BANK OF ENGLAND

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 22 September 2021

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These are the minutes of the Monetary Policy Committee meeting ending on 22 September 2021.

They are available at https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2021/september-2021.

The Bank of England Act 1998 gives the Bank of England operational responsibility for setting monetary policy to meet the Government's inflation target. Operational decisions are taken by the Bank's Monetary Policy Committee. The minutes of the Committee meeting ending on 2 November will be published on 4 November 2021.

Monetary Policy Summary, September 2021

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 22 September 2021, the Committee judged that the existing stance of monetary policy remained appropriate. The MPC voted unanimously to maintain Bank Rate at 0.1%. The Committee voted unanimously for the Bank of England to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £20 billion. The Committee voted by a majority of 7-2 for the Bank of England to continue with its existing programme of UK government bond purchases, financed by the issuance of central bank reserves, maintaining the target for the stock of these government bond purchases at £875 billion and so the total target stock of asset purchases at £895 billion.

In the MPC's central projections in the August *Monetary Policy Report*, UK GDP was projected to recover further over the remainder of the year, with demand growth boosted by a waning impact from Covid-19 (Covid). There was projected to be a period of excess demand in the near term, before demand and supply were expected to return broadly to balance as demand growth slowed and constraints on supply eased. CPI inflation was projected to rise temporarily in the near term, to 4% in 2021 Q4, owing largely to developments in energy and goods prices. Conditioned on the market path for interest rates, CPI inflation was expected to fall back to close to the 2% target in the medium term.

Since the August MPC meeting, the pace of recovery of global activity has showed signs of slowing. Against a backdrop of robust goods demand and continuing supply constraints, global inflationary pressures have remained strong and there are some signs that cost pressures may prove more persistent. Some financial market indicators of inflation expectations have risen somewhat, including in the United Kingdom.

Bank staff have revised down their expectations for the level of UK GDP in 2021 Q3 by around 1% since the August *Report*, leaving the expected level of Q3 GDP around 2½% below its pre-Covid level. This downward revision in part reflects the emergence of some supply constraints on output. These have been evident in surveys showing historically lengthy supplier delivery times and backlogs of work, significant material and labour shortages in a number of sectors, and lower than normal levels of inventories. Momentum appears to have picked up in services-orientated sectors where output remains well below pre-Covid levels. Although official estimates of retail sales have weakened somewhat, other indicators of spending have generally remained at strong levels, as has consumer confidence.

The Labour Force Survey unemployment rate fell to 4.6% in the three months to July, slightly below the August *Report* forecast, while HMRC payroll data suggest that employee numbers (which include furloughed jobs) surpassed their 2019 Q4 level in August. The number of full and part-time furloughed jobs has continued to decline, but, on the basis of the most recent reported number of 1.7 million in July, to a materially lesser degree than estimated in the August *Report*. There have been few signs of any increase in redundancies, and the stock of vacancies has increased further, as have indicators of recruitment difficulties. Bank staff's estimate of underlying pay growth has picked up, to above its pre-pandemic rate.

Uncertainty around the outlook for the labour market has therefore increased. Key questions include how the economy will adjust to the closure of the furlough scheme at the end of September; the extent, impact and duration of any change in unemployment; as well as the degree and persistence of any difficulties in matching available jobs with workers. The Committee will review these, along with other, developments as part of its forthcoming forecast round ahead of the November *Monetary Policy Report*, which will also include its periodic assessment of the supply side of the economy.

Twelve-month CPI inflation rose from 2.0% in July to 3.2% in August, compared with the 3.0% figure expected in the August *Report*, and triggered the exchange of open letters between the Governor and the Chancellor of the Exchequer that is being published alongside this monetary policy announcement. Core inflation also rose to 3.1% in August, its highest rate since November 2011. While base effects accounted for the majority of the increase in CPI inflation between July and August, global cost pressures have continued to affect UK consumer goods prices. To a lesser degree, the reopening of the economy has led to a further increase in some consumer services prices. Indicators of households' medium-term inflation expectations have increased in recent months, with the Citi/YouGov five-to-ten year ahead measure at its highest level since 2013 in September.

CPI inflation is expected to rise further in the near term, to slightly above 4% in 2021 Q4, owing largely to developments in energy and goods prices. The material rise in spot and forward wholesale gas prices since the August *Report* represents an upside risk to the MPC's inflation projection from April 2022. Most other indicators of cost pressures have remained elevated. The Committee's central expectation continues to be that current elevated global cost pressures will prove transitory.

The MPC's remit is clear that the inflation target applies at all times, reflecting the primacy of price stability in the UK monetary policy framework. The framework also recognises that there will be occasions when inflation will depart from the target as a result of shocks and disturbances. In the recent unprecedented circumstances, the economy has been subject to very large shocks. Given the lag between changes in monetary policy and their effects on inflation, the Committee, in judging the appropriate policy stance, will as always focus on the medium-term prospects for inflation, rather than factors that are likely to be transient.

At its previous meeting, the Committee judged that, should the economy evolve broadly in line with the central projections in the August *Monetary Policy Report*, some modest tightening of monetary policy over the forecast period was likely to be necessary to be consistent with meeting the inflation target sustainably in the medium term. Some developments during the intervening period appear to have strengthened that case, although considerable uncertainties remain. The Committee will be monitoring closely the incoming evidence regarding developments in the labour market, and particularly unemployment, wider measures of slack and underlying pay pressures; the extent to which businesses pass on wage and other cost increases, as well as medium-term inflation expectations.

