BANK OF ENGLAND

**MEETINGS OF THE MONETARY POLICY COMMITTEE**

**SEPTEMBER 2016**

A meeting of the Monetary Policy Committee was held on Friday 9 September 2016. The following members of the Committee were present:

Mark Carney, Governor
Ben Broadbent, Deputy Governor, Monetary Policy
Jon Cunliffe, Deputy Governor, Financial Stability[1]
Nemat Shafik, Deputy Governor, Markets and Banking
Kristin Forbes, External Member
Andrew Haldane, Chief Economist
Ian McCafferty, External Member
Michael Saunders, External Member
Gertjan Vlieghe, External Member

Dave Ramsden was present as the Treasury representative

Tim Frost was present as an observer for the purposes of exercising oversight functions in his role as a member of the Bank's Court of Directors.

The following members of staff were present:

Gareth Ramsay, Director, Monetary Analysis
Sarah John, MPC Secretariat
James Talbot, MPC Secretariat
Chris Young, MPC Secretariat
Melissa Davey, Editor of Inflation Report

[1] Jon Cunliffe was required to represent the Bank of England at the Informal ECOFIN meeting of central bank governors and was therefore not able to attend this session of the MPC meeting in person. His indicative vote was communicated to, and read by, the Governor. The Committee agreed he should therefore be treated as present at the meeting as set out in the Bank of England Act 1998, Schedule 3.

**Transcript of the Monetary Policy Committee Meeting on**

**Friday 9 September 2016**

**Governor Carney.** Welcome to the MPC Decision Meeting, the preliminary decision, the indicative decision. ID. We should have an acronym for it, let's call it ID, IDM actually. The reason we release the actual recordings in the fullness of time, the transcript data - actual recordings - is that historians, true historians, professional historians, you get more out of listening to cadence, the nuance of people's voices. OK, so let's start. There've been a few movements in financial markets, so Minouche, we'll start with you.

> **Nemat Shafik.** Yes, happy to. Core government bond yields have continued to rise today. They're up by between 5 and 10 basis points in a continuation of the move yesterday following the ECB's announcements and relatively strong euro-area corporate issuance. Gilt yields in particular have risen by 9 basis points for the 10 year gilt, as well as reflecting the general global move higher. The move has partly been exacerbated by the Chancellor's comments at the House of Lords being interpreted as opening the possibility of a fiscal stimulus in the Autumn Statement. FX markets are quiet and the FTSE is down slightly but in line with equity indices around the world.

**Governor Carney.** Good thank you. Andy.

> **Andrew Haldane.** Just one piece of data that's new from yesterday and that's that we had construction output for July. That was flat, broadly in line with what we'd expected. A bit stronger than what the market had expected. No changes to our nowcast for Q3. Just en passant, there were some back revisions to the construction data, which means that it's possible, the staff think, that the Q2 growth estimate might get shaded up from 0.6 to 0.7. Time will tell.

**Governor Carney.** Good. Thank you. OK so we'll start with indicative decisions and as per custom begin with Ben.

> **Ben Broadbent.** Thanks Governor. My first job – just to familiarise our new member with the usual practice – is to summarise global economic developments since the previous meeting. It's something I haven't done for a bit, given how much has been going on in this country. And there could well be more occasions, in coming months, on which the UK tail wags the global dog, as it were. And, as it happens, there isn't much in the standard monthly economic releases that changes our view of the global economy. The staff's latest forecasts for growth in the US and eurozone in Q3 – indeed in each of the next three quarters – are unchanged since August. The same goes for UK-weighted global growth, where we continue to expect an annualised rate of 2% over the second half of this year. Commodity prices have been broadly stable since August, the oil price edging up by $1.50 a barrel; as for policy, the ECB announced no new easing measures, but the market continues to expect them and yesterday's announcement provided only marginal disappointment in markets. I wrote this before getting in this morning and seeing the move in bond yields, perhaps that was one reason also contributing to the move up. And Janet Yellen's speech at Jackson Hole kept another US rate hike in play for this year, but otherwise provided little news – other than a recognition that the neutral real rate of interest rate has been falling. That fact, I think it is one, is a long-standing fact, one we again discussed yesterday; its acknowledgement by US policymakers somewhat less longstanding.
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> But it's worth making a couple of points about the global outlook, both of which we touched on yesterday. One is the recent path of bond yields and by that I mean the general move down in the last few months. Jan pointed out that, just as policymakers take time to learn about r*, so too have markets and one shouldn't therefore expect to find clear explanations for the downwards drift in yields over a relatively short period of time. That's true – as is his observation about demographic trends. But one is aware that bond markets are volatile and that they tend to over-react to movements in short rates in particular. So, although this may be vastly premature I still think we need to think about what one might expect to see if, in fact, we all of us, policy makers and markets alike, turn out at some point to have under-estimated r*. Inflation outturns themselves do help obviously; but I'd prefer not to be as wrong as policymakers, UK policymakers at least, were in the 1960s and 1970s.

The second point on the global discussion, Jon touched yesterday on political volatility and, in that regard something in the Bank's new International Risk Quarterly caught my eye. Those that actually went to the G20 probably already know this but, in a regular report prepared for that meeting, the WTO and OECD said that the number of new trade restrictions had increased significantly, across the G20, in the first few months of this year. Now this is a series that is relatively short-lived, I think it only began this monitoring exercise in 2009. But it was the biggest rise since then. And some barriers had been lowered, but many more were being added; prospects for further liberalisation, the TTIP in particular, obviously don't look good; and if the point of our exit from the EU is to substitute for lower trade with Europe by striking all sorts of deals with other countries, it would be unfortunate if the rest of the world, at the same time becomes less keen on such trade deals. It wouldn't do much for global productivity growth or, to that extent, as Jon suggested yesterday, for r*.

Anyhow, if all that's a bit vague, let me turn now to the more concrete near-term economic data at home and my views on domestic monetary policy. As we know, following the initial shock of the referendum vote, and our policy package in August, the survey data have generally been more positive. The PMI and housing market surveys have rebounded significantly; so too have the prices of risky assets, including the equity of UK-facing companies; this has been enthusiastically welcomed, including by some people one wouldn't normally expect to pay much attention to these indictors, so let me pick out a few things about these latest developments.

First, although some enthusiasm is clearly appropriate, there may, as Charlie Bean said earlier this week, have been a little too much. Near-term growth still looks weaker than the recent trend. Even if the stronger figure for August were repeated in September, the average composite PMI output index, across the past three months, would still be the weakest quarterly figure since 2012. Official data for July we only have for construction and industrial production, but they were both lower than their Q2 averages, suggesting the possibility of a contraction in the more investment-sensitive parts of the economy in Q3. Now these monthly output data are volatile, the manufacturing slide, over the past three months, follows a freakishly strong figure for April; services output, the bulk of the economy, will no doubt keep growing (we get the figure for July at the end of this month). But it does look as though growth in Q3, and in the second half of 2016 as a whole, will be lower than in the first half.

