is based on the percentage balance of firms reporting stocks more than adequate, less the percentage of firms reporting less than adequate stocks.

This may be evidence that the latest slowdown in demand has taken firms by surprise and they have been left with an unexpected increase in unsold goods. It could also reflect the fact that companies now wish to hold a lower level of stocks of goods as they seek to economise on working capital in a more constrained financial environment. Whichever of these mechanisms is at work, they both imply a run-down in excess stocks in the months ahead which risks adding to the downward trend in output across the economy.

All of this evidence points to a negative outlook for output, demand and jobs over the remainder of this year and in early 2009. At the same time as the financial turbulence of the last few weeks has reinforced the climate of uncertainty and lack of confidence, there has also clearly been a further downward shift in demand and output in the real economy. It now seems to me more likely than not that we will see a fall in GDP for the third and fourth quarters of this year, satisfying the technical criteria which many economists use to define a recession. In the Bank’s August *Inflation Report*, our central forecast was very close to suggesting that this might be the case, and the news since then has been heavily to the downside.

I personally dislike the so-called technical definition of recession. It does not properly capture the distinction between a short period of economic weakness from which the economy quickly rebounds and the prolonged downturns we have seen in the UK before – in the mid-70s, early-80s and early-90s. On each of those occasions, GDP fell by 2.5 percent or more peak to trough, and the period of declining GDP lasted for over a year.[2] Unemployment rose particularly sharply in the last two of these episodes, as Chart 6 shows. From the onset of recession, unemployment rose by between 1.3 and 1.4 million over three years in the early 1980s and early 1990s.[3]

Chart 6: UK unemployment in major recessions



Source: Office for National Statistics

Note: Claimant count unemployment measure. A one percentage point rise in this unemployment measure implies a rise in unemployment of about 300,000.

The economic disturbances which caused these episodes were much more severe than is captured in the economists' "technical definition" of a recession and we really need a different category for describing these prolonged periods of economic downturn. The big question now is whether we are in one of those more dramatic downturns, or something much milder. The jury is still out on this question, but the balance of risks is shifting. Until recently, my view has been that there was a low probability of a

[2] Output (GDP) declined by 3.3%, 4.6% and 2.5% from the peak level of activity in the periods 1973-1975, 1979-81 and 1990-92.
[3] Claimant count unemployment rose by 540,000 between 1973 Q2 and 1976 Q2, 1.40 million between 1979Q2 and 1982 Q2, and 1.34 million between 1990Q2 and 1993 Q2

severe recession akin to these earlier episodes.[4] But the severe stresses in the financial system over the last month and the downside news from the real economy have certainly increased the risks of a bigger and more sustained downturn.

The MPC is just embarking on an update of its August *Inflation Report* forecast, which will be published in November. Forecasting is a hazardous business at the best of times. All economic forecasts are subject to a range of uncertainties and that is particularly true at present. In the current circumstances, the outlook for the UK economy depends on how the current financial crisis evolves, how it affects the state of demand in the global economy and how consumers and firms adjust their spending plans in response. But it is equally important to recognise that monetary policy can be a powerful offsetting response to negative influences on demand, output and ultimately inflation. As a result, monetary policy can play an important stabilising role in the current situation.

The inflation outlook for 2009

The key issue affecting how monetary policy will respond – in the UK at least – is the outlook for inflation. The Monetary Policy Committee's ability to relax monetary policy and offset some of the other stresses on the economy by lowering interest rates depends crucially on whether this is consistent with our price stability mandate - to keep CPI inflation at its target level of 2% over the medium term.