At this meeting, the Committee judged that the existing stance of monetary policy remained appropriate.

Minutes of the Monetary Policy Committee meeting ending on 22 September 2021

1 Before turning to its immediate policy decision, the Committee discussed: the international economy; monetary and financial conditions; demand and output; and supply, costs and prices.

The international economy

2 The global economy had continued to recover and UK-weighted global GDP growth in 2021 Q2 had been broadly in line with expectations at the time of the August *Monetary Policy Report*. Global activity was now expected to grow at a slightly slower pace in Q3, however, accounted for largely by weaker growth in the United States and China. There had also been some early evidence of a rotation in demand from goods to services, with the services PMIs above or in line with the manufacturing PMIs in the United States and the euro area. Against a backdrop of robust goods demand and continuing supply constraints, global inflationary pressures had remained strong and there were some signs that cost pressures might prove more persistent.

3 Euro-area GDP had picked up by 2.2% in 2021 Q2, stronger than had been expected at the time of the August *Report*. The number of Covid cases appeared to have stabilised in most euro-area countries alongside a recovery in mobility and continued progress in vaccination programmes. Turning to Q3, the euro-area manufacturing PMI had remained well above its historical average, although it had fallen back to its weakest level in six months in August, with supply constraints affecting activity. The services PMI had also remained elevated. Bank staff now expected euro-area GDP growth in Q3 to be somewhat stronger than at the time of the August *Report*, but the level of GDP was expected to remain below its pre-Covid level.

4 US GDP had risen by 1.6% in 2021 Q2, slightly weaker than had been expected at the time of the August *Report*. In the labour market, non-farm payrolls had increased by 235,000 in August, a much slower pace than the average of around 1 million jobs that had been added over the previous two months. The unemployment rate had nevertheless fallen to 5.2%. Although Covid cases had now started to fall across most US regions, they had remained elevated and the pace of the vaccination rollout had slowed considerably in recent months, as some southern states in particular had seen a lower take-up. But mobility and activity had held up in these states despite this, consistent with the link between cases and activity having weakened. Real personal consumption spending had fallen by 0.1% in July, with services spending continuing to recover relative to goods spending. The most recent high-frequency spending data had also pointed to some slowdown in consumer spending, although they had remained above their pre-Covid levels. Overall, US GDP in Q3 was expected to rise by somewhat less than at the time of the August *Report*.

5 Chinese activity had slowed in July, with the re-imposition of localised lockdowns in response to outbreaks of Covid weighing on mobility. Official data and business surveys had pointed to a further moderation in activity in August, and GDP in 2021 Q3 was expected to rise by slightly less than at the time of the August *Report*.

6 The recovery in other large Emerging Market Economies (EMEs) had been weaker than expected at the time of the August *Report*, accounted for particularly by the impact on GDP of the delta variant-driven second

wave in India. Covid cases in these EMEs had generally fallen in recent months and there had been an increase in the pace of vaccination rollouts in some of these economies, although vaccination rates had still remained below the levels seen in most advanced economies. Indicators of economic mobility had generally held up across EMEs recently, even when Covid cases had risen.

7 Global inflationary pressures had remained strong. Manufacturing input and output prices had continued to rise sharply, albeit at marginally slower rates. Oil prices had remained elevated compared to their pre-Covid levels, with the Brent oil spot price around $74 per barrel. Wholesale gas prices had risen sharply in Europe and Asia, driven by a combination of strong global demand and a range of supply constraints, including a low level of inventories after an unusually long and cold winter in Europe, as well as a lower-than-usual availability of wind energy in recent weeks. Non-energy commodity prices, in aggregate, had been largely unchanged. Shipping costs had continued to rise, with spot rates rising particularly sharply on certain routes. The strength in shipping costs had continued to reflect a range of factors, including strong global goods demand, as well as supply chain disruptions such as congestion and Covid-related closures at some large ports. Supplier delivery times had continued to rise. Supply conditions had appeared to have improved slightly in some sectors such as semiconductor production, although it would take some time for previous order backlogs to clear. Global containerised trade flows had continued to recover and world trade volumes had been 6.5% above pre-pandemic levels in 2021 Q2.

8 In the euro area, twelve-month headline HICP inflation had risen to 3.0% in August, from 2.2% in July, stronger than had been expected at the time of the August *Report*. Core inflation had also risen to 1.6% from 0.7%, accounted for in part by a substantial increase in clothing and footwear inflation.

9 US CPI inflation had remained elevated in August, although it had eased slightly to 5.3% in August from a 13-year high of 5.4% in June and July. Headline PCE inflation had picked up a little further to 4.2% in July, and core PCE inflation had remained unchanged at 3.6%. The rise in headline inflation had primarily been driven by sectors that were sensitive to the reopening of the US economy. But there had been some signs that price pressures in other sectors were easing. For example, the contribution to inflation of used cars prices and other durable goods prices had eased in the past couple of months.

