Katie Martin

Hi everyone.

Welcome to the August Monetary Policy Report press conference.

We're joined today by Clare Lombardelli, deputy governor for monetary policy, Dave Ramsden, deputy governor for markets and banking, and the governor, Andrew Bailey.

Andrew, we'll start with opening remarks and then we'll turn to questions.

Andrew Bailey

Well, thank you, Katie.

And can I start by welcoming Claire to her first MPL press conference? So today we've cut Bank Rate by 0.25 percentage points to 5%. It was a finely balanced decision. Inflation has been exactly on our 2% target for two consecutive months. And inflationary pressures in the UK economy have eased much as expected.

It's nice to have music when I said that thanks, but this is very welcome news as the as the music suggested.

Now at the same time, the UK economy has been stronger in recent months, and this is very welcome too. But it does add to the risk that inflation could be higher than we expected if we cut interest rates too much or too quickly. And despite easing services, price inflation and domestic inflationary pressures do remain elevated.

So, we need to make sure that inflation stays low. We need to put the period of high inflation firmly behind us. And we need to be careful not to cut rates too much or too quickly, all the while monitoring the evidence on how inflationary pressures are evolving.

And the best and most sustainable contribution that monetary policy can make to growth and prosperity is to ensure low and stable inflation, and an economy where people can plan for the future with confidence and in which money holds its value. And we have truly come a long way in returning inflation to target.

Chart one, which just come up shows the development of 12-month consumer price inflation since 2019. That's the white line. Inflation has fallen significantly from its peak over the past year alone.

It's fallen from nearly 8% in June last year to 2% in the latest data for May and June, and we expect consumer and price inflation to edge up again in the second half of the year, perhaps to around 2.75%.

You can see that in the shaded area, but we then expect inflation to revert towards the 2% target over the next year.

Now, under the surface, the decline in the headline number has been driven by lower goods price inflation as reflected in negative contributions from energy prices.

That's the orange bars and fading contributions from food and other goods that's purple and blue on the chart.

As the effects of lower energy prices fade over the coming months, more of the headline inflation number will be driven by services price inflation. That's the yellow bars.

So, the stories behind the headline inflation numbers really only emerge as we dive deeper into price developments for goods and for services.

The story on energy prices is worth repeating. After sharp rises following the start of the war in Ukraine, household energy prices fell significantly in the second half of last year, with large declines in the Ofgem price caps. These declines are currently pulling down on the annual measure of inflation.

In the latest number for June, household energy price inflation was -27%. With a weight of 4% in the consumer price index, that currently subtracts about a percentage point from headline inflation.

Now, as last year's declines drop out of the annual comparison over the rest of this year, this negative contribution from household energy prices will fade, and that's the main reason why we expect headline inflation to edge up in the coming months.

As chart two shows, core goods price inflation has also fallen sharply over the past two years. That's the orange line and we expect it to remain muted in the coming months. Again, that's shown in the shaded area.

These are goods traded in international markets and with supply chains restoring themselves and signs of deflation. Deflation emerging in some key supplier countries, most notably China. Global goods price inflation should help keep goods price inflation low for UK consumers.

By comparison, services price inflation that's the blue line is declining more gradually. The continued strength in services inflation reflects more persistent inflationary pressures in the UK economy.

So-called base effects from irregular falls in volatile components last year may even cause services inflation to rise slightly in August, before we can expect it to ease again throughout the rest of the year.

While goods price inflation has been a little lower than we expected in May, services price inflation has been somewhat higher. As chart three shows. These surprises have come with an uptick in monthly services price inflation rates, as are in orange, which can be indicative of momentum in price increases over the very near term.

Now, much of that strength has been driven by an increase in the components of the services basket that are index linked or regulated. That's in blue, often resulting in price rises in the month of April.

Monthly services price inflation, excluding these components, along with other volatile components such as airfares and hotels have been lower.

That's the Purple line, and this may be a better guide to the direction for services inflation over coming months, but we need to watch this carefully.

The Monetary Policy Committee continues to pay close attention to services inflation as an indicator of persistence in domestic inflationary pressures, along with a range of other economic indicators.

But this does not mean that we should adjust our course with every data surprise that comes in. What matters for our policy decisions in the is the accumulation of evidence about the medium-term outlook for inflation.

What the data adds to our understanding of the underlying dynamics in the UK economy that ultimately determine the future path for consumer price inflation. And given the time it takes for monetary policy to have its full effect, we need to be forward looking in determining how restrictive monetary policy should be to return inflation sustainably to the 2% target.

A further factor in the MPC's assessment is the recent strength in economic activity.

GDP growth has been noticeably stronger than expected over the first half of this year, following a period of weakness in the second half of last year. The committee sees it as most likely that underlying momentum has remained more steady and that the balance between demand and supply has remained stable. This judgment is supported by various indicators, which suggests that capacity utilisation and labour market tightness have moved by much less than the GDP numbers.

The job of monetary policy is to squeeze the persistent element of inflation out of the system in a way that is consistent with returning inflation to target on a timely and sustained basis. That's what we did by increasing Bank Rate to 5.25% and keeping it at that level for a year. That has leaned heavily against second round effects from global inflationary shocks on domestic inflation persistence.

But we still face the question of whether the persistence element of inflation is on course to decline to a level consistent with inflation being on target on a sustained basis. And what it will take to make that happen is the decline of persistence, now almost baked in as the global shocks that drove up inflation unwind. Or will it also require a period with economic slack in the UK economy?

Or are we experiencing a more permanent change to wage and price setting, which would require monetary policy to remain tighter for longer?

These have become important questions in the MPC’s policy deliberations. As policymakers, we can have all three cases in our expectations with different weights attached to them, and those weights can change over time.

The committees collective, modal or most likely projection of the UK economy is consistent with a relatively benign view of inflation persistence and what it takes from here to squeeze it out of the system and return inflation sustainably to target.

