Report to the Treasury Select Committee

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Over the past year, trade-off management in the context of cross-border financial spillovers has been uppermost in my decision-making. The domestic data has revealed an intensifying trade-off between a softening in employment and activity indicators (which would suggest a loosening policy stance) and yet continued stubbornly above-target inflation (which would suggest maintaining a restrictive stance). Innovative Bank research has been key to my judgement of how these two forces combine in the central forecast and in the scenarios.

This research shows how the long period of high and volatile inflation has made businesses and households particularly attentive to inflation, which has become embedded in expectations, and price and wage setting, and more broadly in decision-making. This research underpins the scenario where inflation does not return to the 2% target over the monetary policy horizon, but remains persistently above-target. This more persistent inflation path has represented my reading of the data and research. But research also emphasizes that inflation uncertainty has been holding back consumption, which is my interpretation of the downside demand scenario. High and volatile inflation is key to both scenarios. Therefore, notwithstanding softening labor markets and sluggish output growth, my votes have emphasized a need to lean against these inflation dynamics.

Against this assessment of domestic conditions, however, financial markets' pricing of the future path for Bank Rate has also been relevant, as have been overall financial conditions. At times, financial conditions have been dominated by spillovers from macroeconomics and policy abroad. For example, in February, the inconsistency between my assessment of domestic prospects and financial market pricing was particularly pronounced, and I voted for a 50 basis point cut to make that clear. Since then, financial market conditions, although volatile, have been broadly consistent with my assessment of domestic economic prospects, making trade-off management the primary consideration in my decision-making.

My colleagues and I are committed to fulfilling the MPC's remit to bring inflation to target sustainably in the medium term. At some point, I expect that the slowing employment and activity indicators and moderation in incoming inflation data will erode the upside bias in expectations and ease persistence in inflation dynamics, at which point monetary policy can become less restrictive. In my view, we are not there quite yet. Relaxing vigilance too soon risks trend inflation higher than the 2% remit.

Economy and Voting Record

The path of policy that I have voted for over the past year followed my 'activist' policy approach – which is to prefer to hold for longer and then move in larger steps so as to send a clear signal of a change in stance. My reading of the incoming data and relevant research, including by Bank staff, has indicated that policy has had to lean against more persistent and volatile inflation despite a moderating labor market and sluggish activity.

At the **November 2024** meeting, households' inflation expectations in the Citi/YouGov survey had increased over the previous four months, and the Decision Maker Panel showed a flattening of firms' one-year-ahead wage and price expectations at 4% and 3.5%, respectively. Although middle-income households faced strain from higher mortgage payments and frozen tax brackets, consumption was projected to strengthen modestly with robust retail sales growth, which increased firms' pricing power. I was particularly concerned about the effects of the Autumn Budget 2024 on inflation. The size and composition of the Budget resulted in 1.7% GDP growth in the first year of the MPC's forecast, and a sustained overshoot of inflation, projected to reach the 2% target only in 2027. Paired with the increase in the national living wage and employer national insurance contributions, my view was that this expansionary demand shock would add to more persistent inflationary pressures via wage and price setting. I therefore voted to maintain Bank Rate at 5%.

In **December 2024**, I suspected that the uplift from the Budget on activity had been more moderate than I had anticipated in November 2024. Retail sales growth had remained weak despite rising real incomes, which reflected cautious spending behavior and rising saving buffers, and I worried that consumption may not grow sufficiently to support GDP. The gap between market sector output and GDP widened over 2024, and if market sector output had grown less than expected, wage pass-through and employment strength would have been impacted, which would have resulted in more modest price setting dynamics over 2025. Expectations for wage settlements from the Decision Maker Panel and Agents were between 3-4%. I remained cautious about firms' reaction to the combination of labor cost increases, wage compression, and consumers' pushback to price increases, and their consequences for unemployment and consumption. I judged that employer national insurance contributions, the national living wage, global commodity prices and an increase in households' inflation expectations were likely to push up on inflation in the near-term. However, firms' responses in the Decision Maker Panel indicated that they could compress margins in the face of higher costs, which would have helped reduce inflationary pressures, and demand softness would have accentuated this. I voted to maintain Bank Rate at 4.75%.