Monetary and financial conditions

10 Since the Committee's previous meeting, advanced-economy financial market prices had generally moved within a narrow range. Equity prices and corporate bond spreads had changed little, while shorter-term and longer-term government bond yields had increased slightly. Most recently, global equity prices had been more volatile, in part driven by the financial distress at Evergrande Group, one of China's largest property developers.

11 Market implied measures of advanced-economy policy rates had increased slightly since the Committee's previous meeting. In the United Kingdom, increases in the level of Bank Rate to 25 basis points and 50 basis points were now expected in May 2022 and December 2022 respectively, compared to August 2022 and February 2024 at the time of the Committee's previous meeting. Market expectations of the first 25 basis point increase in the federal funds rate in the United States had been brought forward to February 2023 from June

2023. At its meeting on 9 September, the ECB Governing Council had decided to reduce moderately the pace of asset purchases under the Pandemic Emergency Purchase Programme. The Governing Council had left its key policy rates unchanged.

12 Some financial market indicators of inflation expectations had risen somewhat, including in the United Kingdom. Near-term measures of inflation compensation, such as the one-year inflation swap rate, one year forward, had risen substantially in the United Kingdom since the Committee's previous meeting. The driver of this movement appeared to be the stronger than expected CPI inflation outturn. Five-year inflation swap rates, five years forward, an indicator of medium-term inflation expectations, had increased slightly and were around 20 basis points above their 2019 average.

13 Real yields implied by advanced-economy longer-term government bonds had fallen substantially since their recent peak in March 2021, and were now significantly lower than their pre-pandemic levels. Alongside this, advanced-economy equity prices had increased materially since the beginning of this year, such that, in some large advanced economies, they had increased significantly above their pre-pandemic levels.

14 Market contacts had put forward several possible explanations for this constellation of asset prices. Some had attributed low real yields primarily to expectations of monetary policy, which could remain highly accommodative if central banks looked through any transitory increases in inflation, while also supporting risky asset prices. These contacts had expected real rates to rise over time, with a range of views around how gradually this might occur. Other contacts had attributed low real yields to a more pessimistic outlook for medium-term global growth than had appeared to be incorporated into equity valuations.

15 The sterling effective exchange rate had been broadly stable since the previous MPC meeting.

16 Mortgage credit conditions in the United Kingdom had eased further, with a further fall in lending spreads on most mortgage products. Spreads on products with loan-to-value (LTV) ratios lower than or equal to 75% were now similar to spreads in January 2020, while spreads on products with LTV ratios higher than 75% had remained above their January 2020 levels. The number of mortgage products available had continued to improve, with availability for products with low LTV ratios now similar to pre-pandemic levels, although availability for products with high LTV ratios had remained below pre-pandemic levels. Supervisory intelligence suggested that lenders had become more optimistic about the economic outlook, while bank wholesale funding spreads had fallen over recent months and ring-fenced banks had ample liquidity from strong deposit growth.

17 Credit conditions for unsecured borrowing by households and for lending to small and medium-sized enterprises had changed little since the Committee's previous meeting and spreads had remained below the MPC's forecasts made earlier this year.

Demand and output

18 Since the MPC's previous meeting, the number of hospitalisations of Covid-19 (Covid) patients and deaths within 28 days of testing positive for Covid had tended to rise in the United Kingdom, although the number of

Covid cases had started to fall back again most recently. The number of people that had been asked to self-isolate temporarily through various channels had declined sharply following a change in guidance in August that meant that those people who had had two doses of a Covid vaccine no longer had to isolate if they came into contact with someone who had tested positive for the virus. The UK Government had recently announced its autumn and winter plan for responding to Covid, including that all children aged 12 to 15 would be offered one dose of a Covid vaccine, and that all adults over 50 and those that were clinically vulnerable would be offered a booster jab. Covid-related restrictions on international travel had also been relaxed recently.

19 According to the ONS's first quarterly estimate, UK GDP had risen by 4.8% in 2021 Q2, close to the projection incorporated into the August *Monetary Policy Report* for the quarter as a whole. That had left the level of GDP around 4½% below its pre-Covid level in 2019 Q4. Within the expenditure components, household consumption had been estimated to have risen by 7.3% following the reopening of the retail and hospitality sectors through the second quarter, although that had been a somewhat weaker increase than expected in the August *Report*. Business investment, which was often subject to revision, had also risen by less than had been expected, by 2.4% and had remained around 15% below its pre-Covid level. Government consumption had increased by over 6%, as education output had rebounded due to the recovery in pupil attendance after earlier restrictions had been lifted.

20 Ahead of the MPC's next meeting, the ONS would release Blue Book-consistent revisions to GDP as part of the Quarterly National Accounts published on 30 September, including significant methodological changes such as the introduction of double deflation and improvements to deflators for items such as telecommunications and clothing. Some of these changes were expected to raise pre-pandemic economic growth rates.

21 Official output data for June and July had been somewhat weaker than expected in the August *Report*, with monthly growth rates of 1.0% and 0.1% respectively, implying that the level of GDP had been around 3½% below its 2019 Q4 level in the middle of the year. The downside news appeared to have reflected signs that bottlenecks in supply chains and labour shortages had started to affect output, particularly in the manufacturing and construction sectors, combined with a slower-than-expected recovery in demand in some consumer-facing services.