As chart four shows in the in this most likely projection, conditional on a market implied path of Bank Rate that declines to 3.5% over the three year forecast horizon. Consumer price inflation falls back to 1.7% in two years’ time, and to 1.5% in three years.

In this projection, second round effects and domestic prices and wages are judged to take longer to unwind than they did to emerge, leading to some persistence in inflationary pressures. But against that, a margin of economic slack gradually builds over the forecast horizon, despite the recent pickup

in economic growth. As such, the most likely projection encompasses the first two relatively benign cases that I just described.

So the modal projection reflects the committee's collective judgment that we are making good progress in returning inflation to the 2% target sustainably. The progress has become clearly visible in measures of both inflation perceptions and inflation expectations. These are important determinants of consumer price inflation, given the role they play in wage and price setting in the economy. We should expect that perceptions of current inflation and expectations of future inflation will play into wage bargaining and price setting.

Chart five gives a snapshot based on the Bank's Inflation Attitudes Survey of UK households and its Decision Maker Panel survey of UK businesses. Short term household inflation expectations in purple on the left-hand panel have continued to fall alongside the observed decline in consumer price inflation, while medium term expectations in orange remain stable.

Household’s perceptions of the current rate of inflation remain elevated. That's the blue line, but they have fallen sharply and tend to react to headline inflation with a lag. Similarly, firms’ current inflation perceptions and inflation expectations over the short and medium term have also fallen significantly. That's the right-hand panel.

All of this points to a continuing normalisation of wage and price setting dynamics that the fall in headline inflation will feed through to inflation expectations and to weaker pay, wage pay and price setting dynamics.

So even if we judge that second-round effects will take longer to unwind than they did to emerge, the evidence from these indicators is consistent with the view that second round effects will continue to fade with the restrictive monetary policy stance that we have put in place, and the emergence of a margin of slack in the economy.

There is, however, an alternative account of the economy, which is less benign than our most likely projection. And this account reflects a view that MPC members put some weight on to, albeit to different degrees, when reaching their conclusions on the appropriate degree of restrictiveness in monetary policy.

This view is that the economy is closer to the third least benign case that I set out earlier, that inflationary pressures have become more ingrained in the UK economy as a result of structural changes in product and labour markets as a lasting legacy of the major shocks that we have experienced.

One possibility that the committee has considered is that the rate of unemployment, below which inflationary pressures begin to build, may have gone up over recent years.

There is also a risk that recent upside news to economic activity could reflect stronger demand relative to supply, in turn increasing inflationary pressures in the UK economy over the medium term.

Now we can think of the alternative view as a prototype economic scenario of the kind that Ben Bernanke has recommended in his recent review of our processes, in times of high uncertainty. As we develop our response to Doctor Bernanke's recommendations, we will be in a position to

articulate fully such scenarios in the report we present today, giving some weight to an alternative, less benign view of inflation persistence is reflected in an upside risk or skewed to our inflation forecast.

The mean path for inflation is higher than the modal or most likely path as a result. Whether we think of the possibility of less benign developments and inflationary pressures as an alternative scenario or as an upside risk, the message is the same.

We need to make sure that monetary policy is sufficiently restrictive for sufficiently long that inflation remains near the 2% target.

Now weighing the evidence at this meeting, the Monetary Policy Committee voted to cut Bank Rate by 0.25 percentage points to 5%.

CPI inflation has fallen markedly over the past year back to the 2% target. The impact from past external shocks has abated and the risks of persistently high inflation have moderated. So, it's now appropriate to reduce the degree of restrictiveness a little to ensure that inflation remains sustainably around the 2% target.

But key indicators of inflationary pressures remain elevated, and recent strength in economic activity is added to the risk of more persistent inflationary pressures. And this, of course, gives us pause for thought.

Monetary policy will need to remain restrictive for sufficiently long until the risks to inflation remaining sustainably around the 2% target in the medium term have dissipated further.

The committee continues to remain highly alert to the risks of inflation persistence and will decide the appropriate degree of monetary policy restrictiveness at each meeting.

So with that, Clair, Dave and I will be happy to take questions.

Katie Martin Let's go to Faisal and then Ed, please.

Faisal Islam, BBC

Thanks, governor. Faisal Islam, BBC news. Other central bank colleagues in Europe have suggested this phrase one and done. It seems to me from the minutes that's not what you're saying, that the door is open for further rate cuts just not necessarily loads of them. And does this delicate balance that you refer to, is it in any way interfered with or interrupted by above inflation, public sector pay settlements?

Andrew Bailey Sorry, there was the last point above inflation.

Faisal Islam Public sector pay settlements.

Andrew Bailey So on this point about you know, is it one and done or is it more to come?

I want to just reemphasize the language partly the language I concluded with actually about committee remaining highly alert to the risks of inflation persistence, and that we will decide, you know, the appropriate degree of restrictiveness at each meeting.

And also, just point you to the final paragraph of the monetary policy statement that we've issued today, which essentially says a very similar thing, but is, frankly, language that we've used for some time now, actually.

So nothing's changed in that respect. I'm not giving you any view on the path of rates to come. I'm saying we will go from meeting to meeting, as we always do. And it's this judgment about resilience, because if I can sort of ask a variant myself, a variant of your question, if you don't mind. I mean, if you said to me, what's changed? The answer is nothing's really changed, actually much in terms of the economic news.

It's that we have become more confident and over time of this path that we've observed for a while now, this path of the effect that the level of restriction is having and what it's doing, and we've become sufficiently confident now that we think we can reduce that degree of restrictions a bit and we will go on making that judgment.

So, on the second part of your question, Faisal, on the news on public sector pay, a couple of things I'll say on that. First of all, the Treasury, obviously we have a Treasury representative who is in the committee when we meet. We were very, very fully and properly briefed on it. A Chancellor and I spoke on it as well.

Two things. First of all, we take we take the lead in terms of pay indicators from the private sector, because the private sector pay is feeding through directly into the into CPI. But public sector pay obviously has an effect on demand and it can have a signaling effect. On the whole, I think private sector pay tends to lead public sector pay, and that's what we've been seeing actually if you look in recent times.