Going into the **February 2025** meeting, activity measures were weaker than projected. Household consumption volumes were mostly flat, despite rising real incomes, and firms' sales volumes in the Decision Maker Panel survey continued to deteriorate. Paired with that, the labor market continued to loosen – vacancies were below their pre-COVID level and the ratio of vacancies to unemployment was below its 'neutral' level estimated by Bank staff. The employment outlook had also deteriorated since the Autumn Budget, with the Decision Maker Panel indicating that firms were likely to reduce both headcount and hours worked due to increased labor costs. Research on this topic implied a reduction in employment of over 400,000 jobs – a downside risk to the MPC's forecast which underpinned my concern about a non-linear loosening in the labor market. I was also concerned about the projected short-term increase in inflation and its consequences for inflation expectations and desired wage settlements. Despite the most recent average weekly earnings turnout at 5.5% in private sector regular pay at the time, I judged that this projected moderation would not materialize due to weak demand conditions and the prospect of headcount reductions that would have restrained the pass-through to wages. Moreover, weak consumption and sales volumes would have constrained firms' pricing power and moderated the pass-through of costs. Financial conditions had not sufficiently loosened at the time and had been dominated by spillovers from the United States, and financial market volatility tempered the transmission of monetary policy. I believed that a 50 basis point reduction in Bank Rate, in line with my activist approach, was necessary as a decisive signal and to anchor inflation expectations through the projected short-term increase in inflation.

At the **March 2025** meeting, I expected to see a notable weakness in the labor market that would have contributed to continued moderation in wage and price setting. In addition to that, I expected weak consumption growth to continue to weigh on economic activity. Relative to my February 2025 assessment, however, CPI inflation remained high, and food price inflation in particular was higher than expected in the February 2025 Monetary Policy Report. The latter is salient in households' expectation formation, and the wide distribution of households' five-year-ahead inflation expectations in the Bank/Ipsos Inflation Attitudes Survey and the Citi/YouGov survey was not consistent with anchored inflation expectations. These surveys also showed increased attentiveness to inflation by households and an increasing share of respondents that expected inflation to be higher than 5% in five years' time, and empirical models pointed to sustained risks of inflation persistence. Despite the weakness in activity and employment, I worried about salient factors affecting inflation expectations and the sustained risk of inflation persistence. I voted with the majority of the Committee to maintain Bank Rate at 4.5% to keep policy sufficiently restrictive.

In **May 2025**, I voted to hold Bank Rate at 4.5% instead of reducing it to 4.25%. Compared to the February and March meetings, the labor market had loosened less than I had expected, and inflation prospects had not moderated as much. The labor market had gradually softened, and survey indicators pointed towards a moderation of wage prospects, but average weekly earnings data remained high. In terms of the two scenarios outlined in addition to the baseline projection, I put a higher weight on the inflation persistence scenario relative to the baseline projection or the weaker demand scenario. However, I noted that the weak demand scenario and the inflation persistence scenario did not necessarily have to be mutually exclusive. The inflation persistence scenario was underpinned by rising household inflation expectations, elevated goods price inflation, with core goods inflation at 1.1% in March, and firms' one-year-ahead own price expectations for goods-producing firms in the Decision Maker Panel survey at 3%. In the inflation persistence scenario, target-consistent inflation would not have been achieved in the forecast horizon, and holding Bank Rate was the appropriate vote.

