

Bank of England

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 6 November 2024

7 November 2024

These are the minutes of the Monetary Policy Committee meeting ending on 6 November 2024.

They are available at <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2024/november-2024>.

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 18 December will be published on 19 December 2024.

Monetary Policy Summary, November 2024

The Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. The MPC adopts a medium-term and forward-looking approach to determine the monetary stance required to achieve the inflation target sustainably.

At its meeting ending on 6 November 2024, the MPC voted by a majority of 8–1 to reduce Bank Rate by 0.25 percentage points, to 4.75%. One member preferred to maintain Bank Rate at 5%.

There has been continued progress in disinflation, particularly as previous external shocks have abated, although remaining domestic inflationary pressures are resolving more slowly.

CPI inflation fell to 1.7% in September but is expected to increase to around 2½% by the end of the year as weakness in energy prices falls out of the annual comparison. Services consumer price inflation has declined to 4.9%. Annual private sector regular average weekly earnings growth has continued to fall but remained elevated at 4.8% in the three months to August. Headline GDP growth is expected to fall back to its recent underlying pace of around ¼% per quarter over the second half of this year. The MPC judges that the labour market continues to loosen, although it appears relatively tight by historical standards.

Monetary policy has been guided by the need to squeeze remaining inflationary pressures out of the economy to achieve the 2% target both in a timely manner and on a lasting basis. The Committee's deliberations have been supported by the consideration of a range of cases that could impact the evolution of inflation persistence. These three cases are set out further in the accompanying November Monetary Policy Report.

In the first case, most of the remaining persistence in inflation may dissipate quickly as pay and price-setting dynamics continue to normalise following the unwinding of the global shocks that drove up inflation. In the second case, a period of economic slack may be required to normalise these dynamics fully. In the third case, some inflationary persistence may also reflect structural shifts in wage and price-setting behaviour. Each case would have different implications for how quickly the restrictiveness of monetary policy could be withdrawn.

The MPC's latest projections for activity and inflation are also set out in the accompanying November Report. This forecast is based on the second case. CPI inflation is projected to fall back to around the 2% target in the medium term, conditioned on the usual 15 day average of forward interest rates, as a margin of slack emerges later in the forecast period that acts against second-round effects in domestic prices and wages.

The combined effects of the measures announced in Autumn Budget 2024 are provisionally expected to boost the level of GDP by around $\frac{3}{4}\%$ at their peak in a year's time, relative to the August projections. The Budget is provisionally expected to boost CPI inflation by just under $\frac{1}{2}$ of a percentage point at the peak, reflecting both the indirect effects of the smaller margin of excess supply and direct impacts from the Budget measures.

There remains significant uncertainty around the outlook for the labour market. Data are difficult to interpret and wage growth has been more elevated than usual relationships would predict. The impact of the Budget announcements on inflation will depend on the degree to and speed with which these higher costs pass through into prices, profit margins, wages and employment.

At this meeting, the Committee voted to reduce Bank Rate to 4.75%, reflecting the continued progress in disinflation.

Based on the evolving evidence, a gradual approach to removing policy restraint remains appropriate. Monetary policy will need to continue to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium term have dissipated further. The Committee continues to monitor closely the risks of inflation persistence and will decide the appropriate degree of monetary policy restrictiveness at each meeting.

Minutes of the Monetary Policy Committee meeting ending on 6 November 2024

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 latest data on these topics were set out in the accompanying [November 2024 Monetary Policy Report](#).
2. The Committee discussed the near-term global risks and their potential impact on the inflation outlook in the United Kingdom. The balance of risks to global activity, particularly stemming from China and Germany, remained to the downside in the near term. Alongside that, there were upside risks to goods and commodity prices from greater trade fragmentation and adverse geopolitical developments, including from events in the Middle East.
3. Since the MPC's previous meeting, the market-implied path for Bank Rate in the United Kingdom had shifted up materially. For the period prior to Autumn Budget 2024, market intelligence had attributed the modest upward moves in the market-implied path largely to international factors such as stronger-than-expected economic data in the United States. For the period around the time of the Budget, the upward shift had been more material. However, market pricing had continued to remain consistent with a 25 basis point reduction in Bank Rate at this MPC meeting.
4. Bank staff continued to judge that the economy was growing at around $\frac{1}{4}\%$ per quarter on an underlying basis. According to the official data, GDP had grown by 0.5% in 2024 Q2, 0.2 percentage points weaker than had been expected in the August Report, and 0.1 percentage points weaker than the earlier outturn had indicated at the time of the MPC's previous meeting. Through the second half of 2024, GDP was projected to grow at a somewhat slower rate than in Q2.
5. The Committee discussed the implications of the latest activity data for the evolution of slack in the economy. There was limited evidence that aggregate demand was falling short of aggregate supply. Surveys of capacity utilisation had remained close to their historical averages, and indicators of labour market tightness, while easing of late, continued to appear relatively tight by historical standards. These developments reinforced the view that the drag on activity from the lagged transmission of past monetary tightening was unlikely to intensify over the coming year.
6. There had been material news to the economic outlook in Autumn Budget 2024. Taken together, the fiscal policy announcements were provisionally expected to boost the level of GDP by around $\frac{3}{4}\%$ at their peak in a year's time, relative to the August projections. The

Committee also discussed the increase in the overall cost of employment that was likely to follow from the changes to employers' National Insurance contributions (NICs) and the increase in the National Living Wage (NLW), and the degree to and speed with which that increase might be transmitted into prices, profit margins, wages and employment.