22 A further recovery in activity appeared to be underway in components of output that had remained well below their pre-Covid levels to date, such as some consumer-facing services, and transport and workplace-related services. For example, faster indicators of the use of public transport and the number of flights had risen over recent weeks. And there was some evidence to suggest spending on entertainment and recreational events had increased, as restrictions had loosened further. Education output was also likely to have risen towards its normal level. Taken together, these components were judged likely to account for a large part of the GDP growth expected in 2021 Q3.

23 Other indicators of household spending had generally remained at strong levels, as had consumer confidence. Although official estimates of retail sales volumes had fallen by 0.9% in August, the level of sales had remained over 4% above its pre-Covid level. Food store sales had fallen, while faster indicators of

restaurant spending had picked up. Housing activity indicators had remained robust, including mortgage approvals for house purchase. Although the July UK House Price Index had unwound almost all of its record rise in June, perhaps related to the timing of the tapering of the temporary stamp duty cut in England and Northern Ireland, other timelier house price data had picked up further.

24 It appeared likely that the impact of supply constraints on output would prove more persistent. Supplier delivery times had continued to lengthen materially in the manufacturing and construction sectors according to the latest PMI surveys. And over half of the respondents to the latest CBI Industrial Trends survey had reported that materials or components were a factor limiting production over the next three months, with about a third of respondents noting that skilled labour was also a limiting factor, both of which were close to historical series' highs. Supply chain issues had led respondents to the latest CBI's Distributive Trades survey to report the lowest level of retail inventories, relative to expected sales, on record. Backlogs of work had also risen according to that component of the services PMI, linked primarily to shortages of key staff. Intelligence from the Bank's Agents suggested that, against a backdrop of strong demand, it might take some quarters for supply issues to be resolved in some cases. Separately, recent high spot wholesale gas prices had significantly affected the production plans of some sectors.

25 Overall, Bank staff had revised down their expectations for 2021 Q3 GDP growth from 2.9% at the time of the August *Report* to 2.1%, in part reflecting the emergence of some supply constraints on output. That would leave the level of Q3 GDP around 2½% below its pre-Covid level.

26 Alongside the launch of *Spending Review 2021* on 7 September, the Government had announced a new, Health and Social Care Levy from April 2022, the proceeds of which would be used for spending on health and social care. This would be based on an increase in National Insurance Contributions for all working adults and a rise in dividend tax rates. The overall envelope for core day-to-day departmental spending was otherwise assumed to follow the path set out at spring Budget 2021. The Government had also announced that the state pension triple lock would be suspended for fiscal year 2022-23. The Spending Review would conclude on 27 October alongside both an autumn Budget, and an updated economic and fiscal forecast by the Office for Budget Responsibility.

Supply, costs and prices

27 The Labour Force Survey (LFS) unemployment rate had fallen to 4.6% in the three months to July, slightly below the expectations in the August *Monetary Policy Report*. The unemployment rate had remained 0.8 percentage points above its 2019 Q4 level of 3.8%. LFS employment had grown by 0.6% in the three months to July, slightly above expectations at the time of the August *Report*. HMRC payroll data suggested that employee numbers had increased by 241,000 in August and had surpassed their 2019 Q4 level, although these data were prone to revision. The inactivity rate had fallen to 36.7% in the three months to July and had unwound around one fifth of its increase over the course of the pandemic.

28 HMRC administrative data suggested that around 1.7 million jobs, just under 7% of private sector jobs, had been furloughed on the Coronavirus Job Retention Scheme (CJRS) in July, compared to around 2 million

jobs furloughed in June. This was a materially higher number of jobs furloughed than had been assumed at the time of the August *Report*, in part possibly reflecting the downside news in GDP growth over that period. Additionally, the reweighting of the ONS's Business Insights and Conditions Survey (BICS) had led to a substantial upward revision to the estimated share of private sector jobs furloughed, relative to the data that had been available at the time of the August *Report*. Recent BICS data suggested that the number of jobs furloughed had declined to around 6% of private sector jobs over the two weeks to 5 September. Staff estimates suggested that just under half of those jobs furloughed had been on a flexible form of furlough that allowed those employees to have undertaken some work with their employer. The proportion of salary for furloughed hours covered by the Government had been tapered progressively, from 80% to 70% in July and to 60% from 1 August, with employers required to top up to 80% since July. The CJRS would end on 30 September 2021.

29 Indicators of redundancies had remained subdued in the run-up to the end of the CJRS. The level of LFS redundancies had fallen in the three months to July, and the redundancy rate had decreased to 3.4%, around ½ percentage point below pre-pandemic levels. HR1 notifications, a statutory requirement that recorded the advance notification of planned redundancies of 20 or more staff at a single establishment, had remained low, even as the relevant statutory consultation periods overlapped with the end date of the CJRS. Smaller businesses had been disproportionate users of the furlough scheme, however, and by definition were not required to make HR1 notifications. The BICS data had not pointed to an increase in planned redundancies by small businesses over the next three months, although intelligence from the Bank's Agents had highlighted a risk of some micro businesses, which employed only one or two staff, closing permanently upon the CJRS's closure.