In **June 2025**, based on the data and research, I decided to hold Bank Rate at 4.25% with the majority of the Committee. In terms of activity, the Quantile MIDAS model developed by Bank staff showed a bimodal distribution of GDP forecasts, which had increasingly diverged. Monthly GDP growth for April 2025 was -0.3%, below staff (0.2%) and market (-0.1%) expectations. Real incomes grew, while consumption growth remained flat, which was also reflected in a rising household saving ratio. The labor market loosened, and slack was projected to emerge, yet this had little effect on projected inflation dynamics. In terms of inflation, downside pressures from labor market loosening were offset by the national living wage, employer national insurance contributions, one-off regulated prices, and food packaging regulations. Upside risks to inflation also came from households', businesses', and financial markets' short and long-term inflation expectations, implying that the trade-off between activity and inflation had become more difficult.

At the **August 2025** meeting, I judged that the inflation persistence scenario was playing out and therefore constituted my 'central' case, while the scenario motivated by downside risks to demand remained a 'risk'. Higher food price inflation, projected to be at around 5% in Q3 2025, higher household inflation expectations, even in the long-term, and higher than projected near-term inflation, which raised the risks of threshold effects, underpinned my view that inflation remained more persistent. At the same time, the underpinnings of the disinflationary path for services inflation had stalled and would have had to decline quickly and dramatically from early 2026 to be consistent with headline CPI projections in the baseline projection according to models by Bank staff. The labor market weakened gradually, and real consumption growth, an important contributor to activity, remained weak. Research highlighted that it is harder to reel in inflation once embedded, which would have resulted in larger trade-offs for the monetary policymaker in the future. I was concerned about the monetary policy stance becoming too loose in the near-term and therefore voted to maintain Bank Rate at 4.25%.

At the **September 2025** meeting, incoming data since August had solidified my view that the inflation persistence scenario was my central case. Headline CPI inflation rose to 3.8% in July, households' long-term inflation expectations in the Bank/Ipsos Inflation Attitudes Survey reached an all-time high at 3.8%, and food price inflation was forecasted to reach 5.6% at the end of the year. Underlying demand conditions and prospects had been mixed. While some activity data leaned positive, the September GDP release pointed to weaker manufacturing and business-to-business services. Until the weaker activity conditions manifested more clearly in pricing, policy restraint had to remain in place. This warranted maintaining a restrictive policy stance, and I therefore voted to hold Bank Rate at 4% with the majority of the Committee.

At this meeting the Committee also voted to reduce the stock of purchased UK government bonds by £70 billion over the next 12 months, with an aim to sell fewer long maturity sector gilts than gilts at other maturities, such that 40% of the MPC's target would be met by selling short maturity sector bonds, 40% by medium maturity bonds, and 20% by long maturity sector bonds. I disagreed with this program and preferred a reduction by £62 billion and to maintain equal proportions of sales across maturity sectors. Compared to the majority decision, my view was that the slower pace and equal sales across tenors would have reduced the risk of volatility in short rates and would have moderated upward pressure on interest rates in the middle tenor in light of the current cutting cycle in Bank Rate.

At the **November 2025** meeting, the most recent inflation data had been better than expected. Headline CPI inflation was at 3.8% relative to the 4% projected in the August Monetary Policy Report. However, I judged that inflation dynamics were unlikely to follow the rapid deceleration shown in the baseline projection. Headline inflation remained above the attentiveness threshold, which staff estimated to be between 3.1% and 3.5%, and core goods inflation remained high at 1.5%. Households' short and long-term inflation expectations had risen again in the most recent Bank/Ipsos Inflation Attitudes Survey and remained above their historical averages. These household inflation expectations pointed to a drift in the anchoring of the Phillips Curve, which is explored in the inflation persistence scenario that I judged to be my central case. In addition to that, firms' expected wage inflation remained above target-consistent at 3.7% over the year ahead according to the Decision Maker Panel survey. Activity and labor market indicators loosened, albeit slowly. Market sector output continued to be weak, but strong growth in government spending had helped to keep the overall GDP profile flat. In addition to the inflation persistence scenario playing out, the downside demand scenario also supported my judgement of appropriate policy. Consumers' desire to rebuild wealth, scarring, and volatile inflation had contributed to higher savings, and therefore weaker real consumption growth. Tight monetary policy was therefore necessary to lean against inflation and to commit to bringing inflation back to target. In light of headline inflation remaining more persistent and only decelerating to 2.5% over the forecast horizon, in particular as the degree of restrictiveness had continued to moderate, holding Bank Rate at 4% was the appropriate policy decision.