The second point I'll make is if you look at past behavior and you look at the incremental news, and this is a very simple back of the envelope thing. So, you know, we'll get the full story with the budgets obviously, because we haven't got the full story yet because obviously we don't know how this is going to be funded.

The Chancellor's got decisions to make on that front. There's a lot of analysis to do. The OBR are starting their process. And as you know, we condition our view on of government policy on announced government policies. And that will come with the budget.

But if you do a very simple back of the envelope on the increment to public sector pay that the Chancellor announced, let's say increment, because obviously there is an assumption already in there. Going back to the budget earlier this year, the proverbial back of the envelope suggests an increment in inflation space, which is very small.

I mean, you're in quite small second decimal place numbers at that point. So, that's the back of the envelope. We'll get a much better story obviously by October the 30th when we get the budget.

Katie Martin Go ahead.

Ed Conway, Sky - Thank you.

Governor Ed Conway from Sky news. So, you've just cut interest rates, it's a big moment, but one of the things you've mentioned a couple of times is that rates are still in restrictive territory.

So can you just expand on that a little bit more so that people understand.

Does that mean that that they are still likely to feel pain as a result of where interest rates, economic pain as a result of where interest rates are right now, and when can they expect that to change for it not to be in restrictive territory or for it to be not painful?

Andrew Bailey Well, we look at Restrictiveness in terms of I mean, you can look at a number of ways, but let's look at it in terms of where we think growth is relative to potential growth. For instance, in the economy, we obviously had a very small recession at the end of last year. A number of causes, you know, causes of that.

We are coming out of that now.

But as you see from our forecast for GDP, you know, we've got growth, you know, picking up it's a little bit inconsistent year by year and we've taken a rather sort of measured view, I would say, of the latest news in terms of how it feeds through. But I think that's a path of growth where it suggests that, you know, we're still below potential and we do have a small output gap opening up in the forecast.

So I think that's one way of capturing the fact that there is still a restrictive setting in that sense, and we think that's appropriate given I'd have to make this point again, having to ensure that the persistence of inflation is taken out of the system. So that's the way we look at it.

You know, we've talked about our star quite a lot and the neutral rate in these press conferences in the past.

I think, you know, we don't provide we've never been in really of the view that we should we provide a quantitative number on what that is. But I think, as you know, from things that we've published in the past, I think, you know, policy is above a neutral rate at this point, and we would see it gradually coming down as this degree of degree of inflation persistence comes out.

So there is yeah, there's a way to go still. And it's consistent with I know you probably say the message I kept giving during my introductory remarks, which is, you know, we've got to monitor this very carefully as to how over what period of time and under what conditions, we can start to, you know, start to release that.

And I'm not giving any predictions on how that will work through.

Katie Martin Great. Can we go to Sam and then Sue, please?

Sam Fleming, Financial Times.

Over the past year or so, the Bank has been quite clear in the tests. It's setting itself, in a sense, for gauging what policies should do. The focus has been on labour market conditions, wage growth and services price inflation.

Paragraph 24 [in the MPC Minutes] today slightly broadens this and talks more generally about persistence. Can you talk a little bit about why in a sense you're changing this, this, this language and what we should read into that?

And second of all, you talked again, per the previous questions about not moving too quickly in that context, do you think the market is getting ahead of itself and expecting another rate cut before the end of the year?

Andrew Bailey Well, I'm not going to comment on the market curve because I really rarely do actually. So, the market will take a view and I'm sure the market will be studying carefully what we've done and said today. So that's them. I'll give a view. I'm sure Clare may want to come in on this.

I mean, you rightly pick up that we've repositioned things today, and I really am very keen that you sort of take that message away, actually and the repositioning is this and it's sort of hopefully you saw it in the remarks that I just made that the indicators are important the data is obviously important, but we felt that at this point, when we made this change in policy, it was appropriate to give something more of a framework within it described the framework that we're looking at, policy, which I would say really sits above then the data indicators, the data indicators, obviously, if you like, are the evidence that supports the framework, but the data indicators are not the framework themselves.

And so I go back to this sort of, you know, trilogy that I set out about, you know, what is this? What is the sort of what are the dynamics at the moment? You know, are we seeing, you know, largely self-correction of these big global shocks and that, that will feed through to then taking the persistence out?

You know, I think if you if you put all your sort of, all your chips on that slot, as it were, you would say, well, that's a pretty benign story, then that's a very good news story.

The second intermediate case I set out was, well, actually, no, you get take that, but you also need something of an output gap to open up, so it sort of goes back to Ed's question, actually about Restrictiveness. You can see that we have got an element of that in the in what we published today.

And then the third one is rather different in a sense, but not but not inconsistent. So, say as I said earlier, you can have all three and your weights as it were. But the third one is saying, look, we've been through these huge shocks, particularly Covid. Has this caused structural changes in the economy, which we, of course, then have to take into account in the way we think about policy now, you know, different members put different weights on these.

But Clare may want to develop this a bit?

Clare Lombardelli

Sure. Thanks, Andrew.

I mean, as you say, what we're doing here is we're looking at the accumulation of the evidence that we've seen, over recent months, I mean, over, over the year, really, and thinking about how does data and the new data we get fit into that, and how does it fit into that overall picture relative to our expectations?

So as the data evolves and what we've seen recently is that it is evolving broadly in line with that expectation, and that gives you more confidence that you're in this world where inflation pressures are inflationary, pressures are reducing.

As Andrew says, we are also conscious of this risk that, you know, we might be in a sort of alternative world where you've got either stronger demand, more activity, or you've seen structural changes in the economy, you know, post the shocks that we've had. And it's really about thinking about how do we think about those risks. How do we factor them into our policymaking?

I mean, this is one of the areas that, you know, Ben Bernanke really focused on in in his report, which is and we're putting quite a lot of thought into his how do we think about risks? How do we think about uncertainty, and how do we build that into policy making in a way that is sort of useful? Thoughtful.