30 Indicators of labour demand had remained strong and the labour market appeared to have tightened further. The stock of job vacancies had risen above 1 million in August, surpassing the previous record set in July. The ratio of vacancies to unemployment had also risen rapidly, and had surpassed its 2019 average on a single month basis. The REC index of staff availability had tightened at a record pace in August. Intelligence from the Bank's Agents suggested that recruitment difficulties had become more widespread and acute in recent months. Agents' contacts had attributed labour shortages to a combination of factors, including demand recovering more quickly than expected and a reduction in the availability of EU workers. The shortage of Heavy Goods Vehicle (HGV) drivers had been exacerbated by an ageing workforce and a backlog of licence testing.

31 Private-sector regular Average Weekly Earnings (AWE) had risen by 7.8% in the three months to July on a year earlier, compared to 8.4% in the three months to June. AWE growth had continued to be boosted by compositional effects, given that job losses had been skewed towards lower-paid employees during the pandemic. AWE growth had also been pushed up mechanically by the CJRS recently, with just under 7% of private sector jobs having been furloughed in July, compared to around 23% in July 2020. The CJRS had been a drag on measured pay growth over the pandemic period prior to May. Adjusted for the mechanical effects of the CJRS and changes in composition, Bank staff estimated that private sector regular pay growth had been around 4%, above pre-pandemic rates. The REC Report on Jobs permanent staff salaries index, which measured the monthly pay growth of new permanent hires, had increased to its highest level on record and had pointed to robust pay growth of new hires. The Bank's Agents' contacts had reported an increase in pay

settlements recently. Their contacts had also reported that pay increases had been significantly higher for workers with skills in particularly short supply, such as HGV drivers, while the use of one-off bonuses to retain staff had become more widespread.

32 Twelve-month CPI inflation had risen from 2.0% in July to 3.2% in August. As the inflation rate in August had been above 3%, an exchange of letters between the Governor and the Chancellor of the Exchequer was being published alongside these minutes. Core inflation had also risen from 1.8% in July to 3.1% in August, its highest rate since November 2011. The headline CPI outturn for August had been 0.2 percentage points above the projection in the August *Report*. That upside news had been accounted for largely by recreational and audio-visual goods, food and accommodation services.

33 Base effects had accounted for the majority of the increase in twelve-month inflation between July and August. The base effects from last year's Eat Out to Help Out scheme, which had dragged on prices in August last year, and the temporarily reduced VAT rate for hospitality, holiday accommodation and attractions dropping out of the annual calculation, had largely accounted for a rise in services inflation to a four-year high. Additionally, other items, such as clothing and footwear and airfares had grown at below average rates in August last year.

34 Global supply bottlenecks had continued to affect UK consumer goods prices. Some consumer goods markets had also been affected indirectly by supply bottlenecks. For example, continuing semiconductor shortages had disrupted new car production, which had led to an increase in demand in the used car market. Twelve-month used car price inflation had risen to 18.3% in August.

35 The reopening of the economy had led to a pickup in some consumer services prices. Recent monthly price increases had been particularly pronounced, relative to historical averages, for those services most directly affected by previous restrictions, such as restaurants recreational and accommodation services.

36 The Committee discussed the near-term outlook for consumer prices. CPI inflation was expected to rise further temporarily, to slightly above 4% in 2021 Q4, slightly higher than the projection in the August *Report*.

37 Around half of the near-term projected above-target inflation was expected to be accounted for by elevated energy price inflation. The projected contribution of energy prices from October 2021 reflected a base effect as well as Ofgem's most recent announced increases in the standard variable tariff caps on retail gas and electricity prices. Spot and forward wholesale gas prices had risen materially since the publication of the August *Report*, against a backdrop of strong demand and some supply disruption. This could represent a significant upside risk to the MPC's inflation projection from April 2022, when Ofgem next updated its retail energy price caps based on the relevant forward contracts, and meant that CPI inflation would remain slightly above 4% into 2022 Q2, all else equal.

38 Core goods inflation was expected to remain above pre-pandemic averages, accounting for most of the remainder of the projected above-target inflation. In contrast to much of the pandemic period, services inflation was expected to rise slightly, to rates close to pre-Covid averages, which in part reflected a continued recovery of activity in consumer-facing services, as well as the tapered rise in VAT on hospitality, holiday accommodation

and attractions from October. Most indicators of cost pressures had remained elevated. Manufacturers' output prices, excluding food and energy, had grown at an annualised rate of close to 10% in the three months to August. Survey-based measures of output and input price inflation, such as the PMIs, had remained at around their recent historically high levels. Contacts of the Bank's Agents had reported that there had been more signs of cost pass-through in the manufacturing and construction sectors recently. These contacts had also reported some signs of firms passing on some labour cost increases in labour-intensive sectors.

39 Indicators of households' medium-term inflation expectations had increased in recent months, with the Citi/YouGov five-to-ten year ahead measure at its highest level since 2013 in September. The Bank/Kantar five-year ahead measure of households' inflation expectations had also increased slightly, but was now around its historical average. There was the potential for short-term measures of households' expectations to rise further in the coming months, as they had tended to move with official inflation outturns previously. Such movements in these short-term measures would not be inconsistent with household inflation expectations remaining anchored. The August Decision Maker Panel had reported an increase in companies' one-year ahead own-price inflation expectations. Professional forecasters, on average, expected less of a rise in inflation in the short term than the August *Report* projection, according to the latest HM Treasury survey of independent forecasters.