Second, and having said that, I do think there may be more significance in the bounce in the housing market surveys than in those for current output. It's tempting, as I said, to see the weakness of construction and manufacturing output as a signal of what pre-referendum uncertainty was doing to capital spending. And if so, and if we're right that this uncertainty is likely to remain elevated, after the referendum, then investment spending and the parts of the economy most dependent on it, are also likely to remain weak. Notably, investment intentions among firms, as measured by various surveys, including that of our Agents, have not rebounded much in the past month. But the more forward looking data suggest that, at least in the case of housing, this may well be a more protracted or delayed slowdown than anticipated in the Inflation Report. In data released since August, the Q2 figures for construction new orders and housing starts both rose, the former quite strongly; and, given the weakness that's actually pencilled into the IR forecast for housing turnover and investment, the bounce in the these surveys, as I say, may be more significant than those for near-term output. As regards the role of our own policy, sentiment in the housing market is probably more immediately sensitive to changes in interest rates than that for business investment.

So where does this leave me on policy? Firmly in the no change camp for this month – that is my indicative vote, on both rates and both kinds of asset purchases – but, as one of the majority who signalled a bias to ease further, should the economy evolve in line with the forecast, in something of a delicate position as regards our communication. Rightly, in my view, the interest rate market has lowered, but only somewhat, the chances of another reduction in Bank Rate in November. That seems in line with the direction and magnitude of our forecast update, and if our Monetary Policy

Summary left market interest rates where they are now then we should not, in my view, be displeased. And so our task will therefore be to find the appropriate wording, something that does that, and I look forward to the Secretariat's first draft over the weekend.

**Governor Carney.** On my list is Jon and then Ian. I have Jon's remarks and I'll just read them into the record. So speaking as Jon.

**Jon Cunliffe's comments were read by the Governor.** As I said in my remarks in July and August, we will not have a reliable picture of the economy or be able to form a heavily data-dependent view for quite a while. We are in an unprecedented situation and will have to draw on a range of policy approaches, including scenario analysis and risk management, to make sense of the economy.

Last month, uppermost in my mind was how I expected the Brexit shock to work through the economy. I was clear on the direction of change – we were likely to see a material slowing in growth – though the timing and extent of the slowing was much harder to predict, particularly given the role of the political and negotiation process in the economic outlook.

We've had a little more data since then but I haven't seen anything that gives me reason to change my view on the way in which Brexit is likely to work through the economy, which is in the main what we have in the forecast.

My assessment remains that the economic impact will be felt first in the business sector. The combination of uncertainty with business decisions that are likely to be costly to reverse, such as investment, hiring and pay, makes those decisions more likely to be delayed or taken cautiously.

Arguably the logic about postponing large and irreversible decisions in the face of uncertainty applies to housing too which is why the forecast includes a weakening in housing transactions and prices. I have always had a suspicion that the housing market is likely to decline when consumer confidence begins to fall.

In this view of the way in which Brexit works through the economy, the impact on business investment, hiring and pay will in turn drive the change in consumer sentiment and the housing market by changing expectations of future income and employment prospects. For me, my main downside risk to the forecast is that this transition happens more abruptly and more powerfully possibly because the likely outcome of the exit process begins to look more clearly negative and this dents consumer confidence.

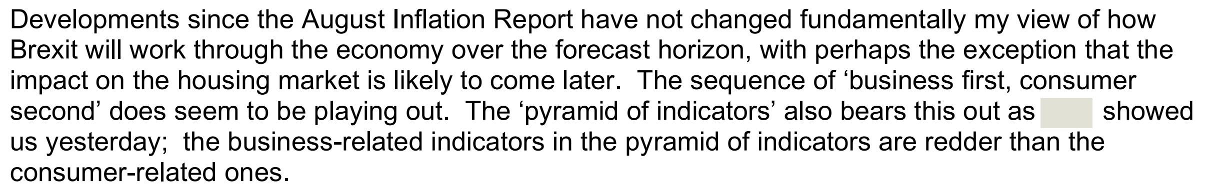
We aimed off a mechanical treatment of the July PMIs when devising the forecast but even with that, and our policy action, a significant amount of new data has I think been more positive than we were expecting. I would pick out the following as some of the key data moves since the August Inflation Report.

First the PMI and RICS surveys strengthened in August relative to July. But it is striking that the greater strength in these surveys is about the 'here and now' rather than further ahead if we take May as the benchmark because it was less affected by the referendum and, for housing, by the buy-to-let tax changes.

Secondly, the Q2 GDP expenditure split showed business investment growth in Q2 of 0.5% versus our expectation of a fall of 0.5% and stronger than expected growth in consumption. This may be evidence that uncertainty has a less powerful effect on activity than we assumed.

But most series of investment intentions have weakened since May, since the referendum and since the August IR. The referendum has not yet had a big impact on the labour market but we wouldn't expect it to given the short time period since the referendum. The GfK/EC consumer confidence indicator is around its historical average but well below its level before the referendum although it picked up slightly in August. The staff uncertainty indicator has dropped back markedly. But it is still very early days and the summer has been relatively calm. The negotiation around the withdrawal from the EU has not begun in earnest. Overall, the impact of the news on the staff Q3 nowcast has been positive although, clearly, data developments have not been universally positive.

I think that some of the data moves are due in part to the policy package that the Committee put in place. It is too early for the package to have had much impact on the real economy but I believe it has had an impact on confidence and that moves in market prices on the day of the announcement suggest that the package is being transmitted through banks and markets a bit more strongly than expected.



Developments since the August Inflation Report have not changed fundamentally my view of how Brexit will work through the economy over the forecast horizon, with perhaps the exception that the impact on the housing market is likely to come later. The sequence of 'business first, consumer second' does seem to be playing out. The 'pyramid of indicators' also bears this out as  showed us yesterday; the business-related indicators in the pyramid of indicators are redder than the consumer-related ones.

Finally, the data since August do suggest that we aren't starting off with a sharper hit which could in part be due to momentum from Q2 so there's some information about the starting point and perhaps on the speed of the process.

Looking ahead, I will be watching the following indicators particularly closely:

Firstly business investment intentions. I expect to see continued weakness in surveys of business investment intentions. As Andrew told us yesterday, companies are thinking hard about the commitments they are making and have the axe in the cupboard.

Secondly business investment. The impact on business investment itself will come a bit later as it is more difficult for firms to stop investments that are well advanced in the pipeline. But I would expect to see something in the Q3 GDP expenditure split which is due in late November.

Thirdly vacancies. I would expect referendum-related movements in the labour market to show up first in falls in vacancies given that they are more easily adjustable than employment.

Fourth pay. Increased caution by firms, higher unemployment and possible 'pay demand inertia' given the long period of weak pay will probably act to contain pay growth. Given the expected pick-up in inflation, a reduction in real pay is one channel that will transmit the impact of the referendum to households so I'll be watching real pay developments closely.

Finally, consumer confidence. I will be watching for any signs that consumer confidence is moving down and whether we are seeing consumption effects earlier than anticipated.