And that's the work that we're undertaking now thinking about.

And you can see sort of here sort of bringing that, you know, doing, doing some of that in what we've done today in talking about this alternative approach, this framework that allows people to sort of think about that balance of risks and as the evidence evolves, as we say, it gives us more certainty we're in one world than the other.

But of course, there is uncertainty out there, and that's why we have to keep vigilant.

Sue Chan, Telegraph Just another one on public sector pay rises. Rishi Sunak has just tweeted that he is concerned that Labour's inflation - these are his words - Inflation busting pay deals have put further Bank of England cuts at risk. Does your previous answer suggest that you disagree with that.

And just another one on the minimum wage if I may. There's a number of things that businesses are telling your agents on how they're coping with higher minimum wages, such as cutting hours and increasing non pay benefits.

Does that suggest that there's a sense among businesses that they are reaching the limits of what they can absorb on the minimum wage?

Andrew Bailey Well, let me take the two separate questions.

Take the first one, I think just go back to what I said before. I think it's now. The next step in this process now is obviously the budget on the 30th of October, because what we had this week was obviously a statement nut it needs to be sort of, in a sense, fully filled in as the Chancellor said, nothing, nothing, nothing, nothing different from what the Chancellor said there.

And particularly, obviously, the question of, you know, of funding and so on, that goes with that. So, we will wait for that news and then we can fully process that, as we always do as announced government policy and see where it comes out.

So that's the first one on the National Living Wage. I mean, you're correct. And, you know, it's raised and it's in our summary of our agents forecasts that, you know, when I go around, I think when we all go around the country, I go around the country a lot, I mean, the national living Wage does get raised quite a lot. And we spend quite a lot of time looking at it.

I would say that actually when we look at if you go back to the May forecast. Pay has actually evolved pretty much exactly as we thought it would back in May. We haven't had any surprises on that front It's coming down quite gradually, but it is coming down. So, we've had no surprises on that front.

So, I think what I take from that is that the effects that the national living wage that we built in at that point have not, in a sense been contradicted by, by bad news on the upside. We haven't seen that, frankly. You know, we're very you know, we're obviously very vigilant on all that front, but we haven't seen any news that contradicted the view we took at that point.

But look, we listen, and I listen and I spend a lot of time going around the country, and I do listen to what our contacts tell us about that.

And by the way, it's that both the national living wage itself and it's this what they tend to call compression risk that you get, which is of course, is that it does have an effect in a sense, you know, above that because otherwise differentials get compressed as a point that firms make very regularly to me. So it is a, you know, it's a point they make and we recognize and we factor into our thinking.

Dave Ramsden It's absolutely the case that when you go round doing our agents visits, we get that reporting back on the impact of the National Living wage. And we flagged it, as Andrew was saying, very much as a risk at the time of the May forecast, because we didn't know how it was going to land. As we report in in this report, we for the for the reasons Andrew set out we imagined it an estimated it would add about 0.3 percentage points to aggregate pay growth.

And that looked that looks to be, from what we can see so far it has had what we're describing as a, a small impact so far in aggregate wage growth, so very much in line with expectations. So that's a risk that at least so far hasn't crystalised. We'd incorporated it. And as and as Andrew stressed, we've seen wage growth very much following that projection that we had at the time of the May forecast. It's come down to 5.6% in the latest three months and for private sector regular wages. And that was our forecast.

Katie Martin Let's go to Ashley and then Phil Inman.

Ashley Armstrong, The Sun Hi. Thank you.

Obviously this rate cut is good news for borrowers and those with mortgages, but less good news for savers. What we found last time around, when rates were rising, was that the high street banks were very slow to pass on the benefits of the higher interest rates. Can you now sense who's going to benefit most? Will the savers be hit quicker?

Do you think that the banks are being faster to react to what the base rate is doing, or will it be kind of more benefit to the borrowers?

And then if I could squeeze in one, about a lot of readers are kind of making big decisions about their lives and their homes and whether to remortgage.

What would you tell them if they were trying to make a decision on whether to remortgage now or wait?

Andrew Bailey Well, we're rather careful as a Bank of England not to give financial advice Actually, as you'll understand what I would say is this, I mean, if you look at the pattern, if you look at the sort of path of mortgage rates, let me say a couple of things.

I mean, they are actually now over 1% lower typically than they were this time last year. And I think what that tells us is that, you know, expectations of where inflation was going to go to have, you know, have, shifted. Inflation has come down, you know, more rapidly than I think all of us feared this time last year, in terms of the, the global shocks wearing their way through.

And that's obviously good news. Now mortgage look at look at it more immediately. Mortgage rates have also come down, obviously less. Part of that fall I described over the year has actually happened in sort of recent weeks actually. Now, of course, these days with most mortgages being fixed rate over some period of time, they're at term they're actually essentially priced off the swap curve in financial markets. So, they reflect obviously what financial markets think is going to happen to rates. And so, you have seen some easing off, in the last few weeks and month or so.

Now we'll see how we see how markets react to the news today.

I mean, you know, that will be interesting because you might say, well, that move I just described was in some sense sort of discounting what markets thought might happen. Because, if you look at pricing, markets have been essentially pricing a cut either today or in the September meeting. So, you know, they had got that cut priced in.

If you look at savings, let me I've said this before, I would draw a distinction between term deposits and site deposits. So term deposit rates have effectively followed mortgage rates. There may be timing differences immediately that that can happen, obviously. But if you look at the last year, I think you find term deposit rates and mortgage rates have moved pretty similarly.

Site deposits have not moved as much and that's true over the whole period of recent years that the movement of term deposit rates has been larger than site deposit rates.

And I've said, I think I've certainly said in the Treasury Select Committee hearings before that one way of rationalising that actually, is to switch then to the other side of our sort of activities, of the regulatory side. That we now put a lot more value on term deposits rather than site deposits because of the fact they don't run as quickly if they have a problem. And that's reflected in the regulatory liquidity structure and framework and so banks do price them accordingly. I think we're seeing we've been seeing some of that in recent years.