Macroeconomic Outlook

Looking ahead over the next year, I am particularly conscious of thresholds, non-linearities, and volatility in data and how they affect economic behaviors and financial conditions. The attentiveness to inflation of households and firms has been important in keeping expectations and inflation dynamics higher than is target-consistent. Households have also tended to build savings buffers, which is part of the sluggish growth story. However, cost inflation and policies generating stickiness in wage developments have started to grind down employment, particularly private employment, which may accentuate saving buffers and moderate consumption even more.

This year may prompt an accelerated adjustment to employment as firms on the margin either reduce headcount or can no longer continue to operate. I am paying very close attention to the Decision Maker Panel survey and Agents' assessments of the labor market (which both say is weak), at redundancies (which have ticked up a bit), at business cash positions (based on staff analysis with Experian data), and at insolvencies. Last February, as discussed above, these were key to my vote to cut, but the data did not, over the course of the year, meet those harsh predictions, in part because public sector employment offset some of the private sector weakness in employment. An important question for 2026 is whether that will continue to be true.

On the inflation front, as discussed above, I have been skeptical that headline CPI inflation will decelerate so quickly and sustainably to the 2% target by mid-2027 as outlined in the November Monetary Policy Report. However, my concerns for sticky inflation, particularly of services, would be assuaged if the employment outlook deteriorates faster than projected. Given the evidence on price sensitivity of discretionary activities, and the likely increase in employment-related savings buffers, less discretionary spending would discipline the pricing power of firms, yielding a faster moderation of inflation. Again, this was the recipe underlying my vote last February, but the data did not evolve consistently with that prognosis.

A further wild card this year is imported goods price inflation. Incoming data are pointing to rising goods price inflation, opposite to what is needed for a target-consistent headline CPI. Will world prices, import prices, and Sterling exchange rate developments (associated with trade policies among other factors) put sufficient downward pressure on domestic goods prices? Research based on historical data suggests so, but it is important to remain wary of historical patterns in these unprecedented times.

When considering the path for Bank Rate over 2026, following the OIS curve, we are getting closer to the projected trough for Bank Rate. I continue to believe that the MaPS assessment of a neutral rate of around 3.25-3.5% for Bank Rate is about right. This is higher than the neutral rate embodied in the forecast – where long-term R* was estimated to have to fallen to around 0-1% with a most likely estimate of ¼ percent in real terms. Together with the inflation target this implies a nominal neutral rate of 2¼ percent. My assessment of a higher neutral Bank Rate reflects relatively lower productivity and higher economic volatility. Given the prevalence of shocks, we are unlikely to stay at the neutral rate for any lengthy period of time.

Even as Bank Rate will remain the primary indicator of the monetary policy stance, quantitative tightening is part of the overall monetary policy landscape. QT tends to steepen the yield curve, which cannot be fully offset by Bank Rate cuts. Therefore, QT has implications for how I calibrate the stance of policy as measured by financial conditions. Further, over the course of this year, the normalization of the balance sheet suggests that operations of the Sterling Market Facilities will bear close consideration as reserves come close to the Preferred Minimum Range of Reserves.