If I don't start to see significant effects on the business side of the sorts outlined above in the next few months, I will need to reconsider my framework. If I see sharper impacts, or a significant fall in consumer confidence, then I would want to consider policy action over and above that implied in the August Inflation Report.

On communications, we should recognise that the data has been a little stronger than expected. But I would not want to give the impression that we've made a judgement that the economy is not in line with our forecast or that the majority had abandoned the view that a further cut in Bank Rate would be required if the economy evolved as expected. Rather I would want to signal that we intend to reassess the situation in the November Inflation Report.

So my overall view on how Brexit it likely to affect the economy has not changed materially since our August meeting. In the light of that, I intend to vote for no change in policy.

**Governor Carney.** OK, so Ian and then Kristin please.

**Ian McCafferty.** Thank you. Interpreting the economy at the moment is a little like the dance of the seven veils. Each month, another veil is removed, revealing just a little more, but after only two veils, it is still difficult to get a true picture of what is really going on.

Some of the monthly sectoral data is now becoming available, but we are still very dependent on the surveys for much of our intelligence. But, continuing my argument of last month, these remain difficult to interpret given the unique nature of the referendum shock, and it is as risky to take the data for August at face value as it was for that in July.

The rebound in the latest CIPS composite indicator was somewhat larger than even I had been expecting, but still leaves two possible interpretations for the pace of Q3 GDP. To the extent that the survey is acting as an unbiased and reasonably good predictor of real output, with a sharp fall followed by a rebound, the two month average of the indicator is consistent with a slowing of quarterly GDP growth in line with the staff update. However, to the extent that the survey results were initially distorted by the sentiment shock of the referendum result, which may be starting to unwind, that average may not map reliably over into the eventual GDP data.

We now have initial comparisons between survey data and their ONS equivalents for manufacturing and construction in July. At first sight, the month-on-month changes in the ONS estimates appear to have closely tracked the survey data – a sharp fall in manufacturing output, and flat construction. This gives support to the hypothesis that the survey information remains reliable, that while output rebounded in August, the quarterly average will represent a sharp slowing on Q2. However, the series correlations of monthly moves between CIPS and the ONS are relatively low for both manufacturing and construction – the correlation between manufacturing CIPS monthly moves and ONS manufacturing output is 0.2. It is therefore still too early to dismiss the alternative interpretation of the available survey data – that the immediate survey weakness may have been exaggerated by sentiment, but is gradually returning to a more normal signal. And to the extent that this distortion applies, it represents a possible upside risk to our latest Q3 GDP estimate. Moreover, we have yet to see how the ONS estimates of how the more important services sector is of course behaving.

This view – that the economy is doing somewhat better than our collective judgement thought likely in August – is backed up by the balance of the other data news we possess – on housing, retail sales, consumer confidence and export surveys, but I have to conclude that it is still very early days, and we will have to wait for several more veils to come off before we have a clearer view.

Relating this back to our August forecast, and whether what we have learned is "broadly consistent" with that, we need to consider four dimensions: direction, narrative, magnitudes, and the key trade-off for our policy decision.

On the first two – direction and narrative – I agree with Andy that we still seem broadly in line. The economy seems destined to slow over the second half, and the high level narrative, that this would be driven by business spending, rather than consumption, still appears correct. Within the construction sector, making a more marked distinction between housing activity and CRE activity than we managed in August should help better calibrate the pace and scale of this downturn, but is likely to mean that the sharp downturn predicted for the turn of the year may be slightly less dramatic.

So in terms of the magnitude and the shape of the forecast, I do think it stretches the definition of "broadly" a bit too far to come to the same conclusion. The slight rethink on housing, combined with the apparent resilience of the short-term output data, does suggest that the slowdown over the next two to three quarters is likely to be less marked than we originally projected. Indeed, I would reiterate my argument of last month, that, at big picture level, this is likely to be much more of a "slow-motion" downturn than our forecast suggests.

There are two reasons to suggest that both the downturn, when it comes, and the subsequent recovery may unfold more slowly than in our August GDP profile: such that the V shape in the GDP profile may be less acute. First, as Kristin suggested yesterday, I believe that we risk misinterpreting the impact of uncertainty on business behaviour. Yes, investment spending will slow sharply, but given the nature of the lack of clarity about trading relationships in the longer term, this is likely to be a long-term pervasive drag on capital investment, rather than a short sharp shock linked to events such as the triggering of Article 50. Second, it looks as if consumers, and by extension, housing activity will remain resilient until the point at which economy has slowed sufficiently to threaten job security, which suggests the slowdown will be less marked this autumn, but intensify rather than ease through next year.

All of this leaves the fourth of my yardsticks for consistency with the August forecast – the evolution of the trade-off between the size of the output gap and the inflation overshoot – very much an open question. With the September forecast upgrade, the current perceived trade-off is slightly less acute, with both GDP and inflation slightly higher, which, all else equal, might justify a slightly less aggressive policy response than was implied by the August forecast. But how the trade-off will evolve in coming quarters, and the implications for our forward guidance messages, remains very unclear. On the one hand, if the slowdown is to intensify into 2017, then further policy action is probably still justified, broadly in line with our August guidance, even if the timing varies. If, on the other hand, some concerns I am starting to have about global commodity cycles start to crystallise, we will be facing additional imported inflationary pressure from food and metals prices, which could complicate the policy trade-off further.

As a member of the minority in our policy decision last month, I recognise that I only have a limited input into how we might wish to recast the guidance contained in the August Minutes. But even as a member of that minority, I would be reluctant to change the message too much at this stage, given the uncertainties involved. Some very modest qualifications to our August guidance on the probability and timing of any further policy easing I think will be required, to demonstrate that we are maintaining a data-driven approach, but otherwise I think we should maintain our broad message for now.

In the meantime, we can take comfort that the initial market reaction illustrates the continued effectiveness of monetary policy, although the proof in terms of the effects on the real economy will be longer in coming. The cynic in me is unsurprised by the fact that some banks appear to have not only maintained, but actually enhanced their margins in response to our package, but depending on how policy evolves, this may be rectified through market competition for deposits in future months. In terms of my policy decision this month, I intend to vote for no change in Bank Rate and a continuation of the programme for corporate bond purchases. Last month, I voted against the increase in the stock of gilt purchases but given that the programme was approved by a majority of the Committee, and given the pull back in yields in recent days which suggest there may be potential costs of reversing last month's decision, I am happy to acquiesce with the continuation of the programme for now.

**Governor Carney.** Thank you very much Ian. Kristin and then Minouche please.

**Kristin Forbes**: Last MPC round was a period of extensive analysis, discussion and action. These actions have not only had the expected impact to date - but potentially more. Therefore, this MPC round seems to be an appropriate time for the "thermostat hiatus". By that, I mean time to pause, evaluate, and resist doing anything else until we have more information.

Why is this a "thermostat hiatus"? Because it is what we all know you should do - but at least I always have a hard time doing - after turning up the thermostat on a cold night. Even after the heater clicks on, it is always tempting to crank the thermostat higher as you continue to shiver. But then you inevitably wake up in the middle of the night in a full sweat. So today I will not discuss changing the thermostat, but instead take stock in three areas affecting future adjustments: first the impact of our policy actions; second the UK economic outlook; third broader insights from Jackson Hole.