The immediate policy decision

40 The MPC sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment.

41 In the MPC's central projections in the August *Monetary Policy Report*, UK GDP had been projected to recover further over the remainder of the year, with demand growth boosted by a waning impact from Covid-19 (Covid). There had been projected to be a period of excess demand in the near term, before demand and supply had been expected to return broadly to balance as demand growth slowed and constraints on supply eased. CPI inflation had been projected to rise temporarily in the near term, to 4% in 2021 Q4, owing largely to developments in energy and goods prices. Conditioned on the market path for interest rates, CPI inflation had been expected to fall back to close to the 2% target in the medium term.

42 The Committee reviewed recent developments, including the extent to which they had been in line with the projections in the August *Report*.

43 Since the August MPC meeting, the pace of recovery of global activity had showed signs of slowing. Euro-area GDP growth in 2021 Q2 had been higher than expected at the time of the August *Report*, and was now expected to be somewhat stronger in Q3 as well. Developments in US GDP had shown the opposite pattern, although the link between Covid cases and activity there had continued to weaken. Growth in China and other large Emerging Market Economies had also weakened somewhat. There had been some early evidence of a rotation in demand from goods to services, with the services PMIs above or in line with the manufacturing PMIs in the United States and the euro area recently.

44 Against a backdrop of robust goods demand and continuing supply constraints, global inflationary pressures had remained strong and there were some signs that cost pressures might prove more persistent. Oil prices had remained elevated and global shipping costs had continued to rise. Wholesale gas prices had risen substantially across Europe. Supply conditions appeared to have improved slightly in the global semiconductors sector, although it would take some time for previous order backlogs to clear. Headline and core consumer price inflation had risen in the euro area and had remained elevated in the United States.

45 Since the Committee's previous meeting, global equity prices and corporate bond spreads had generally changed little, while shorter-term and longer-term government bond yields had increased slightly, including in the United Kingdom. Mortgage credit conditions in the United Kingdom had eased further, with a further fall in lending spreads on most mortgage products.

46 As of 22 September 2021, the total stock of assets held in the Asset Purchase Facility had reached £852 billion, including £108 billion of the £150 billion programme of UK government bond purchases announced on 5 November 2020.

47 Bank staff had revised down their expectations for the level of UK GDP in 2021 Q3 by around 1% since the August *Report*, leaving the expected level of Q3 GDP around 2½% below its pre-Covid level. This downward revision in part reflected the emergence of some supply constraints on output. These had been evident in surveys showing historically lengthy supplier delivery times and backlogs of work, significant material and labour shortages in a number of sectors, and lower than normal levels of inventories. Momentum appeared to have picked up in services-orientated sectors, where output had remained well below pre-Covid levels. Although official estimates of retail sales had weakened somewhat, other indicators of spending had generally remained at strong levels, as had consumer confidence.

48 Bank staff's initial assessment was that recent fiscal announcements were likely to be broadly neutral for the growth outlook, as higher spending on health and social care would be funded by an increase in National Insurance Contributions and a rise in dividend tax rates. The overall envelope for core day-to-day departmental spending was otherwise assumed to follow the path set out at spring Budget 2021. Ahead of the Committee's next meeting, the Government would conclude its Spending Review on 27 October alongside both an autumn Budget, and an updated economic and fiscal forecast by the Office for Budget Responsibility.

49 The Labour Force Survey unemployment rate had fallen to 4.6% in the three months to July, slightly below the August *Report* forecast, while HMRC payroll data suggested that employee numbers (which included furloughed jobs) had surpassed their 2019 Q4 level in August. The inactivity rate had fallen in the three months to July and had unwound around one fifth of its increase over the course of the pandemic.

50 The number of full and part-time furloughed jobs had continued to decline, but to a materially lesser degree than had been estimated in the August *Report*. That surprise could only partly be explained by downside news in GDP growth. HMRC administrative data suggested that around 1.7 million jobs, just under 7% of private sector jobs, had been furloughed on the Coronavirus Job Retention Scheme (CJRS) in July, with just under half of those jobs on a flexible form of furlough that allowed those employees to have undertaken some work with their employer. Recent Business Insights and Conditions Survey (BICS) data suggested that

the number of jobs furloughed had declined to around 6% of private sector jobs over the two weeks to 5 September. The end of the CJRS on 30 September would remove this support to incomes.

51 There had been few signs of any increase in redundancies, and the stock of vacancies had increased further, as had indicators of recruitment difficulties. Contacts of the Bank's Agents had attributed labour shortages to a combination of factors, including demand recovering more quickly than expected and a reduction in the availability of EU workers. The shortage of Heavy Goods Vehicle drivers had been exacerbated by an ageing workforce and a backlog of licence testing.

52 Bank staff's estimate of underlying pay growth had picked up, to above its pre-pandemic rate. The Bank's Agents' contacts had reported that pay increases had been significantly higher for workers with skills in particularly short supply, while the use of one-off bonuses to retain staff had become more widespread.