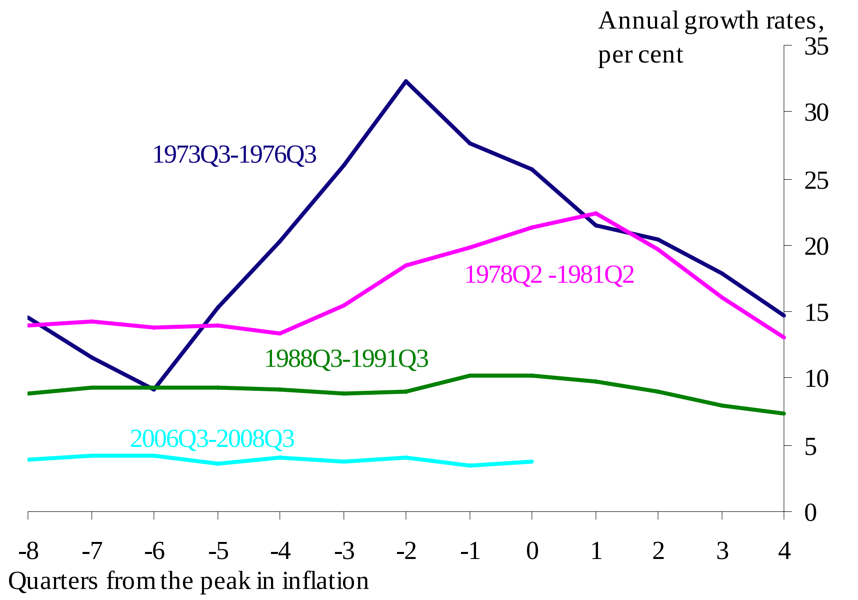
The experience of the UK economy in the 1970s and early 1980s, and also in the late 1980s and early 1990s, highlights the danger of relaxing monetary policy when it is not consistent with price stability. The length and depth of the early 1980s and early 1990s recessions – and the rises in unemployment which followed as a consequence (see Chart 6) – were greatly aggravated by a previous surge in inflation which became deeply embedded in wage and price setting processes. So the superficial idea that being more tolerant of inflation will help to sustain economic growth and jobs in the longer term is profoundly wrong.

[4] See "How Big is the Risk of Recession", speech to the Devon and Cornwall Business Council, 21 February 2008 and "Monetary Policy: Sticking to the Basics", speech to the Leicester Chamber of Commerce Gala Dinner, 24 September 2008.

At face value, the performance of inflation so far this year appears to be part of the rest of the "bad news" story which has unfolded for the UK economy over the last six months. Inflation has risen from close to target at the end of last year to 4.7% in August. It is likely to rise further when we see the September CPI figure later this week – peaking at above 5% before it starts to fall back.

However, this surge in inflation has been unlike others we have seen in the UK before, with the possible exception of the early 1950s inflation driven by commodity price pressures associated with the Korean War[5]. The big waves of inflation which buffeted the UK economy in the mid-1970s, the late-1970s and early-1980s, and in the late-1980s and early-1990s, were all associated with high rates of growth in money spending and wages. On these previous occasions, higher inflation became embedded in the underlying wage and price-setting processes of the economy and in inflation expectations. Squeezing inflation out then became very costly.

Chart 7: Average earnings growth



Source: Office for National Statistics

Note: Calculations based on average earnings index for whole economy including bonuses. Current inflation peak is measured according to CPI inflation; RPI and RPIX are used for the previous peaks. The latest observation reflects July 2008 data rather than the quarter as a whole.

[5] Measured by the Retail Prices Index, inflation rose from 2.0% in September 1950 to 13.0% in January 1952. Within a year it had come down to under 5.0% and by June 1953 inflation had dropped to 2.6%, remaining below 3% for the remainder of 1953 and most of 1954.

However, in the current episode of rising inflation, demand growth and wage growth have remained subdued. Chart 7 shows the picture for wage growth, aligning the peaks of inflation in earlier episodes with the present expectation of the timing of the current inflation peak.[6] Not only has wage growth been significantly below the rates of increase we have seen in these previous inflationary episodes, but there has been no noticeable acceleration. Though there has been a risk that wage settlements and earnings growth would pick up in response to above-target inflation, so far this has not happened. And as we look ahead, this risk is receding as output and demand are set to weaken.