First, have our August actions had the expected impact? We discussed this at pre-MPC, and there is an excellent staff paper that goes through the detail, so I will just add some big picture comments. The policy package had an impact that was as close to a "textbook" success as one can find. The impact on the exchange rate, equity prices, gilt yields, risk spreads, bank funding costs, lending rates, corporate bond issuance, etc. etc. was all in the expected direction and at least as large as we expected.

There are subtleties about interpretation - such as these effects incorporating the forward guidance on Bank Rate. Nonetheless, we should feel comfortable on several fronts. Monetary policy can still work and be effective near the zero lower bound. Asset purchases can still be effective, even if markets are functioning well and there is no issue of illiquidity. We are not out of tools. Our experience will be a powerful counterexample to sceptics on these fronts.

The success, however, raises an important question. If the measures have been more powerful than expected, should we refrain from providing additional stimulus (without a marked deterioration in the outlook)? It is tempting to argue yes - especially for someone with my priors that we should not have provided as much stimulus last month. But to be fair, it is too soon to answer affirmatively. We have only seen the market and pricing effects of the package - not the effects on the real economy. Consumers may not increase spending in response to increased wealth and reduced mortgage costs - instead saving more (possibly also compensating for lower deposit rates); businesses may not invest in response to lower borrowing costs - possibly due to worries about Brexit uncertainty or to replenish pension funds. The bottom line - it is too soon to be confident that the package succeeded. It is doing everything it should at this time - but still early days.

Second, the outlook for the UK economy is certainly brighter. There has been extensive use of fog and haze analogies over the last few months. The fog of uncertainty will still be with us for an extended period - and there will undoubtedly be periods of rain - and even storms. But there have recently been rays of light. Encapsulating this, the (60-day moving average of the) UK economic surprise index increased sharply, reaching a record high since October 2013. The consumer, manufacturing, and even housing have been more resilient to the initial confidence shock than expected. The economy was on a sounder footing before the referendum. Even the global economy has not had any major downside news since the downgrades around the turn of the year. The Pre-MPC slide showing emerging market annual growth fairly stable since 2012, especially excluding Russia and Brazil, was quite striking. These economies have not recovered as expected in 2010, but also not slowed dramatically despite lower commodity prices.

But this good news also needs to be put in context. The rays of light are in a very dreary outlook. “Upside” housing news - the most important component of our forecast revision - is from a negative baseline and still indicates slowing. Manufacturing is only 10% of the economy. Consumption is usually the last expenditure component to slow during a recession. The positive news in the survey data needs to be interpreted as cautiously as the earlier downside news. These tend to overreact to political news and overstate small but widespread changes in the outlook. The economy will still slow from Q2.

On a more positive note, the consumer appears unfazed, despite heightened uncertainty before and immediately after the referendum. Less weakness in housing should reduce the negative wealth effects that would eventually drag on consumption. The stable claimant count and solid labour market suggests little concern about job losses yet, further supporting consumption. The GfK/EC consumer confidence measure is more benign than its below-average headline because the weakness is entirely from views on the “general economic situation” and does not reflect weakness in “individual financial situations”. Consumer spending is determined more by individuals’ assessments of their own situations, rather than the broader economy. This all suggests continued strength in consumption - key to moderating a slowdown.

Finally, a few insights from Jackson Hole relevant to UK monetary policy. Our TFS was well received - thanks partly to an excellent presentation by Minouche - and should provide an important contribution to this debate. There was also extensive discussion on the links between monetary and fiscal policy; these links are growing as debt levels increase and interest rates remain low. Structural reforms to raise productivity are increasingly important.

Finally, Jeremy Stein and co-authors proposed keeping central bank balance sheets large to use to support financial stability through the types of assets transacted. This concept of using central bank balance sheets more creatively garnered substantial interest (albeit mixed reviews on the specific proposal) - and may be worth exploring in the UK, especially as the date when we reduce our balance sheet grows more distant.

To close, in the UK, the thermostat of looser monetary policy has been turned on. All signs suggest the heater is working. It is still too soon to tell if it will be enough to balance the cold winds from the

referendum, but the data this month provide cause for reassurance, not concern. More adjustments may be needed in the future, but I see no case for it today. My monetary policy stance has not changed this month, and is unlikely to do so next month unless there is a significant deterioration in the economic outlook. But I also do not see a need to fine-tune our guidance - as we could fall into the same trap of someone trying to fine-tune a thermostat. Our guidance currently seems to be effective in terms of yielding automatic updates of the expected future path of policy based on incoming data. As long as we can ensure this remains focused on the broad economic outlook, and not individual data points, it may be best to let the heater work and not fine tune the temperature.

**Governor Carney.** Minouche and then Andy please.

**Nemat Shafik.** Well after such a flurry of monetary policy activism in August, I like Kristin, feel this month is time for us to draw a breath and pause. As such, I will be brief today, and simply outline my initial thoughts on the package, and what I think we should do with our forward guidance.

So let me start with the impact of the package. One of the themes that came up a lot in Jackson Hole this year was that of central bank footprints. The expansion of our responsibilities, and our balance sheets, the broadening of the range of tools that we use to fulfil those responsibilities, has increased the impression that we leave on the financial system. It's particularly true for monetary policy: whereas once we confined ourselves to the money market, the current proximity of the effective lower bound forced us to venture further afield in search of economic stimulus - into government markets, into corporate markets and into term funding of the banking system.
With the benefit of a short period of retrospect, I think we can take some credit for having chosen a package in which the weight of our footprint is spread evenly across different markets.

We have reduced rates to a new low, but complemented it with a scheme that ensures banks have room to pass it through - as early evidence suggests they are doing.

We have decided to buy private sector assets for the first time, but are doing that in a way to minimise the impact on the allocation of credit in the economy.

We are buying some government bonds, but the amount we need to purchase is less than would have been the case were it the only tool at our disposal. And we will buy more slowly over the next six months than the average purchase pace of previous rounds. Meaning that free float of outstanding gilts will change little once the government supply over the same period is taken into account.

So I think we have designed a package that is sensitive in terms of our footprint. One part of the policy package which we haven't discussed in depth is the removal of central bank reserves from the leverage ratio exposure measure. And granted, that was a decision of the FPC, but I think it is worth noting the positive impact that it has had on monetary policy implementation. The wedge between SONIA and Bank Rate has already narrowed by a couple of basis points, and forward swaps suggest it is expected to narrow further still. Of course technically this offsets some of the impact of cutting Bank Rate in the first place, but I think it's a very good one-off sacrifice made in order to improve the effectiveness of monetary policy transmission going forward.