7. Twelve-month CPI inflation had fallen to 1.7% in September. The decline in CPI inflation since the start of this year had primarily reflected lower goods price inflation, with disinflation in underlying services prices having been less pronounced. Services price inflation had, however, decreased quite sharply to 4.9% in September. Most of this downside news had been concentrated in more volatile categories, and some of this was expected to unwind. Services price inflation was expected to remain broadly unchanged over the next six months. Annual growth in private-sector regular average weekly earnings had fallen back significantly since mid-2023, but it had remained relatively strong at 4.8% in the three months to August.

The immediate policy decision

8. The Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. The MPC adopts a medium-term and forward-looking approach to determine the monetary stance required to achieve the inflation target sustainably.

9. Since the MPC's previous meeting, there had been continued disinflation. Twelve-month CPI inflation had fallen to 1.7% in September. The decline in CPI inflation since the start of the year had primarily reflected lower goods price inflation, with disinflation in underlying services prices less pronounced.

10. Annual growth in private sector regular average weekly earnings had fallen back significantly since mid-2023 but had remained relatively strong at 4.8% in the three months to August. Year-ahead expectations for wage growth in the DMP Survey had been flat at around 4% since May, while initial Agents' intelligence had reported an expected range of pay awards between 2% and 4% next year.

11. GDP had grown by 0.5% in 2024 Q2, slightly weaker than had been expected in the August Report. GDP growth was expected to fall back to its recent underlying pace of around $\frac{1}{4}$ % per quarter over the second half of the year.

12. The combined effects of the measures announced in Autumn Budget 2024 were provisionally expected to boost the level of GDP by around $\frac{3}{4}$ % at their peak in a year's time, relative to the August projections. The Budget was provisionally expected to boost CPI inflation by just under $\frac{1}{2}$ of a percentage point at its peak, reflecting both the indirect effects of the smaller margin of excess supply and direct impacts from the Budget measures.

13. Based on the collective steer from a wide range of indicators, the MPC judged that the labour market continued to ease but that it appeared relatively tight by historical standards. However, there was significant uncertainty around the labour market outlook and its impact on inflationary persistence. The combined effect of some policies announced in the Budget, particularly the increase in employer NICs and the NLW, was likely to increase the overall costs of employment. The net effect of this news on aggregate inflation would depend on the degree to and speed with which those costs would be transmitted into prices, wages, employment, or otherwise absorbed in profit margins or productivity growth. On the one hand, higher labour costs could constrain firms' cash-flows if there was limited pass-through to pricing. This in turn could moderate wage growth and further loosen the labour market through reduced labour demand. On the other hand, the increase in labour costs could prove more inflationary if upward pressure on prices were passed on to consumers.

14. The Committee continued to monitor the accumulation of evidence from a broad range of indicators of inflation persistence, including evidence that could point to the three cases set out in the November Monetary Policy Report having begun to materialise. In the first case, most of the remaining persistence in inflation might dissipate quickly as pay and price-setting dynamics continued to normalise following the unwinding of the global shocks that drove up inflation. In the second case, a period of economic slack might be required to normalise these dynamics fully. In the third case, some inflationary persistence might reflect structural shifts in wage and price-setting behaviour.

15. In the November forecast, which was based on the second case, second-round effects in domestic prices and wages were expected to take somewhat longer to unwind than they did to emerge. The margin of slack that emerged later in the forecast period would act against those second-round effects, leading CPI inflation to fall back to around the 2% target in the medium term.

16. If, for example, the economy were to grow broadly as expected, but material downside news to wages and services inflation were nonetheless to emerge, this could increase the weight that the MPC would place on the first case materialising. Signs of a slowing in the disinflation process, particularly in the absence of a pickup in activity growth, could instead increase the likelihood that the MPC would place on the third case materialising.

17. At this meeting, eight members preferred to reduce Bank Rate to 4.75%. There had been continued progress in disinflation, particularly as previous external shocks had abated, although remaining domestic inflationary pressures were resolving more slowly. These members put different probabilities on and risks around the three cases, but they believed that a cut in Bank Rate was appropriate at this meeting. They would continue to assess the range of evidence over time.

18. One member preferred to maintain Bank Rate at 5%. For this member, structural factors in wage and price-setting dynamics continued to draw out the underlying disinflation process, and CPI inflation was projected to remain above the 2% target until the end of the forecast period. Wage developments might continue to be more robust than projected as firms and workers incorporated past and upcoming adjustments in the National Living Wage and National Insurance contributions. This, along with prospects for more robust demand associated with the Budget, was likely to support pricing opportunities for firms. In the face of these uncertainties, maintaining the current level of Bank Rate would allow time to evaluate whether these upside pressures would materialise.

19. Based on the evolving evidence, a gradual approach to removing policy restraint remained appropriate. Monetary policy would need to continue to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium term had dissipated further. The Committee would continue to monitor closely the risks of inflation persistence and would decide the appropriate degree of monetary policy restrictiveness at each meeting.

20. The Chair invited the Committee to vote on the proposition that:

Bank Rate should be reduced by 0.25 percentage points, to 4.75%.

21. Eight members (Andrew Bailey, Sarah Breeden, Swati Dhingra, Megan Greene, Clare Lombardelli, Huw Pill, Dave Ramsden and Alan Taylor) voted in favour of the proposition. Catherine L Mann voted against the proposition, preferring to maintain Bank Rate at 5%.

Operational considerations

22. On 6 November 2024, the stock of UK government bonds held for monetary policy purposes was £655 billion.

23. The following members of the Committee were present:

Andrew Bailey, Chair
Sarah Breeden
Swati Dhingra
Megan Greene
Clare Lombardelli
Catherine L Mann
Huw Pill
Dave Ramsden
Alan Taylor

Sam Beckett was present as the Treasury representative.

David Roberts was also present on 28 October, as an observer for the purpose of exercising oversight functions in his role as a member of the Bank's Court of Directors.