Bank of England

Edinburgh Speech Q&A
29th January 2014

Will Dowson: Thank you for that, Governor. So we've got a short period for some questions; we'll start over there please.

Alistair Dawson, ... Masons Law Firm: You very helpfully said at the start of your remarks that you made clear the Bank's role in the event of Scottish independence, that it would be an implementation role based on whatever was agreed by the two governments. But can I move slightly forward from that and ask - is the Bank intending to make any other interventions in the independence debate ahead of 18th of September?

Mark Carney, Governor: I don't know if you heard the question, but it was - in effect, does the Bank intend to make any other interventions ahead of the - with respect to these issues, in advance of the referendum? And the short answer is - no, we do not. The issues that I've tried to raise here go directly to our responsibilities, but in commenting on them we've respected our independence, enforced our independence by speaking directly to the economic issues - the underlying economic issues - not opining on solutions to those economic issues, and certainly not commenting on the broader question of the relative merits of specific types of monetary arrangements, or the broader questions - economic questions of independence.

Now the only caveat I'll say is that, as an independent institution, we are accountable, as you would expect, to the people of the United Kingdom. That accountability is discharged in many ways - answering your questions is one of them - but there's also answering questions of parliamentarians. And I would be surprised if we weren't asked questions - myself and my colleagues - weren't asked questions on this issue in coming months. But the core is we look at this from a technical perspective; from an economic perspective we're not going to provide advice, we're not - as I said at the start, we're not passing judgement on these issues.

Haig Bathgate, Turcan Connell: Thanks for that. I was wondering if I could just go back to the start of your speech and just the wider economic position that we're in at the moment and particularly whether you'll be able to comment on sterling's strength of late, just given the current account deficit position that we have at the moment - now at I think a 24 year high, and just how that's featuring in your thinking about getting more balance into the economy?

Another question I had just as well at the same time, was on the impact of the US on your thinking around interest rate policy, just in relation to forward guidance, and the fact that the yield curve has shifted up to despite your comments on keeping rates lower for longer?

Mark Carney, Governor: Okay, well you packed a lot in there.

In terms of sterling - we don't - in general we avoid commenting on the level of the currency or providing a running commentary on the currency. It has been - the behaviour of the currency has had important influences on inflation over the course of the last five years. The depreciation flowed through relatively quickly to prices. It was one of the reasons why inflation was above target for several years.

We would expect some pass-through of sterling's strength to help reinforce other forces that are helping to create a more benign inflation environment. More benign - I didn't say totally benign - but a more benign inflation environment. And they include global disinflationary pressures; price movements in the eurozone and in the US are quite weak. The commodity prices as a whole - apologies to friends in Aberdeen and beyond - have been weaker than recent past, down about 10% over the course of the last six months. So you see it's within a context of providing some dampening - it provides some dampening to the inflation outlook, which obviously affects, or is one input into the stance of monetary policy.

And in terms of the US, it's a little tough - it is a pretty long answer around the US and I'll spare you that. But obviously it's incredibly important what happens in the US. And I would say that - I spoke about this last week - there are some real similarities in the stance of monetary policy, or the strategy of monetary policy between the UK and the US. We are not continuing with asset purchases, so that's different as a tactic. But the general question is how much slack is there in our economies and to what extent can providing accommodative policy encourage sustainable demand to pick up some of that slack?

We provided - for the first phase of forward guidance, we used the 7% unemployment threshold to give businesses in Scotland and across the UK a confidence that we weren't going to prematurely withdraw monetary stimulus. The MPC has signalled that we don't see any need for an immediate adjustment to that policy, and we will provide further thinking on guidance in the coming weeks.

But I will say one last point, for those who don't follow the markets maybe as closely as you may well, that while the market has had a different view on when the unemployment threshold was going to be achieved - and the market view has been closer to the base case forecast of the Bank - the market has clearly taken in that 7% is a threshold not a trigger and in fact market expectations of when we would raise interest rates are still in 2015, the first quarter of 2015, which is consistent with that.

Question: Thank you, Governor. Can I take you back to the beginning of your speech when you talked about a good start and consumer spending at the rate that it's got driving an economic growth. My question to you is really around the sustainability of that and the extent to which - why do you not think exports have done more to facilitate economic growth and do we have a sustainability of sort of 2% growth without business investment?

Mark Carney, Governor: Yeah, it's 'the' question, so thank you for it. In terms of the sustainability of consumer spending, there is a sustainable rate of consumer spending but it's slower than the rate we've seen in the second half of 2013. What we saw with the pickup of growth was a fall in the savings rate, quite a notable fall in the savings rate from precautionary levels to more normal levels. But as you can appreciate, you only make that adjustment one time, and then what drives consumption are wages and employment. We're getting the employment but we're not seeing the wage growth and you bring that together.

And that leads us to expect that the pace of consumption growth, the pace of household spending as a whole, including housing investment, will gradually slow over the course of coming quarters - which makes it that much more important that we see investment pick up and ultimately net exports picking up.

I think we feel better about the former than we do about the latter. Partly on the latter - partly because of the earlier question on sterling, but more fundamentally because, well risks in Europe are now a little more balanced; this is in the words of President Draghi, this is a weak, uneven recovery, modest recovery. It's about 1% growth in Europe which is well below and it's still our major export market. So we're not getting that big demand boost out of Europe. And success there will turn - there and beyond -

will turn on productivity improvements which will be driven by investment.

On investment I said the news was a little better there, in that we are starting to see in the figures that there is some pick up in investment, there was in the third quarter. Certainly from a survey perspective and conversations, including conversations we had this morning with some of you, the mood is a little better on the investment side, a little more of a shift from focusing on operating expenditures towards capital expenditures. I wouldn't overplay that.

And then finally to bring it back to the stance of monetary policy. That feeds into an environment where we're trying to provide certainty - as much certainty as we can - to businesses that the stance of policy, there may be some changes at some point, but the stance of policy will be consistent in the economy getting sustained momentum. And that's not going to come from the household sector.

Bill Drummon, SCDI: Mark, just to say thank you again on behalf of SCDI members for coming up today, it's been extremely insightful. When are you coming back to Scotland?

Mark Carney, Governor: Whenever you'll have me. I think at the latest I will come back in the summer. We were talking at lunch, I mean I tend to get up for some of the Commonwealth Games, if I can get that - can I plug the Commonwealth Games there? Which is a great event and I'm looking forward to that.

I will say that, you know, obviously we have Will, Ian and the colleagues here from the Bank's agency; but my colleague Martin Taylor who is on the Financial Policy Committee was up in December. We had another colleague of mine from the regulator, PRA, was up a couple of weeks ago, Sam Woods, or last week even. And we have another MPC member - Ian McCafferty is coming up within the next two months I think. So, you know, you'll be sick of seeing the Bank of England, but we'll be up and I'll look forward to seeing a bit of the Games with you, if you don't mind, Bill. Thank you all.

Will Dowson: I'd like to thank the SCDI for hosting and all their help with today, the staff at The George - thank you for lunch and the service, all of you for coming, but most of all thank you Mark for your speech and your question and answer session. Thank you very much.

Applause

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