However, my general mood of self-congratulation was tempered yesterday by a member of staff telling me that they thought the Bank had reached the point of "peak hubris." It is still very early days and despite our best efforts the unintended consequences of some of our actions may yet turn out to be larger than we had thought. For example, while the analysis that we were shown before the decision suggested that companies were unlikely to postpone investment or reduce wages on account of the increase in pension deficits, an issue that Ian has often mentioned as has Kristin, I do still believe there is a risk that deficits will reach a tipping point at which stronger corporate action is required, dampening the effect of our policy on the real economy. And while the TFS should provide a floor on bank funding costs we may still see a slowdown in lending as bank business models are increasing under stress.

Moreover, even though we are doing our best to tread carefully, we remain on very difficult economic terrain. Although measures of uncertainty have fallen back, the Agents do report that companies' intentions are consistent with no investment growth over the coming year as some new projects are

scaled back or deferred. We know that large foreign companies who rely on the European Economic Area as a destination for their exports are - quite rationally - already making contingency plans to move business elsewhere. And this is all the more important given the strong relationship between inward FDI and UK value added in exports to the EU that we saw at Pre-MPC. In short, the economy still faces the same big medium term challenges it did a month ago and we don't know a great deal more about the parameters of our future trading relationships or regulatory relationships.

True, the early data has come out better than as expected, but as Gareth's presentation neatly summarised yesterday, this will only be enough to reduce the depth of the slowdown we are forecasting rather than avert it altogether.

So, what should we do with our forward guidance? Well, to follow the current fashion for tautologies broadly consistent means broadly consistent. So, I don't think we should change our forward guidance at this early stage. Rather than make ourselves slaves to every piece of data I'd prefer to indicate our intention to wait for a full set of data that we can assess holistically, consistent with the holistic approach we've taken to responding to the referendum so far. November is a good time to reassess our stance in the context of that greater data, a new forecast and hopefully a bit more information about what Brexit really means. So, in conclusion, I don't intend to vote for any changes in monetary policy this month.

**Governor Carney.** Thank you Minouche. So Andy and then Jan please.

**Andrew Haldane.** Thank you. Yesterday's discussion covered pretty comprehensively some of the key judgements around the economic outlook, and the appropriate policy response to it, in the light of recent data and not wishing to repeat that, I shall keep my comments today short.
Although as ever something of a mixed bag, there has plainly been positive news since August about the strength of the UK and, to a far lesser extent, global economies. For the UK, the responses in both asset prices and in the pass-through of wholesale to retail interest rates, have been larger than we had expected. Our policy package, perhaps because of its scale but more probably because of its breadth, its footprint, has delivered more bang for its buck. Some of that may have reflected the forward guidance which accompanied the package, which raised the likelihood of further cuts to come.

Although it is important not to overplay our contribution, I think it is likely the MPC's package has had some impact not just on credit conditions but on broader sentiment among companies and consumers over the month. In other words, although hard to quantify, it is likely to have at least contributed to the bounce in the CIPS, CBI and RICS surveys, among others, over the month.

The last of those surveys, on the housing market, was consistent with a range of other indicators which have suggested continuing robustness in household spending, both durable (houses and cars) and non-durable. Households are showing few signs so far of having factored into their spending plans the potential longer-term hit to their permanent incomes from Brexit, at least as embodied in our forecasts. Instead they appear to be pocketing the cash windfall to come from lower rates which, together with largely unchanged employment and wages, will be boosting their disposable incomes in the near term and hence their spending. In other words, households appear to be responding like backward-looking Keynesian, rather than forward-looking permanent income, consumers.

It will be important in this month's policy statement and minutes to acknowledge this positive news and the likely shading up of our near-term forecasts, not least to make clear that the MPC's views are data-dependent and our policy judgements not pre-determined. I think it is also worth acknowledging that financial markets' judgement on our likely policy course has, helpfully, itself been strongly data-dependent over the month. Without again wishing to blow our own trumpet, the MPC's state-dependent forward guidance may have helped in this respect.

While recognising the upside news, I think it is also important, however, to make clear in our statement and minutes two further points about how the data flow over the month should be interpreted.

The first is that the see-saw pattern we have seen recently in surveys is unlikely to be a one-off phenomenon - a Brexit blip. Uncertainties, not least about the UK's future trading arrangements, are

likely to continue for some time. These uncertainties will have as a natural counterpart a greater than usual degree of volatility, or see-sawing, in surveys, sentiment and spending. Indeed, that is pretty much what uncertainty means. In other words, Brexit is not a temporary blip, but rather a structural shift in the likely volatility of the data flow.

When that is the case, there is a premium on not making sharp corrections in assessments of the economy based on one month's - or indeed, even a few months' - data. In an uncertain environment, with data zig-zagging, the optimal weights we should place on incoming data, if we were Kalman filtering it for policy purposes, is somewhat lower. Put differently again, we need to avoid any see-sawing in the data getting transmitted into a see-sawing in our perceived policy response to that data, otherwise policy risks amplifying rather than dampening uncertainty.

Supporting that, and this is my second point, I think it is worth our policy statement emphasizing that, in an underlying narrative sense, much of the data over the month has in fact been in line with the broad economic contours set out in our August forecast. Specifically, there is now reasonably clear evidence of UK growth slowing between the first and second halves of the year. Even our updated nowcasts, with higher growth in Q3 and Q4, put second-half growth rates at half the levels of those in the first half.

The u-shaped pattern of growth embodied in our August forecast may turn out to be somewhat shallower or the "u" wider than we expected, but the data are still consistent with a "u" rather than any other vowel.

Second, the most likely initial source of this slowdown - adjustments by companies in their investment and hiring plans - is also largely borne out by the data. Investment intentions are weakening. Employment growth is slowing. Perhaps a gentler slowing than we had expected, but slowing nonetheless.

Moreover, as Ian said yesterday, a gentle, drawn-out response from companies is perhaps to be expected given that the resolution of uncertainties about the future trading environment are themselves likely to be drawn out. If so, then the cumulative impact on companies' investment and employment is likely to be largely as expected, even if these effects are slower to build.

Given all that, what are the implications for monetary policy? Well because my assessment of the economy's underlying trajectory is not fundamentally altered from last month, there is in my view no strong case for changes to any of the four operational pillars of our policy package from August - Bank Rate, gilt purchases, the TFS and corporate bond purchases. I am minded to vote to leave all four unchanged this month.

Changes to the fifth element in our package - the forward guidance on interest rates - merits more serious consideration. My overall judgement, though, as a member of the majority who supported that guidance, is that for now it still remains appropriate. Having acknowledged the more positive data, that this data may be more than usually bouncy, now and in the period ahead, and that the outlook is still broadly in line with the August IR, I would be inclined to simply say that our forward guidance remains in place and that the time to reassess it will be the November IR. My main reason for saying that is because I believe a further policy easing may still be necessary in the near-term. Dropping the guidance, or modifying its timeline, could send an inadvertently strong signal that November was off the table which, for me and more importantly for financial markets, it is not currently. It might also risk undoing some of the positive effects of the greater than expected pass-through we have seen so far, some of which is likely to have reflected expectations of a further cut in rates.