53 The Committee discussed explanations for the surprisingly high number of jobs that were still recorded as being furloughed, despite other signals of a rapidly tightening labour market. One possibility was that some companies had continued to use the CJRS to hoard labour ahead of an expected recovery in demand, even though the cost of that strategy had increased recently. Although some of these companies might choose to let staff go at the end of the scheme, others might be sufficiently confident of future demand to retain them. A substantial proportion of furloughed jobs had been at very small companies, including those with a single employee, for which the decision to reopen or not might depend more on idiosyncratic conditions. To the extent that some businesses had not yet brought staff back fully to their pre-Covid workplaces, this might have prolonged furlough in other businesses that supported these workplaces through ancillary goods and services. It was also possible that a greater number of furloughed workers had been able to find second jobs with alternative employers, or had expanded the scope of existing second jobs, which were allowable under the CJRS. These workers would probably not become unemployed at the end of the scheme, although, if they accounted for a large proportion of those still furloughed, it would make current high vacancy rates more difficult to explain.

54 Another hypothesis was that, due to shifts in the pattern of demand during the pandemic, those on furlough were not suitable matches for the job vacancies currently available. Although vacancies had risen across the economy, including in sectors with a high number of furloughed jobs, there could be mismatch at a more granular level across companies within the same sector. In that case, any increase in unemployment following the end of the CJRS might, at least in part, be more structural than cyclical.

55 Overall, the Committee judged that uncertainty around the outlook for the labour market had increased. Key questions included how the economy would adjust to the closure of the furlough scheme at the end of September; the extent, impact and duration of any change in unemployment; as well as the degree and persistence of any difficulties in matching available jobs with workers.

56 The Committee would review these, along with other, developments as part of its forthcoming forecast round ahead of the November *Monetary Policy Report*, which would also include its periodic assessment of the supply side of the economy. Ahead of the next MPC meeting, official data on furlough numbers would only be available for August, although additional, timelier information would be available from the BICS, other surveys

and the Bank's Agents, including on any potential increase in redundancies. Official labour market data for October, covering the period following the closure of the CJRS, would not be published until after the November MPC meeting.

57 Twelve-month CPI inflation had risen from 2.0% in July to 3.2% in August, compared with the 3.0% figure expected in the August *Report*, and had triggered the exchange of open letters between the Governor and the Chancellor of the Exchequer that was being published alongside this monetary policy announcement. Core inflation had also risen to 3.1% in August, its highest rate since November 2011. While base effects had accounted for the majority of the increase in CPI inflation between July and August, global cost pressures had continued to affect UK consumer goods prices. To a lesser degree, the reopening of the economy had led to a further increase in some consumer services prices.

58 CPI inflation was expected to rise further in the near term, to slightly above 4% in 2021 Q4, owing largely to developments in energy and goods prices. The material rise in spot and forward wholesale gas prices since the August *Report* represented an upside risk to the MPC's inflation projection from April 2022, and meant that CPI inflation could remain above 4% into 2022 Q2, all else equal. Most other indicators of cost pressures had remained elevated. The Committee's central expectation continued to be that current elevated global cost pressures would prove transitory. Indeed, there were still good reasons to expect material supply responses in commodity and other global markets, pushing down on future input prices and import costs. That said, should the pandemic reinforce the retrenchment of globalisation, there would be less scope for these factors to create future disinflationary pressures. And current elevated inflationary pressures could potentially lead to some second-round effects on consumer prices.

59 Some financial market indicators of inflation expectations had risen somewhat, including in the United Kingdom. The UK five-year inflation swap rate, five years forward was around 20 basis points above its 2019 average. Indicators of UK households' medium-term inflation expectations had increased in recent months, with the Citi/YouGov five-to-ten year ahead measure at its highest level since 2013 in September. The Bank/Kantar five-year ahead measure of households' inflation expectations had also increased slightly, but was now around its historical average. Taking together the full range of evidence from financial market measures and surveys of households, businesses and professional forecasters, the Committee judged that UK inflation expectations remained well anchored. But given recent developments, the Committee would monitor very closely the risk that domestic and global demand and cost pressures could further affect medium-term inflation expectations.

60 The Committee turned to its immediate policy decision.

61 The MPC had, since the second half of 2020, had policy guidance in place specifying that it did not intend to tighten monetary policy at least until there was clear evidence that significant progress was being made in eliminating spare capacity and achieving the 2% inflation target sustainably. There remained a range of views on the Committee about whether the conditions of that guidance were met, but all members agreed that the previous formal guidance was no longer useful in the present situation.

62 The MPC's remit was clear that the inflation target applied at all times, reflecting the primacy of price stability in the UK monetary policy framework. The framework also recognised that there would be occasions

when inflation would depart from the target as a result of shocks and disturbances. In the recent unprecedented circumstances, the economy had been subject to very large shocks. Given the lag between changes in monetary policy and their effects on inflation, the Committee, in judging the appropriate stance of monetary policy, would as always focus on the medium-term prospects for inflation, rather than factors that were likely to be transient.

63 At this meeting, most members of the Committee judged that the existing stance of monetary policy, which included the previously announced £150 billion increase in the target stock of purchased assets, remained appropriate. There was a range of views about the most likely near-term path of unemployment following the closure of the furlough scheme. However, all members in this group agreed that the outlook for the labour market, and hence underlying inflationary pressures, was particularly uncertain, and that some of this uncertainty should be resolved over coming months. Hence, there was a high option value in waiting for that additional information before deciding if and when a tightening in monetary policy might be warranted. If there were signs that the unemployment rate was increasing significantly following the end of the CJRS, it might take somewhat longer to assess the extent to which that rise was structural or cyclical, and, if structural and pushing down on effective supply in the economy, for how long that might persist.