A downswing in demand and activity has a number of dampening impacts on the rate of growth of wages – all of which are likely to counter any upward pressure on pay settlements from high headline inflation. First, bonuses, commissions and performance-related elements of pay are likely to be squeezed as an economic slowdown bites. Second, companies are likely to be facing weak demand conditions in the UK and globally, which will squeeze their revenues and profits and limit their ability and willingness to pay higher wage settlements. Third, as the labour market slackens, employees become more wary about pressing for higher pay settlements because of job security concerns.

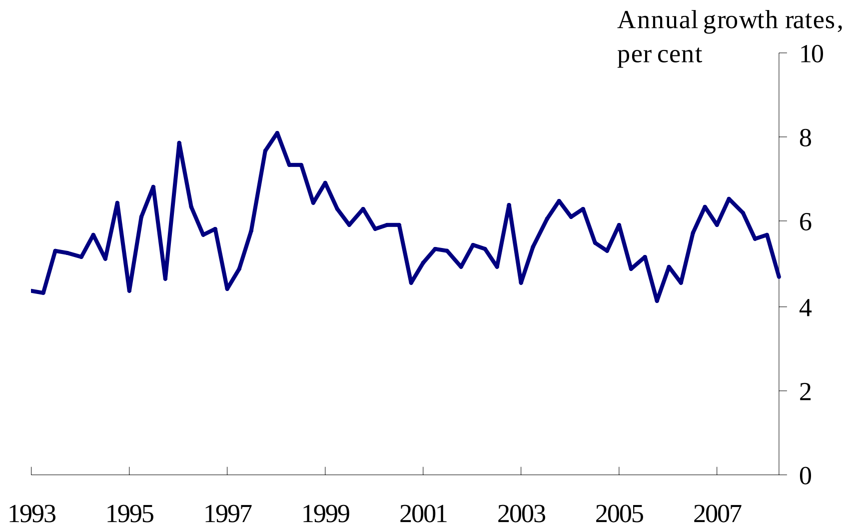
In the period of weak economic activity which is likely to prevail in the second half of this year and in early 2009, we should expect these mechanisms to counter any upward drift in wage growth in response to higher headline inflation. My experience talking to businesses on regional visits and on other occasions has been consistent with this view. So while the MPC must always be alert to the risks to inflation expectations from a temporary surge in inflation, the vast bulk of the evidence from the labour market has provided reassuring evidence that this could well be a "dog which does not bark" on this occasion.

Another previous signal of strong inflationary pressure from the 1970s and 1980s is the rate of growth of money spending. In my first speech as a MPC member, nearly two years ago, I highlighted nominal domestic demand growth as a key measure of

[6] The August *Inflation Report* forecast suggested that CPI inflation would peak in Q3 this year.

demand pressure – ie whether we have “too much money chasing too few goods”.[7] This indicator captures total money spending across the UK economy by consumers, firms and government and has been pushed up sharply in previous inflationary episodes

Chart 8: Nominal domestic demand growth



Source: Office for National Statistics

In the previous three major inflationary episodes in the UK which led to recession, nominal domestic demand growth peaked at an annual rate between 15% and 25%.[8] By contrast, Chart 8 shows that in the low inflation era which has been in place in the UK since the early 1990, nominal domestic demand has been kept in a reasonably tight range of about 4 – 7% per annum. It is true that 2006/7 saw a slight pick-up in money spending growth towards the top of this range, but this has since subsided. The current estimate of the rate of growth of domestic demand over the last twelve months for which we have data is 4.7% – below the average for the last decade.[9] And with the current downside pressures on the economy, a deceleration in demand is more likely than an acceleration as we look ahead.

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[7] See “Inflation and the Supply Side of the Economy”, speech at Bloomberg City Gate House on 16 January 2007. Alternative measures of money spending can be used – such as money GDP. Nominal domestic demand better captures the impact of spending decisions by UK households and firms, as money GDP includes the net contribution of overseas trade – exports less imports.

[8] Over the periods shown in Chart 7 – two years before the peak in inflation and one year after, nominal domestic demand growth peaked at 24.5% in 1975 Q1, at 21.5% in 1979 Q4, and at 14.8% in 1988 Q4.