As a final point, I agree with Michael's strategic point from yesterday about considering carefully before moving to a timeless "bias to ease" form of guidance. That would lock in our guidance, potentially for an extended period. And while some "bias to ease" for a more extended period might well be appropriate, especially if what we are seeing is deferred or elongated adjustment by companies, I think that judgement is better made in November than in September. So on forward guidance I have a bias to leaving things largely be for now, on the grounds that, in an uncertain environment, saying less can sometimes be more. Thank you.

**Governor Carney.** OK. Jan and then Michael please.

**Gertjan Vlieghe.** I have organised my thoughts around four questions this months. What to make of recent data? What does it mean for the medium-term outlook? What does it mean for policy and how do we communicate this effectively?

We have already had good summaries of the data from staff and from our discussion yesterday, so I will just draw out a few brief conclusions for me. I agree that, for now, Q3 GDP looks somewhere between one and three tenths stronger than our August forecast. The errors on the nowcasting machinery are large, but the central projection has moved up.

As I mentioned yesterday, I do not see the property market as being a key source of the upside surprise. CRE transactions continued to fall very sharply in Q3. And housing approvals remain on a downward trajectory, even if the July drop was not quite as sharp as in our August forecast. To sell this as a good news story seems like an overreaction. I put more weight on a consistent bounce across a wide range of business surveys in August as the source of the upside surprise. I would expect many of these surveys to ease off again in the coming months, but for now, I acknowledge their strength relative to our expectations.

The financial market reaction to our August package was textbook. Yield curve down, currency down, credit spreads down, equities up. That showed that our package was well understood, and that financial markets believed that it would have the effect we intended.

Despite the many distortions to long-end break-evens in the UK, I draw some comfort from the fact that they have started to move back up towards levels more consistent with our inflation target, after the persistent declines over the past year, which continued into July. Thirty-year break-evens are up around 20 basis points since early August. That unwinds only a third of the earlier fall, but the direction is encouraging. The fact that this move up was idiosyncratic to the UK, started after our policy announcement, and coincided with better data, suggests that it was at least in part driven by macro-fundamentals, not only by a resumption of LDI flows which had diminished in earlier months. I am not keen to make too much of the fact that the gilt market reaction was stronger than we expected. That calculation relies heavily on a precise estimate of the amount of QE the market was expecting, about which we know little, compared to, for example, the extent of rate cuts the market was expecting. So I would characterise the reaction as broadly in line with our expectations.

What does this all mean for the outlook? My interpretation of the August bounce in the business surveys is that many people panicked initially after the vote to leave and the leadership vacuum in government that followed. A new PM arrived much earlier than expected, and speculation of an imminent triggering of Article 50 was quashed. The fact that financial markets quickly recovered their poise and that we hinted at and then executed an early and large stimulus package further contributed to restoring calm. This led, possibly, to a slightly exaggerated sense in August that everything would be just fine. However, I do not expect that to last. Major investment decisions need some clarity over what will happen in the next few years, and we have had no news at all to clarify what the trading arrangements will be after leaving. If anything, there has been some acknowledgement both domestically and among trading partners that there will be no free lunch. If new freedoms are to be bought on immigration, there will be a price to pay in terms of access to the single market and possibly passporting. Not necessarily out of vindictiveness, but simply an acknowledgement that if you do not want the same obligations, you cannot have the same privileges.

One possible upside risk to the near-term outlook is if the slower pace of negotiations leads businesses to conclude that the major changes to the UK trading arrangements are beyond their planning horizon, and they return to “business as usual”. But that would be, in my view, a fragile state of affairs, unlikely to last unless there is a firm date set for Article 50 which is, credibly, a year or more into the future.

For now, we remain vulnerable to a moment of reckoning in the autumn, gradual or sudden, reminding everyone that “business as usual” is not an option. We discussed this in August, and I believe it remains true. That is why I do not expect activity surveys to remain at current levels, and instead to ease back in the coming months.

What does it mean for policy? Let me briefly go back to August. I favoured a larger Bank Rate cut, all the way to the new effective lower bound. There were two reasons for that. First, I valued the clarity of retaining Bank Rate as the marginal instrument, and therefore wanted to exhaust it before moving on to other tools. That clarity is now lost. It is therefore no longer an argument for a rate cut. As an aside, nobody outside seems to have noted this change so far, so perhaps we have not lost very much. In any case, I stand by my August decision to give up this logic in order to achieve a broader consensus decision, and the communication advantages that come with it.

A second reason why, in August, I favoured a larger Bank Rate cut was that the data at that time pointed to an economic slowdown that was sharper and earlier than in our forecast. While I, along with others, argued for aiming off this weaker data in the central projection, it did represent a clear downside risk, which justified additional stimulus within months.

Now, with the slightly stronger near-term data, that sense of urgency to add stimulus is gone. I am therefore not minded to vote for any change in policy in September. We have gone from having a near-term downside risk to our forecast to having a near-term upside risk.

A November cut is still on the table, but only if the data weaken from here, and fall back into the fold of the August forecast or worse. If the data remain stronger, the risks to the monetary policy outlook will become increasingly symmetric.

How do we communicate that effectively? I would not want to say both that the data is still consistent with our August forecast and leave our guidance on a near term rate cut unchanged. That would imply a rate cut even on current data, and that is not my reaction function. I would like to make clear that some weakening of the near-term indicators is expected, but that, if this does not happen, the August forecast is no longer on track, implicitly knocking out the guidance. Thank you.

**Governor Carney.** Very good. Alright Michael please.

**Michael Saunders.** Thank you. I am inclined to vote for unchanged policy this month. I broadly share the Committee's view that the UK is likely to see lower growth and higher inflation in the next year or two. And I also broadly agree with the Committee's view that a policy of trying to stabilise inflation at the 2% target in the first couple of years after sterling's recent major depreciation - which was triggered largely by the vote for EU exit - would probably produce an undesirable trade-off in terms of weaker output, higher unemployment and the prospect of a renewed inflation undershoot further ahead. The MPC's remit emphasises the need to consider such trade-offs in "exceptional circumstances" and I believe the vote for EU exit qualifies as "exceptional" in that regard. Of course, one could always debate the merits of different parts of the easing package.

But I do wish to highlight several issues where my view probably differs from the MPC consensus.

First, I suspect the labour market may behave rather differently to the MPC's central forecast, with less pickup in both productivity and pay growth over the next year or two. The MPC's view is that the jobless rate (currently 4.9%) is close to equilibrium, and that productivity growth (which averaged just 0.5% per year in the last five years) will pick up to 1¼% next year, 1½% in 2018, so moving closer to its 50-year average growth rate of 1.8% year to year. So, in the MPC's view, the GDP slowdown feeds through directly to a higher jobless rate, which rises close to 5½% in the next couple of years. Even so, the MPC expects average earnings growth to pick up from below 2½% now to 3% next year and 3½% in 2018.