Ashley Armstrong For those who might not realise the site deposits are easy access where you can withdraw your money. And term deposits are…

Andrew Bailey Term deposits are for a period of time yea So three months, six months whatever.

Dave Ramsden And if I can we put the usual chart in the MPR chart 2.7 on page 38 that that tells the story in a chart that Andrews just told. Obviously, the other thing that was happening with site deposits, instant access, is that, you know, at the time when interest rates were very low, margins did really get squeezed. And so there was some rebuilding of margins. It's very important that that rebuilding of margins shouldn't go too far, but it was necessary.

And so, you know, we'll, we'll certainly be tracking, as we always do, what happens to, both site and term deposit rates. Now, that Bank Rate, has been cut today.

Andrew Bailey Yeah. I don't want to spend my time promoting my own speeches, but the speech I gave at Loughborough University earlier this year goes through that point that Dave's just made in some probably grinding detail that you really don't want to read.

But if you do.

Katie Martin Go ahead.

Phillip Inman, Guardian You've got a prediction of lower growth and higher unemployment in the second year of the forecast.

Do you can you explain to people why that's a price worth paying?

And also, Dave, could you give us an explanation of you've obviously voted, at an earlier stage for a cut in rates.

Is there a cost to not having moved earlier?

Andrew Bailey Well, let me start on Phillip on the growth and unemployment point.

And what I would say is this that the path of unemployment that we now have in this, in this report is a lot shallower than two things. One is paths we had in the past. Two is history. And one of the you know, one thing I think quite notable thing that doesn't get said much is just how little unemployment has moved actually in the last few years, and that's a good thing. It's a very good thing.

Now there's a little bit of uncertainty, as we know about exactly what the rate of unemployment is at the moment in this country with the problems with the Labour Force survey. But, you know, we use a lot of other indicators to track what we think it is And it's somewhere in the lowish 4% range.

If you look back in history, I mean, I I'm not I'm not going to comment on how old you are. I'm old enough to remember when it, you know, it was the headline in every newspaper and every news program, if you go back to the 70s and 80s, I mean, this is a very different cycle.

So I don't want to see unemployment go up at any time. But this is I mean, it's a much shallower path.

Why have we got that? Well, it really goes back to the sort of the three points, the three, the three parts to the framework I made. I said earlier, one is this sort of in a sense, self-correcting path.

The other is where restriction does have some impact via an output gap, which does cause some, you know, put some added weight onto the sort of onto the restrictiveness of monetary policy to get this persistent inflation point out.

But it's a lot it's a lot milder than we've seen historically to be, to be honest with you.

Dave Ramsden And all I'd as is, the degree of restrictiveness that we've still got, I think everyone on the committee sees that as necessary to squeeze the persistent part of inflation to ensure that inflation stays sustainably at target. As I've said before, I said it in May when I did vote for a cut.

Today is really about the collective position, so I'm not going to get into discussing those kinds of issues today. But there'll be there'll be there'll be opportunities in the future to hear from individual members. Thanks.

Katie Martin We'll go to Joel and then Phil.

Joel Hills, ITV

The MPC has been quite pessimistic on the potential growth rate of the economy relative to the OBR relative to the IMF, and looking through the forecasts today, that seems to still be the case.

Happily, we have a new government with a the outline of a plan to kick start growth.

Are there things that the government can announce in the next few months that would cause the Bank to be less pessimistic on the economy's medium term prospects.

And what view would the Bank take of a Trump presidency?

What impact would that likely have on the outlook for growth and inflation, please?

Andrew Bailey Well, I'll take those in reverse order.

I and I'm sure Clare may want to come in on the first. I won't burden Clare with the second. We take no view on the potential of who will win the US presidential election. We will obviously be interested in the outcome, but we do not take a view on who's going to be the next president of the USA. Sorry. Well, we'll see who wins and what their what their policies are. And yeah, we always we always condition our view on announced UK policies, let alone everybody else's policies. So we'll leave that there.

I mean on the question of growth, as I'm sure Claire want to come in. First of all, we always condition on announced government policies. The government is obviously very new, and it will formulate its views on what it wants the growth policies to be, and we will factor those into our thinking about the supply capacity of the economy.

I also want I mean, I do agree very strongly both, by the way, both with the current chancellor and the previous chancellor, because actually there's very little difference here that there are important things that need to be done.

Important things that need to be done, particularly in the financial sector, to encourage investment in the productive capacity of the economy. I'm a very strong supporter of that. I was very strongly supporting Jeremy Hunt in that. And I will take the same view with Rachel Reeves, at which point I'll hand over to Clare.

Clare Lombardelli Thanks, Andrew.

I mean, yeah, it's you know, we're not we're not going to write the budget here and nor should we. I mean, clearly, you're right We've got growth, sort of underlying growth in our forecast at around 0.3% a quarter.

So, you know, is it isn't, you know, at the moment we think, that that is obviously slightly lower than what we've seen in recent quarters. We think most of that was volatility rather than momentum. But in the medium term, we think if you look at what's in the data, including things like the business surveys, that's more consistent with where we're likely to go. I mean, obviously there's a set of things that could be done that can raise potential growth.

Those are clearly things that would help with any, any sense around sort of inflation and, and, and output and that trade off there. But, we think what we've got in our forecast broadly in line with what the data is telling you and the underlying drivers of growth.

Dave Ramsden But just to underpin what Clare was just saying and also what Andrew was just saying, the reason that it will be a focus of this government as the previous government is, you know, as we set out, each time in table 1D, labor productivity one was 1.75% on average 1998 to 2007.

And then it was 0.75% 2010 to 2019. So we've had that significant shortfall in productivity growth compared to history and we've taken an assessment, of where it's going to go in future that hasn't changed since our last supply stock take. Overall, we had supply growth at 1.5% a year.