[9] Latest data currently available for 2008 Q2. Average growth in nominal domestic demand for the decade 1998 Q2 – 2008 Q2 is 5.7%.

Even though these underlying measures of domestic inflationary pressure have been subdued, there has been a risk that the inflation outlook would be compromised by a prolonged series of upside inflationary shocks from import prices, reinforced by the impact of the weakness of the pound. However, oil and other commodity prices are now falling back, and the upward pressure from imported inflation now appears to be receding. Though a weak pound will tend to reinforce imported inflation, the negative demand climate will counter this through its impact on importers' and retailers' margins – making it much harder for imported costs to find their way through to consumer prices.

We are also currently seeing further downgrading in global economic forecasts in response to current period of financial turbulence – with the latest IMF forecast being particularly downbeat.[10] While oil and other commodity prices could remain volatile, the weakening of the global economy is likely to continue to ease the demand pressure underpinning the recent surge in energy and food price inflation.

So, in a nutshell, the MPC has received quite a bit of reassurance on medium-term inflationary pressures over the last few months – despite the upturn in short-term measures of inflation. We can now be much more confident than we were a few months ago that inflation will come back to the 2% target over the medium term. Indeed, it could quite conceivably undershoot the target for a while if oil and other commodity prices fall back sharply, or if the depressing impact in inflation of weak demand, activity and employment is particularly severe.

Growth prospects in 2009

What does this imply for the profile for economic growth in 2009 and beyond? The central forecast published in the August *Inflation Report* was for demand and output to be weak in the second half of 2008 and early 2009, with little or no growth over this period. This was expected to be followed by a recovery in the second half of next year, as Chart 9 shows. The fan chart around the central forecast, however,

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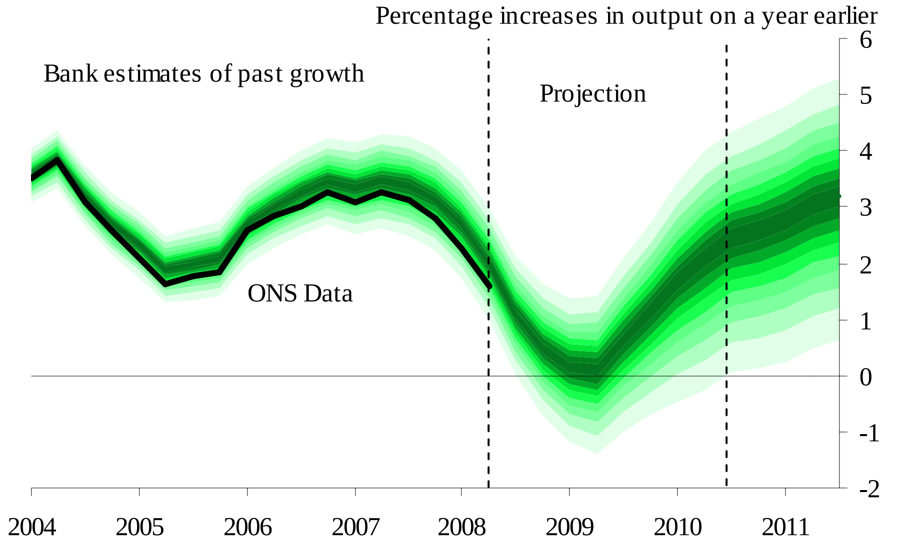
[10] For example, in its latest bi-annual *World Economic Outlook* released in early October, the IMF said global economic growth would slow to 3.9% this year and then to just 3% in 2009 - its lowest level since 2002. The previous IMF forecast in April was for 2009 growth of 3.7%.

highlighted the uncertainties around the outlook for growth, and the *Inflation Report* made clear that the risks to output and demand were weighted to the downside.

Chart 9: August 2008 Inflation Report GDP projection



Source: Bank of England Inflation Report, *August 2008*

Note: The fan charts depict the probability of various outcomes for GDP growth in the future, with the darkest central band and each pair of the lighter red bands representing 10 per cent; and the entire fan chart representing 90 per cent.