My view is that the equilibrium jobless rate - and by that I mean the level consistent with keeping inflation on target over time, once import price effects fade - probably has fallen below 5%. For example, over 2001-07, the jobless rate averaged 5.1% and average earnings growth ex bonuses averaged 4.0% year to year, with unit labour cost growth at 2.7% (and CPI inflation very close to 2%). The jobless rate has now been around 5% for several quarters, but pay growth is just 2.3% year to year (2.2% ex bonuses). Unit labour costs have risen by only about 1% over the last eight quarters. Pay growth has repeatedly undershot consensus and Bank of England forecasts in recent years, despite lower-than-expected unemployment. Now this recent shift in the wage Phillips curve

may reflect various factors, including lower long-term inflation expectations, the greater availability of migrant workers to meet specific labour shortages, changes to the tax and benefit system, rising participation rates among older workers, plus the shift to more flexible work patterns which imply slack in terms of under-employment. The balance between these factors, and the extent to which they will persist, is still an open question. But, for now, I think the restraining effects on pay growth are probably greater than one would previously have expected with a 5% jobless rate.

But at the same time I think that labour productivity growth also may remain sluggish. I suspect that the weakness in productivity over recent years is partly because the weakness in nominal and real wage growth, and the willingness of people to trade down in terms of pay levels in order to stay in work, has encouraged the substitution of labour for capital, as well as the expansion of labour-intensive sectors and sectors with relatively low levels of value added per head. And so what you've had is a shift in the labour/capital mix, this may also reflect above-average uncertainty, given that is usually less costly to reverse hiring decisions rather than capital spending decisions. And these trends may well be reinforced if the economy slows, with productivity and pay proving more cyclical (and employment less cyclical) than previously. So, if I shared the MPC's base case for growth, I probably would expect a much smaller rise in unemployment from current levels.

Now actually the effect of these labour market issues may wash out in policy terms this month. My view implies that the economy has more labour market slack than the MPC believe at present, but will probably see less of a rise in unemployment in the year ahead.

The second issue is that I am a bit more optimistic than the MPC consensus over the near term growth outlook, I expect GDP growth in 2017 is more likely to be above 1% rather than below. I broadly share the Committee's view that Brexit is likely to have a modest adverse effect on UK potential growth over time, perhaps greater effects on individual sectors. But I doubt this will hit growth as powerfully over the next year or two.

Now to be sure, various measures suggest that uncertainty has risen sharply over the last year. And past experience suggests that heightened uncertainty hits growth, especially investment. This is built into the MPC's central forecast. However, previous episodes of heightened uncertainty have also seen a significant tightening in credit availability and financial conditions. And it may be difficult to fully disentangle the extent to which economic weakness in those episodes reflected uncertainty as opposed to broader financial channels and balance sheet vulnerabilities, especially given difficulties in consistently tracking changes in credit availability over time. Unlike those episodes, financial conditions now seem to be relatively loose and have loosened further recently. Interest rates on new loans are at or close to record lows, private sector money growth is fairly buoyant and the lower pound seems to be boosting exports.

And even with Brexit-related uncertainties, we should not lose sight of the UK's recent momentum and considerable supply-side advantages, especially in terms of labour and product market flexibility. The share of the adult population in work is at a record high, and UK economic growth has outpaced the OECD average in each of the last three years and continued to do so in the first half of this year. Indeed, we may eventually find that the UK's recent outperformance is greater than the current vintage of official data show, given that UK GDP growth rates tend to be revised up more over time than most other advanced economies. Just this morning, as we heard from Andy, the ONS revised up Q2 construction output growth from -1.4% year to year to +0.4% year to year. The possible adverse effects on spending of Brexit-related uncertainty may I suspect be partly offset by a further reduction in the hangover from the 2007-09 crisis in terms of uncertainty regarding economic prospects, credit availability and job opportunities.

I suspect these factors imply a general upside risk to the MPC's growth forecast for the next few quarters. And this upside risk may be most marked for housebuilding, given the substantial backlog in housing demand, record-low mortgage rates and high employment rate. Even in July (which was a relatively weak month for consumer confidence), the share of consumers that said they intended to buy or build a home over the next 12 months was far above average. I suspect that housing will behave more like consumer spending rather than business investment - with substantial weakness

only if employment or credit availability worsen markedly and less direct effect from Brexit uncertainties.

The third issue - and this is one where I am more uncertain than the first two - is that pass-through to CPI inflation from sterling's depreciation may turn out to be greater and/or faster than the MPC expect. In particular, businesses may be quicker to conclude that sterling's recent depreciation, which was linked to the Brexit vote, is likely to be a permanent shift and adjust prices accordingly. By contrast, in most previous episodes of currency movements, the pass-through to UK consumer prices probably was delayed or reduced by reluctance along the supply chain to fully adjust sterling prices in the face of what might have been only a temporary exchange rate move.

So my overall outlook is for less weakness in economic growth than the MPC consensus, little or no rise in unemployment, a softer path for pay growth - but the chance of a slightly steeper near term rise in CPI inflation. I think we should know a lot more at the November meeting about the extent to which Brexit uncertainty is affecting activity. If signs emerge of substantial weakness in the economy, the case for easing could come together quickly in my view.

**Governor Carney.** Good, thank you Michael, thank you all.

So I am not going to say anything radically different than what many of you have said. The recovery in many of monthly activity indicators is a welcome sign of stabilisation in the period immediately following the referendum result. As others have noted, PMIs have bounced back, consumer confidence stabilised, measures of consumer spending have shown resilience. This is all welcome both in and of itself obviously, but also because one can't discount the possibility that the actions and words of the Bank of England, including the MPC, helped to support confidence in the weeks that followed the vote to leave. At a minimum the canard that we would talk down the economy can be put to rest by all but the most paranoid. Given that we'd expected a rebound in the surveys the news to our nowcast, as others have noted, is smaller than the headline rebound in PMIs would suggest, and appears at least to me consistent, and there's obviously large error bands around this, with the preliminary estimate of Q3 growth around 0.3%. The deceleration in momentum is apparent in NIESR's monthly GDP estimates. They've slowed from 0.6 in June on a three month-three month basis, to 0.4 in July, 0.3 in August. Just to do the math to deliver 0.3 for Q3 that index must grow by 0.6 in September. Now it's obviously a volatile index but with the exception of April of this year when IoP was very strong, it hasn't risen by that rate since February of 2014. And going back over a 35 year history, 84% of monthly growth rates have been below that threshold. It's a corroboration issue but just to give you a sense.

The story behind the aggregate is consistent, I would say broadly consistent, with what we'd expected. We had expected consumer spending to remain resilient for the remainder of the year with fourth-quarter growth between 2 and 2½ %. And while consumer confidence has fallen to well below its June level other indicators are broadly consistent with a British consumer that's loyally soldiering on, as showed at Pre-MPC. It's not a tautology: Brexit means how to spend it, at least for the moment.

As we discussed yesterday it's possible that the combination of a resilient consumer sentiment and a marked loosening of financial conditions that we have delivered has dampened the shock of the housing market. Michael's just gone through some of that as have others. And there's indicators consistent with that. I wouldn't necessarily hold the Daily Mail front page to herald a new housing boom just yet. New buyer enquiries are still negative, approvals fell by 5% in July to 61,000. And I think that the complexity of the Brexit process can be expected to become increasingly apparent and tangible to those considering the largest purchase decision of their lives. We had expected firms to show a little more foresight and there's every indication that this is happening despite the upward revisions to business investment in the second quarter. And there's a variety of indicators of that, which actually I'll spare you from having to hear again.