We keep reassessing that depending on what happens, in the economy, one thing that we focused on this time and it's, it's more in Andrew's third case the case where there have been more structural challenges is that maybe the he NAIRU, the medium term equilibrium unemployment rate, could be a little bit higher than we've currently estimated, that in and of itself would actually be negative for supply growth.

But as Andrew and Claire were implying, there are lots of things that could be positive for supply growth, but we're going to have to look at these things in the round. And can do that with each time we come back and present a forecast in our supply stock takes.

Phil Aldrick Bloomberg Just looking at the inflation forecasts, they come down to below 2% at the two year and the three year horizon, which suggests that policy is too tight. So it implies that you either cut faster or further. I just wondered which is more likely.

And it's great to see growth being upgraded in the short term. But the Prime Minister has said that he would like to see a 2.5% ambition, and I can't see any of that in the forecast.

I just wondered how probable what the probability of a 2.5% might be.

Andrew Bailey Well, you quoted the modal inflation forecast. We also have a mean path for inflation, which, as I said in my introductory remarks, starts to bring in this alternative scenario, to use Ben Bernanke's phraseology. The mean path is actually much nearer, much nearer to target.

So, it goes back to this point about I made about what weight you place on those paths in thinking about the, the stance of monetary policy going forward. So, I think that's the way to look at that one.

On, longer term growth I think we'll just come back to the point we were making earlier.

Look, we always condition on announced government policies. At the moment, I would say, and this is essentially I mean, Dave's just given you the figures, actually. The potential growth rate is probably

below the sort of historic trend of potential growth rates. The historic trend of potential growth rates is more in the 2 to 2.5% range. It's below that, has been for a while.

We will obviously very keenly follow what policies the government decides to adopt and then put those through the process we use in assessing the supply side of the economy and the stock takes we do on that and see where we come out.

But it's too soon to do that.

Jack Barnett, The Times

Governor, you've outlined two scenarios where interest rates could be a bit higher and obviously you've outlined all the risks around that as well.

I just wondering whether or not you think it's reasonable for people watching this press conference and reading the report to think that we're going back to a world where interest rates are going to be much lower, i.e., are we going back to the world before the pandemic where we had rates near the zero bound?

Andrew Bailey Well, let me start by saying we're very clearly not going to sort of give you a sort of a quantified path of where interest rates are going to go that will emerge.

So I'll just make one point here, because I think it's important because I get asked this question a lot, It's a reasonable question. Where are we going to? I think it's reasonable to say that it's unlikely that we are going back to the world we were in between 2009, actually post the financial crisis and the point at which we started raising rates.

And the reason for that is that that world was really driven by very big shocks, if you think about it. So obviously, the first driving shock was the global financial crisis. And then a number of others came along, most recently Obviously, Covid would be the one to point to there.

You know, and I say that not because I think if you, you know, what would take us back to that world? Well, I would deduce from history that what would have to take us back to that world is some very big shock that we don't know about at the moment. So, it's much more likely, it seems to me, that we're going back to a world - and it's going back to Ed's question actually- where we will be somewhere around whatever the neutral rate turns out to be, which let me say, it's reasonable to say is lower than we are at the moment because we're describing policy as restrictive, but it's higher than we were between 2009 and when we started raising rates, for the point I just made about external shocks.

Joasia Popowicz, Central Banking

So Joasia Popowicz Central Banking. in the report, it says events in the Middle East have had relatively little impact on inflation to date and that there is a risk of intensification over a longer period, given the events we've seen only just this weekend, does this assessment already need to be revised.

Andrew Bailey So it's a good question.

Events in the Middle East are tragic and it's terribly sad to watch it.

It has had far fewer economic consequences than to two sort of points of comparison. One is history. So if you go back to the 1970s, for instance, and secondly, therefore actually then I think many of us feared when these events started last October, and we can sort of speculate on why that is.

But, I mean, the easiest one to look at is the oil price. I mean, we've not had a big spike up in the oil price, which, you know, say drawing on the lessons of history, it would have been perfectly reasonable to expect might have happened if you took a rather simplistic approach to the lessons of history.

So that's encouraging. But I have, you know, there's always a but I think we have to be very vigilant on this front. I think we decided that the risk, the skew that we had in the forecast, you know, up till now since those events started, we wouldn't retain because of the fact that we haven't seen the signs of it emerging. But I don't for a moment want to give you the impression that means we're not very vigilant about this because, as you rightly said, things can change very quickly.

Chris Giles, Financial Times

You say in the report that you don't want to go to cut rates too much or too quickly. Can you define too much and too quickly, or is it just vibes?

Andrew Bailey Well, I'm not going to define it. I'm going to come back to the framework that we set out.

I think we're going to have to, at each meeting, come back to this and say, and it's why I made the point that in a sense we've raised this assessment framework up a level from, from the evidence itself, but we're then going to ask ourselves the question, what does the evidence that we've had since we last sort of considered it tell us about the framework. And what does it tell us about these sort of three parts of the framework?

Are we seeing, you know, more evidence that, you know, this persistent inflation evidence, the fact that the second-round effects, are taking longer to dissipate, than, than inflation did to emerge. No great surprise about that based on history.

But what are we learning about this? And that's what we'll do. So I'm not going to say, what is it? I'm not going to tell you what it means because we don't know at this stage. I think what it means is there are a number of potential paths here. Each member of the committee will give somewhat different weights to those three parts to the framework and that's absolutely fair and understandable. You know, reasonable people can do that, and I would also, be sure that each of us will, in a sense, recalibrate those as we see the evidence, and that's how we will do it.

Andy Bruce Reuters. I've got a question about Quantitative Tightening.

In the MPR It's mentioned that it's, there's a degree of uncertainty about how QT will interact with rate cuts because it's never been tried before.

And then it goes on to say if QT has a bigger impact than expected, then the level of Bank Rate allows some scope for it to be cut to counteract that if necessary. My question is why wouldn't you just pause QT or reduce it in that situation and use Bank Rate, which is quite a rough tool.