Explaining Monetary Policy

I gave six on-the-record speeches over the past twelve months. In a speech at the Annual Conference of the Society of Professional Economists in November 2024 titled "The Great Moderation 20 years on – and beyond", I reflected on the 'good policy' and 'good luck' explanations for the remarkable period of macroeconomic stability over the last 20 years of the 20th Century, and into the 21st. I showed the value of the anchoring of inflation expectations and its contribution to the 'good policy' theory. I presented a new model to analyze the shocks that contributed to UK inflation over the inflation-targeting period, and showed the importance of global factors within that. I noted that trade-off inducing supply shocks have been more of a feature of the 1970s and 1980s. I discuss my outlook for volatility, arguing that the world is likely a more volatile place on account of climate change, global trade fragmentation, amongst others. I concluded by noting that a more volatile environment is associated with more volatile inflation, upward inflation bias, and more volatile financial markets. Optimal policy in this environment is an 'activist strategy' – longer holds but larger moves that more clearly convey monetary stance.

In a speech given at Leeds Beckett University in February 2025, titled "The February Monetary Policy report and my vote", I discussed the economic outlook as presented in the February 2025 Monetary Policy report. I explained my most recent vote at the time, to cut Bank Rate by 50 basis points, and my monetary policy strategy as an 'activist' policymaker. I first discussed the trade-off for monetary policy emerging, with a significantly weakened outlook relative to the November 2024 projection, and a higher projected inflation rise. I discussed how I use disaggregated data to inform my view of the outlook, discussing the individual drivers of the projected inflation rise, the distributions of wage expectations from consumer- and business-facing firms from the Decision Maker Panel, and CPI microdata. Importantly, I noted that financial market spillovers from other economies yielded financial conditions that were too tight given my expectations for inflation and labor markets. I finished by putting my activist vote in the context of these three aspects, while noting that I expected Bank Rate to average well above the nominal equilibrium rate implied by the estimates set out by the MPC in August 2018.

At the conference on 35 years of flexible inflation targeting hosted by the Reserve Bank of New Zealand in March 2025, I gave a keynote lecture titled "Holding the anchor in turbulent waters", where I focused on the importance of the inflation anchor as a foundation of inflation targeting, particularly in an era of heightened global volatility and frequent shocks. I outlined the variety of ways in which I assess whether the anchor is holding, drawing on a range of market- and survey-based measures of expectations, and various methodologies. I argued that the credibility of the inflation target, and thus the anchoring of expectations, is central to effective monetary policy, especially when economies are exposed to spillovers from global financial markets. I emphasized that an activist monetary policy stance – one that keeps monetary policy restrictive for longer to evaluate developments on inflation persistence, while also being prepared to respond to a worsening growth outlook with large cuts – is necessary to maintain the anchor, even when headline inflation is falling.

Additionally, I gave a speech titled "Quantitative tightening and monetary policy stance" at the Federal Reserve Board's International Finance Division's 75th anniversary conference in Washington DC in June 2025. I examined how the Bank of England's balance sheet interacts with monetary policy, focusing on two key areas: balance sheet normalization and the institutional design of reserves management. I argued that transmission depends not only on Bank Rate, but also on the design of the Bank's balance sheet. I reviewed the shift from a scarce to an abundant reserves regime following QE, and explained that as we unwind QE through QT, reserves may eventually become scarce again – posing challenges for interest rate control under the Bank's new operational framework. I also highlighted that QT tends to steepen the yield curve by increasing term premia through the withdrawal of duration from the market. This effect cannot be fully offset by Bank Rate cuts, which primarily influence the short end of the curve. As a result, QT has implications for how I calibrate the stance of policy through the primary monetary policy instrument, Bank Rate. I concluded by posing open questions about how this evolving institutional framework might affect monetary policy transmission and encouraged further research to support effective policy implementation.

In August 2025, I gave a speech titled "Five 'C's for Central Bank Research" at The Future of Central Banking conference on the occasion of the 100th anniversary of the Banco de Mexico. I discussed the importance of research for central banks' credibility and its importance in my decision-making, especially in the current context of inflation persistence paired with weak economic growth. I argued that inflation persistence is greater than incorporated in the baseline forecast, and that persistent inflation persistence forms my central view of the current economic environment. I showed several pieces of research that support this view. However, I also outlined that there are risks coming from weak growth, which lead to a trade-off for me as a policymaker between restrictive monetary policy due to inflation persistence and looser monetary policy due to weak growth. I concluded that inflation persistence remains my central case, but that larger, more rapid Bank Rate cuts would be necessary if the downside risks to domestic demand start materializing – in line with my activist policy approach.