Some of this downside risk has now materialised. UK economic activity in the second half of this year and in early 2009 is now likely to be noticeably weaker than the August central forecast suggested. The main downside influences on economic prospects since August are the negative impact on confidence and spending decisions from the continued shocks to the financial system, the impact of credit constraints on the ability of firms and households to borrow to support their normal pattern of spending, and a weakening in demand in the UK's major export markets – particularly in Europe.

However, though the weakness of demand and output in the short-term was understated by the central projection in the August forecast, a recovery in the second half of next year still seems a reasonable expectation in my view. Three factors should support a recovery in the UK economy in the second half of next year. Though none is entirely certain, they should act as a counterweight to the current mood of gloom and pessimism about the short-term economic outlook.

First, the squeeze on real household incomes and spending from higher energy and food prices should be seen as a one-off shift which will fade as we move into the second half of next year. Once it has passed through the system, the normal pattern of real wage growth should resume, which would be more supportive of consumption. The continuation of recent falls in the price of oil and some other commodities, as the global economy weakens, would add to this real income boost from falling inflation. This real income boost would provide a significant offset to other negative influences on economic growth we might expect to see continuing into late 2009 and 2010, such as the legacy of the "credit crunch" and the desire for households and firms to rebuild their balance sheets after a period of financial stress.

Second, we are now seeing significant actions being taken on both sides of the Atlantic to deal with the problems of the banking system, with the aim of restoring confidence and facilitating a return to more normal lending behaviour. These developments are welcome. In the UK, US and other major economies, governments, central banks and financial regulators are working hard to stabilise the volatile situation in financial markets and seeking to ensure that we have a properly solvent and well-capitalised banking system going forward. It will take time for these measures to take effect, and we cannot rule out the possibility of further shocks to the financial system in the short-term. But as we move into next year, it seems reasonable to expect the condition of the financial system to improve. A stable and sound banking system and the financial stability which flows from that is a key precondition for sustained economic growth.

Monetary policy implications

The third and crucial ingredient which could help to stabilise the economic situation and provide the basis for a return to growth later next year is the response of monetary policy. The objective of monetary policy is to maintain price stability, and in doing that we need to guard against destabilising downside risks as well as the risk of a self-sustaining inflationary spiral. Throughout the recent period of slowing growth and rising inflation, I have believed that it should not be necessary for the UK economy to experience a recession on the scale of the early 1990s, or earlier recessions, in order to keep current inflationary pressures in check.[11] Our inflation target framework makes it clear that monetary policy should ward off deflationary dangers as well as containing upside inflationary risks.

Last week the MPC made a half percentage point cut in interest rates – the first half point cut for the MPC since 2001 and only the fifth in the history of the Committee. This move reflects the fact that the balance of risks affecting the outlook for the economy and for inflation has decisively shifted to the downside in recent months.

I am not going to pre-judge how interest rates will move over the months ahead. Monetary policy is a flexible instrument, and the level of interest rates is reassessed every month by the MPC with a view to ensuring the level is appropriate in light of its price stability mandate. The Committee digests a vast amount of data relating to the current and likely future conditions in the real economy and we continually update our view in the light of the changing data flow. As I have made clear, that data flow has been heavily negative for both output and inflation over the last month.

Though I have been labelled a “hawk” by the media and economic commentators because of my approach to monetary policy decisions in the past, the judgements which underpinned that assessment were taken in a very different world to the one which we currently inhabit. I also know from my own experience at the CBI and British Airways that business and economic conditions can change very rapidly and when this happens policy and strategy needs to adapt to address the realities of the changed situation. John Maynard Keynes is alleged to have responded to a journalist critical of his tendency to shift his view – “When the facts change, I change my mind. What do you do sir?” I am with Keynes in the current situation – we need to keep on top of the way the economy is changing and adapt our approach to monetary policy accordingly.