Andrew Bailey Well, I'm sure Dave will want to come in, but I feel so terrible about this, but I'm going to refer to another of my speeches. If you read the speech I gave at LSE a couple of months ago, the reason I say that I in that speech I set out what I regard as an important part point. There are two parts to the path, really. Because, by the way, we're moving to a system where the level of reserves, bank, central bank reserves will be demand driven.

It's a bit different from the fed there where they they've more set a supply set sense framework that they want to have ample reserves. Now we can't tell you what that what the precise point where we hit that sort of demand number is we're not we're not there yet. We know that. But the reason I say that is that the first part of QT is to do with reducing the level of reserves to the sort of the equilibrium level, if you like. We think we may get there later next year, but we don't know for certain. The second, the second part comes thereafter. That's not about the level of reserves.

It's actually about a different issue, which is what is the right set of assets for the Bank of England to have on its balance sheet to match the level, the equilibrium level of reserves?

And that's really about what where do we want the interest rate risk to be in that world. Should the central bank be bearing it, or should the market out there be bearing it? And you'll take a pretty big clue from what I said at the LSE, that I'm more in favour of the latter than the former.

Dave, what do you want to.

Dave Ramsden Yeah, just to, I guess, try and locate, the kind of immediate decision that we have to make. Andrews talked more about the longer-term considerations and where we could be going, but we will make our, decision for the next QT year, in September. And that will be based - and this is what we set out in box A- where we've done our annual review of how, how QT is operating based on the last year, on three key principles. And we've stressed these ever since we first set things out, actually, three years ago, I think it was August 2021. The first one is that Bank Rate’s going to be the active tool.

And we really do want QT to be in the background. We're not going to do QT if it risks disrupting the functioning of financial markets. And linked to that, we also want to take a gradual and predictable approach. So, what we have put in for this year's box is the point you were quoting around what happens now. It turns out that this meeting we have we have reduced Bank Rate.

Where does that leave QT? Well, those principles still absolutely apply. And also, we've always been very clear that QT does have a small impact.

We estimate it. If you look at we've done just over or we will have done by the time we complete this, this year's, Q2 will have done, Just over 200 billion, we’ll have reduced the APF from 895 billion, down by over 200 billion. That was the peak. And we think that, our central estimate has had about a 0.1% impact on long term interest rates. It could be as much as 0.2, but those are pretty small numbers, especially when you think about the context of where Bank Rate is now.

And that comes back to this point about we're confident that we can keep operating in the background for the next year, consistent with our principles. And given where Bank Rate now is, if there needs to be some kind of, adjustment, we've got more than enough space to do that. But as I've said, our central estimate for the impact of QT through term premia is about 0.1. So, you know we've cut Bank Rate by 0.25 today. So that gives you a sense of the relative the relative dimensions there.

Steve Sedgwick CNBC.

Governor I just want to follow up. Actually, I think it was on Sam's question earlier on. You've conditioned all of us. You've conditioned the city to worry more about services, inflation and average wage inflation, the bete noires of the Bank of England.

But you've changed your mind to cut on the basis of a very, very minor decline in both of those measures since your last decision, are you telling the city, which CNBC and others represent here, that actually the city should turn down its algorithms, sensitivity to those twin measures.

And secondly, former Bank of England, economist, she was in the, I think, the structural economy, department as well.

Rachel Reeves has just discovered a £20 billion plus black hole shock horror as well.

Is the Bank of England as shocked as the former employee Rachel Reeves is about this huge black hole? And what are the ramifications of that?

Andrew Bailey Well, I think we leave fiscal policy to the government.

Steve Sedgwick But it matters for the structural economy, doesn't it, if there's a 20 billion hole?

Andrew Bailey I set out earlier, actually, I think it was Ed's question, how we think about that. I made the point that actually we look primarily at private sector wages And, you know, we think public sector wages play a role, but they're not the direct input into, into inflation measures. And I did say, you know, you've got to if you if you get the back of your envelope out, you've got to think about what the sort of the increment to, to public sector wages would be relative to what was expected and then, you know, calibrate what you think, that what you think the inflation impact of that will be.

Well, now we'll know a lot more about that when we have the budget. But if you do a sort of rough back of the envelope calculation isn't that large actually.

So that's the point on services and wages. No, we're not, we're not sort of this is not a sort of scrap this look, look at this. Let's put it was putting it into a framework, which was my point about Sam's question. So good question.

Actually, as I said earlier, if you look at wages, actually the path of wages since May, since we were sitting here three months ago, has been pretty much exactly what we thought it would be.

Services inflation has been a bit higher. But other goods, goods have been lower. And as I did mention in my opening remarks, you can spend a lot of time in the entrails of services inflation, because that's our job really.

And, you know, we can tentatively, I think, but only very tentatively, say, look, some of the more sort of, if you like, sort of stable and less volatile elements look as if they're more stable and declining than some of the other elements.

But look, you know, we will get a lot, a lot more information before we're next here.

And respond accordingly.

So no, I'm not in any sense sort of changing the message there other than, as I said earlier, I think Sam's question again, with very deliberately sort of put in place a sort of framework and to give you a, you know, a good sense as to how we interpret it.

Eshe Nelson New York Times, I did want to go back to that new services inflation chart you showed that kind of separated out the indexed, regulated part of inflation and other parts.

And just kind of ask is that in new information that you're showing us that there's a lot of it was indexed, regulated components of inflation leading to higher services suggests that you could look through that a bit more and then kind of focus on the other sections of inflation of services, inflation that suggests it should be lower.

I'm just kind of trying to understand better which bits you're looking at within it, but also make the argument that you can always slice the inflation data, the services inflation data, in ways that support a narrative. And we've kind of just been presented now with another one as a rate cut comes along.

And just a tiny quick follow up question for Clare, which is now you're, got your feet under the desk as deputy governor, what are the first priorities in terms of implementing the blanket review that you've got into? Thank you.