Finally, in October 2025, I gave a speech at the Resolution Foundation titled "Explaining the consumption gap". I highlighted the gap in real consumption growth in the UK relative to its past trend and explored four reasons for this gap: the price level shift following the recent inflationary episode, consumer scarring from adverse shocks, higher interest rates following monetary policy tightening, and heightened volatility and uncertainty. I argued that the shift in the price level has affected households' real incomes and likely continues to affect consumer behavior even as the inflation rate has moderated. I highlighted that changes in consumption behavior have persisted and are consistent with the continued lack of strong real consumption growth that we observe, and that consumer demand has become more sensitive to price changes relative to 2019 as consumer trends shifted, especially in more discretionary and energy-intensive sectors. I also argued that higher interest rates have weighed on spending in recent years, for example by increasing mortgagors' monthly repayments, but that some households have used mortgage flexibility to temporarily raise their expenditure. I then showed that higher interest rates offered better returns on savings and raised the cost of borrowing, which also contributed to weaker consumer spending. Finally, I showed that adverse supply shocks can lead to an increase in the level of inflation, but can also make inflation more volatile. The latter can make consumers more uncertain about the future path of inflation and negatively affects their consumption behavior. I concluded that monetary policy needs to continue to focus on reducing inflation to achieve price stability, which allows households to return to their normal consumption-savings behavior that is conducive to stronger consumer demand.

In addition to speeches, I have done five in-person Agency visits in the areas of Greater London, South East and East Anglia, Yorkshire and the Humber, Wales, and Central Southern. These visits included one-on-one company visits and roundtables with Agency contacts, business organizations and Chambers of Commerce. I also gave two high school presentations (at One Sixth Form College on my South East and East Anglia visit, and at Cardinal Newman Catholic School on my Central Southern visit). I attended two Citizens' Panels (in Yorkshire and the Humber, and in Wales). These Agency visits and Citizens' Panels give me a sense of how monetary policy is affecting households and businesses across the UK. They are an opportunity to talk about how I think the economy works and to gauge that against how businesses and households see it. School visits allow me to talk to young people, and discuss economics, the Bank of England, and the range of careers open to economists.

Finally, as part of my ongoing contribution to the economics profession, and to a better understanding of the conjuncture and policy challenges, I regularly give keynote addresses, participate in panel discussions (as moderator and commentator) at events for academic, finance, business, and policy audiences. Policy audiences included, among others: Bank of England Watchers' Conference session on the neutral rate of interest (with published slides); National Association of Business Economists annual meeting on 'Monetary policy divergence & currency wars' in Philadelphia, Institute for International Finance's 2025 Annual Membership meeting 'Monetary policy and trade shocks' in Washington DC, Reinventing Bretton Woods Committee annual macro event at the IMF and World Bank meetings on 'Monetary policy challenges' in Washington DC, Understanding Business Conditions Expectations and Uncertainty Conference at King's College London, and the 13th IMF Statistical Forum – Measuring Cross-border Economic and Financial Linkages in a Dynamic World. Business and finance audiences included, among others: Signum's London and Westminster Day; the FT's Future of Financial Intelligence conference; Bloomberg's Women, Money & Power conference; and a Fireside chat at Lazard Board of Directors dinner.

I have also maintained my publishing:

"What have we learned about inflation dynamics?", with Christina Romer. Business Economics 59, 3–9 (2024).

"Could Domestic Industrial Policies, Even With Global Fragmentation, Revive Productivity?," International Productivity Monitor, Centre for the Study of Living Standards, vol. 47, pages 3-19, Fall (2024).

"The Future of Finance: financial technology and innovation for growth" with Markos Zakariadis, in Reimagining Business Schools for the 21st Century, Ken McPhail, ed. (2025)