At present, I am particularly concerned about the downside risks to economic activity created by the current financial turmoil and its impact on economic activity, globally and domestically. A key challenge for monetary policy in the months ahead is

[11] See “How Big is the Risk of Recession”, speech to the Devon and Cornwall Business Council, 21 February 2008.

therefore to counter the increasing risk that activity and employment may weaken much more than necessary to keep inflation on target over the medium term.

Over the months ahead, our monetary policy decisions have to take into account the likely impact of the current bout of financial turmoil on the real economy – through its impact on credit availability, business and consumer confidence and demand conditions at home and abroad. In the near term, I would hope that we will see some stabilisation and a gradual return to a more normal functioning of the banking system – in response to the actions that the authorities have taken on both sides of the Atlantic. If we do see that, it could take some of the strain off the need for monetary policy to counteract negative demand pressures in the economy. However, if financial markets continue to be turbulent and constraints on lending within the banking system persist, that is a headwind that the MPC must take into account. To borrow a phrase from Paul Simon, monetary policy can offer us a "Bridge over Troubled Water" in that situation, offsetting at least to some degree the negative impact on the real economy from the current financial turbulence.[12]

Another key influence on the monetary policy judgements the Committee will need to make is how far a general weakness in global economic activity spills over and affects the UK economy. In my first year on the Committee, I was particularly struck by how the buoyancy of the global economy was supporting UK growth and adding to inflationary pressures.[13] In the current conjuncture, we may see the opposite effect from a weak global economy – notwithstanding the impact of a competitive pound in supporting export growth.

Conclusion

In my period as a member of the MPC, I have observed two broad regimes in the Committee's policy discussions and we now appear to be moving into a third. The first phase coincided with my first year as a MPC member, when the debate was about

[12] "Bridge Over Troubled Water" is a song by Paul Simon, which he recorded with Art Garfunkel as "Simon and Garfunkel". It reached No.1 in the singles charts in both the UK and the US in the spring of 1970. The song is also the title track of an album of the same name which reached No.1.

[13] See "The Global Economy and UK Inflation" Speech by Andrew Sentance at an event organised by the Leeds Financial Services Initiative, 24 September 2007.

how far and how fast we needed to adjust interest rates in response to strong world and domestic demand. That was when I earned my reputation as an interest rate "hawk"!

From August 2007 until this summer, the debate was about how monetary policy should balance the opposing pressures on medium-term inflation from rising oil and food prices against the potential impact of a much weaker demand and output outlook. In that phase, there was active discussion of both interest rate hikes and cuts, though the general direction of the Bank Rate was towards cautious reduction.

The evidence from the last month suggests that the balance of risks is shifting again, moving us into a new policy phase. Developments on the demand side of the economy – globally and domestically – mean we can now have more confidence that the recent upsurge in inflation is likely to be temporary. That shifts the focus for policy action more clearly onto the downside risks for inflation from a prolonged period of weak economic activity.

As I mentioned earlier, the Monetary Policy Committee is now embarking on the November *Inflation Report* forecast round, which allows us to assess in detail the outlook for economic activity and inflation and the uncertainties and risks surrounding the current outlook. That forecasting process will allow us to take into account the latest news from the real economy and for inflation as well as judgements about the impact of the latest wave of financial turbulence, and the weakening in the global economy. The outcome of that forecast will be a particularly important input into our November interest rate decision.

Monetary policy cannot remedy the underlying problems of the global financial system. But it can help contain the adverse consequences of the current downturn for firms and households in the real economy – and I believe that in the current circumstances that should be consistent with the inflation target remit of the MPC. As I argued in my speech at Leicester last month[14], our inflation target framework and the open and transparent processes of the MPC have underpinned the stability and

[14] See "Monetary Policy: Sticking to the Basics", speech to the Leicester Chamber of Commerce Gala Dinner, 24 September 2008.

success of the UK economy for more than a decade. The key elements of our monetary policy framework which have served us well in the past should also serve us in good stead as we seek to navigate the economy through this period of exceptional financial turmoil. So while the real economy will inevitably feel the impact of the current global financial turbulence, monetary policy can help us find a “Bridge over Troubled Water”.