Andrew Bailey Well, I'll start you make a really good point, of course, that one of the dangers of our trade is that you slice things up so much that you lose the big picture. And, you know, we we're very conscious of that. But you rightly raise that point.

So, hoping to avoid that all, I think the point is some of the sort of what I call the sort of regulated or indexed services prices. I mean, we've all probably had our mobile phone bills and slightly nastier teeth at the thought of RPI plus, element to it. That, of course, is a is actually a sort of form of price indexation. So, it has its own dynamic.

And obviously given what's happened to headline inflation, obviously we should expect those index prices to adjust accordingly when they're next reset. So, I think you have to look at you do have to look at one set of services prices differently to others.

There are others that are very volatile. You know, we've observed, I mean, hotel prices are a good example. I think there's what's called now dynamic pricing goes on a lot where they're adjusted much more frequently.

And then as a set of services that are sort of probably behaving more in a sort of way they've behaved for a long time. So, I think it's sensible to look at all of those components, to look at them individually.

But then you have to put the whole story back together again, because it would be unwise to obviously take in decisions on interest rates based on based on one part of the story and not the others.

Clare Lombardelli Yeah. Thanks.

I mean, just actually on that point and on this sort of how we're interpreting data and thinking about it, I think it's important to distinguish between, you know, has the data gone up or down, and did the data do what we expected it to do was it in line with what we thought?

And that's quite important because it's the second, if you like, that gives you more confidence of which sort of world you're in in terms of is the economy evolving as we expected it to. And so, I think, I think that, you know, that's an important part of how we're thinking about this, not just the sort of direction of the data, but is it is it in line with what we would expect under the scenario, the scenarios we're thinking about?

On Bernanke? Yeah. I mean, you know, getting my feet under the table and beginning to really get into the detail of some of this, I think there's a number of I mean, there was a lot in that report. So, it's a, it's a really big it's a really sort of comprehensive report.

There's a lot of recommendations that cut right across the way we think about and do monetary policy, a few things, are clearly really important parts of that.

One is this issue that we've touched on a lot today about how do we think about risk and uncertainty, and how do we sort of factor that into our processes around monetary policy making, and what's the best way to do that?

There's a lot of complexity, and these are really complicated issues.

There's a lot of complexity underneath the options of the different ways you can do that.

There's related to clearly a set of issues around, you know, the role of the central forecast.

And we've talked about this a bit also today, part of one of another things that came out of Bernanke is this question about actually, how do you think about supply shocks in particular, and how do you put that into this framework?

I guess the final thing I would say is that a really big priority, and it's very clear coming in, to this new and it's probably the least glamorous bit. And so, the bit you all might want to write about less, but actually some of the infrastructure we use for our technology, how do we think about data as new data comes in? How do we process that data? What suite of models are we using and thinking about the economy and modeling the economy and doing our forecasts, all those sorts of things.

[01:02:09] There's actually a huge amount in all of that. It's going to take quite a bit of time, I think. And, for us to, for us to sort of progress those agendas. But, you know, there's an awful lot in it and it's going to be quite a programme of work over some time.

Anna Wise, Press Association

How much is the current level of interest rates still weighing on living standards, particularly now that inflation has returned to normal levels? And I just wondered how much you think today's cut is going to improve sentiment among households and businesses, or will there be some disappointment that they might not see mortgage pricing particularly come down immediately after this?

Andrew Bailey Well, I said earlier, I mean, in some ways, of course, because mortgages are priced off the curve of the interest rate curve you've already seen some movement in mortgage prices over recent weeks and months.

So, I think you have to be sort of these days, you have to be sort of conscious that some pricing is an anticipation effect. Obviously, those are commercial decisions, but there's some anticipation effect going on there relative to what comes afterwards. So, I think, you know, you have to sort of look at the whole the whole range of things there.

I'd really on the level of interest rates, I'd go back to the point I made earlier. Yes, rates are still restrictive and that's necessary to get this, get the second-round effects and the persistence of inflation out. So, you know, there will be obviously benefits to this. I mean, we are already, and we have been for a year or so, you know, household net income, real household net income growth has been positive for a year or so now. And of course, that's because inflation has come down rapidly. So that that is a benefit. Obviously, it stands against what happened before that, that obviously.

So, as for what happens to confidence, well we'll see.

Francine Lacqua Bloomberg.

Governor, you dropped the upside inflation skew in May. Now it's back. So, what's changed? Are you pushing back against market exuberance or is it really like an inflation change.

Andrew Bailey It's a different skew. So, it goes back to the earlier question on the we had a middle East, you know, a middle East skew in before. As I was saying earlier, we've taken that skew out for the reasons I gave earlier. But what we've now got is essentially a domestic, a domestic risk in there. So, they might look a bit the same, but they're not, they're quite the stories behind them are quite different.

Geoff Smith, Politico Hello. Slightly bad-tempered question here.

Are you at all concerned by the move in Sterling at 8:00 this morning? Sterling did not wait for the announcement to move. It was 0.8%, 0.9% down. And the move, you know, it was a very clear. Buy the rumor. Sell the fact. Move.

Andrew Bailey Well, I think a lot of things have been going on in the last 24 hours, so.

Geoff Smith There's no trigger at eight except the nationwide. Sorry, there was no trigger at eight, which except the nationwide house prices, which were above expectations.

Andrew Bailey Well, there was a there was a there was a Federal Reserve decision last night. Yeah. You know, there's a lot going on in the world economy. There was a Bank of Japan decision yesterday. So, there's a lot going on in the world economy. And that's what affects exchange rates.

So, so I wouldn't I mean, look, I think what we've observed, Jeff, over the last actually the last few days actually is a slight shift in market anticipation of what the decision today would be from.

I think our market staff were saying it was 50:50 this time last week. It was about 6040 by the time we sort of, you know, got to work this morning. I don't think there's any particular story behind that. I mean, markets, will form their own views.

And as I say, there's a lot going on in the rest of the world, so I wouldn't put anything more in it than that.

Katie Martin Great.

Thanks very much, everyone.