64 For members in this group, it remained likely that inflation would fall back in the medium term in line with the projection in the August *Report*, as supply bottlenecks were cleared, demand growth eased, and companies' pricing power moderated. On one view, abstracting from current constraints on effective supply, GDP remained well below its medium-term potential level and monetary policy could have a role in sustaining demand, with a view to reducing the degree of medium-term scarring. On another view, the economy had shown further signs of normalising recently and demand could remain strong even while supply constraints proved more long-lasting. CPI inflation had continued to surprise on the upside, some indicators of cost pressures appeared somewhat more persistent and financial market inflation break-evens had continued to rise gradually. Different members placed different weights on these arguments. For all members in this group, monetary policy would at some point need to start to unwind some of its post-pandemic stimulus.

65 All members in this group agreed that any future initial tightening of monetary policy should be implemented by an increase in Bank Rate, even if that tightening became appropriate before the end of the existing UK government bond asset purchase programme.

66 For two members, the economic outlook warranted a tightening in the monetary policy stance at this MPC meeting. There was increasing evidence from a range of global and domestic cost and price indicators that inflationary pressures were likely to persist. Record vacancy levels and the pace of underlying wage growth were evidence of ongoing tightness in labour market conditions, alongside other signs of capacity pressures. These members judged that, with the existing policy stance, inflation was likely to remain above the 2% target in the medium term. This reflected a greater impact from cost pressures, and the prospect of a larger and more persistent level of excess demand in the United Kingdom than in the central forecast in the August *Report*.

67 These two members preferred to stop the current asset purchase programme as soon as practical after this meeting rather than continuing it until around the end of the year, as currently planned. Continuing with

asset purchases when CPI inflation was above 3% and the output gap was closed might cause medium-term inflation expectations to drift up further. A decision to curtail the asset purchase programme at this meeting would imply a modest policy tightening and mitigate that risk, which might otherwise ultimately necessitate a more abrupt subsequent tightening in policy and hence a greater adjustment in growth and employment. It would demonstrate the Committee's commitment to returning inflation to target in the medium term and ensuring that medium-term inflation expectations remained well anchored.

68 At its previous meeting, the Committee had judged that, should the economy evolve broadly in line with the central projections in the August *Monetary Policy Report*, some modest tightening of monetary policy over the forecast period was likely to be necessary to be consistent with meeting the inflation target sustainably in the medium term. Some developments during the intervening period appeared to have strengthened that case, although considerable uncertainties remained. The Committee would be monitoring closely the incoming evidence regarding developments in the labour market, and particularly unemployment, wider measures of slack and underlying pay pressures; the extent to which businesses passed on wage and other cost increases, as well as medium-term inflation expectations.

69 The Chair invited the Committee to vote on the propositions that:

> Bank Rate should be maintained at 0.1%;
>
> The Bank of England should maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £20 billion;
>
> The Bank of England should continue with its existing programme of UK government bond purchases, financed by the issuance of central bank reserves, maintaining the target for the stock of these purchases at £875 billion.

The Committee voted unanimously in favour of the first and second propositions.

Seven members (Andrew Bailey, Ben Broadbent, Jon Cunliffe, Jonathan Haskel, Catherine L Mann, Huw Pill and Silvana Tenreyro) voted in favour of the third proposition. Two members (Dave Ramsden and Michael Saunders) voted against this proposition, preferring to reduce the target for the stock of UK government bond purchases from £875 billion to £840 billion.

Operational considerations

70 The existing programme of £150 billion of UK government bond purchases had started in January and its completion was expected by around the end of 2021. Further details of the planned operational approach to gilt purchases between the August and December MPC meetings had been set out in the Market Notice accompanying the August 2021 minutes. Should market functioning worsen materially, the Bank of England stood ready to increase the pace of purchases to ensure the effective transmission of monetary policy.

71 The Committee would keep the asset purchase programme under review. If needed, there was scope for the Bank of England to re-evaluate the existing technical parameters of the gilt purchase programme.

72 Consistent with the Committee's previous guidance, the MPC agreed to reinvest the cash flows associated with reductions in the stock of sterling non-financial investment-grade corporate bond purchases held by the Asset Purchase Facility back into eligible corporate bonds, commencing in November 2021. As announced in March, this reinvestment programme would be the first to take the climate impact of the issuers of bonds into account. Further details of reinvestment operations would be published in a Market Notice nearer the time, alongside details of how the Bank's approach to 'greening' the portfolio would be implemented this year.

73 The following members of the Committee were present:

Andrew Bailey, Chair
Ben Broadbent
Jon Cunliffe
Jonathan Haskel
Catherine L Mann
Huw Pill
Dave Ramsden
Michael Saunders
Silvana Tenreyro

Tom Josephs was present as the Treasury representative.

As permitted under the Bank of England Act 1998, as amended by the Bank of England and Financial Services Act 2016, Dorothy Thompson was also present on 15 and 17 September, as an observer, for the purpose of exercising oversight functions in her role as a member of the Bank's Court of Directors.