Taken together it seems to me reasonable to expect a helping of growth in the second half of this year compared to the first half and compared to what we had expected in May. And that, to my mind at least, is a material slowing, and leaves me serene about our broad expectations for the economy and the appropriateness of the package we designed and deployed in August. In other words, while the rear view mirror might be telling us that there was a welcome stabilisation in August, neither solely due nor totally unrelated to our actions, as we all know we have to make monetary policy with a view to what inflation and unemployment will be one to two years ahead, and when there are exceptional policy trade-offs beyond that

point, beyond that horizon. And that means relying on a forecast and it's too early to tell if, to use Ian's taxonomy, whether the degree of the magnitude let alone the broad narrative of our August forecast should change. The fundamental judgements we'll have to make in the coming years are around the extent to which the process of EU exit weighs on the supply-side of the economy, temporarily or otherwise. And an assessment of the speed with which demand adjusts to this new path for supply. In August we recognised that the particular uncertainties in our forecast, we recognised those uncertainties, and by leaving room for more easing on the table, in other words by holding something back relative to the forecast and the judgement of a number of us, we were deliberately measured in our response. Moreover as the Committee made clear that the next move in policy would depend on the economy tracking our forecast, we did not over-adjust given our forecast and so we continue to set a monetary stance appropriate to the economy's needs as data evolve.

To my mind, given where the data are tracking, I'm minded to leave Bank Rate unchanged and the asset purchase programme similarly unchanged at this meeting. And I'll just finish on the issue of guidance that a number of you have touched on. Last month we said, and I quote "if the incoming data proved broadly consistent with our August Inflation Report forecast, the majority of MPC members would anticipate a further cut in Bank Rate to its effective lower bound at one of the MPC's forthcoming meetings during the course of the year". Now if this type of guidance remains the majority view at this meeting, then I would be in favour of noting the following in the minutes: that while the broad contours of the post-Brexit economic response are broadly consistent with the August outlook, the news regarding the near-term momentum has been slightly to the upside and of course one can detail how that has been the case in the judgement of the Committee. And then to note in the minutes that something to the effect of: if, in light of the Committee's full assessment during its November forecast round, the updated outlook at that time is broadly consistent with the August Inflation Report forecast, the majority of MPC members would anticipate a further cut in Bank Rate to its effective lower bound this year. And just to explain that, what I'm trying to capture, what Michael was saying yesterday, which is to provide some time limit to that while not stepping back from the guidance and the conditionality that comes in there as the acknowledgement about different performance of the economy. But I'm sure others will come up with a better variant of that.

So to summarise…I'm going to be unable to summarise, I now realise, because I can summarise on Bank Rate in that 9-0 indications to keep Bank Rate where it was. I didn't, I can't recall what you said on indications on, Kristin, on corporate bonds.

**Kristin Forbes.** I was deliberately vague.

**Governor Carney.** You were deliberately vague.

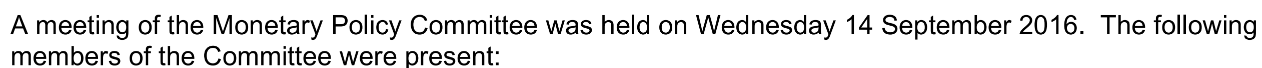
**Kristin Forbes.** I would like to review past language.

**Governor Carney.** You'd like to review past language, that's reasonable. So what we'll do…OK

**Kristin Forbes.** I think you understand my general stance….

**Governor Carney.** So why don't I leave it at this in terms of a summary because we can just do the thing in that, you know, the broad…those who indicated, indicated that to keep Bank Rate where it was, to keep the asset purchase programmes as they are. The TFS, I know you mentioned in your comments, but given the nature of the TFS that we put it in place, that it was going to be outstanding drawdown period for 18 months, and that we would only make the terms more generous, we are not actually going to formally vote on the TFS each meeting so that those who indicated on keeping policy unchanged at this meeting. We'll refine that when we meet on Wednesday and take our final decisions. OK, is that fair? Good.

With that we'll close the meeting and do whatever else we have to do.



A meeting of the Monetary Policy Committee was held on Wednesday 14 September 2016. The following members of the Committee were present:

Mark Carney, Governor
Ben Broadbent, Deputy Governor, Monetary Policy
Jon Cunliffe, Deputy Governor, Financial Stability
Nemat Shafik, Deputy Governor, Markets and Banking
Kristin Forbes, External Member
Andrew Haldane, Chief Economist
Ian McCafferty, External Member
Michael Saunders, External Member
Gertjan Vlieghe, External Member

Dave Ramsden was present as the Treasury representative

The following members of staff were present:

Gareth Ramsay, Director, Monetary Analysis
Sarah John, MPC Secretariat
James Talbot, MPC Secretariat
Chris Young, MPC Secretariat
Melissa Davey, Editor of Inflation Report

**Transcript of the Monetary Policy Committee Meeting on**

**Wednesday 14 September 2016**

**Governor Carney.** OK, welcome everyone to this Decision Meeting. We're going to start with a market update from Minouche. Then I have the pre-release retail sales and then I'll then ask Andy to give an update on data releases since the second day of MPC. So Minouche.

> **Nemat Shafik.** Thank you. I'm going to focus on market moves relative to the data we were shown at Pre-MPC and the big story since data cut off was the move higher in yields, which was triggered initially by a hawkish interpretation of the ECB decision, subsequent comments by FOMC officials, particularly Rosengren, which were interpreted as increasing the prospects of an early Fed rate rise. Those contributed to the move and then remarks from the Chancellor about possible fiscal stimulus also played a role. There's also been a steepening in the Japanese yield curve likely in anticipation of possible changes to their monetary stance in September.
> The pick up in volatility coupled with the rise in bond yields has seen equity prices decline. The FTSE is around 2% lower than what we were shown at Pre-MPC, and within that UK focused equities are about 3% lower. Energy stocks in particular fell with the IEA's downward revision yesterday to world oil demand.
>
> Sterling's depreciated by 1.7% on a trade-weighted basis relative to the data we were shown at Pre-MPC. And then on Tuesday we released further operational details of our corporate bond purchase scheme. The reaction from market participants was very focused on the eligibility list. Firms whose bonds were on the eligibility list their spreads tightened by 3-10 basis points. In firms that were not on the eligibility list were broadly flat so overall spreads were about 5 basis points tighter for corporates in the UK.
>
> Overall this leaves asset prices closer to pre-announcement levels than they were previously. Gilt yields marginally lower across the curve though well off the lows seen in the initial QE implementation stages.

**Governor Carney.** OK. Very good. In terms of retail sales, which will come out tomorrow, we have mild upside news. The outturn for August is a fall in retail sales of 0.2% versus an in-house projection of 0.3%. And the immediate market forecast is for a fall of 0.4%. The largest contribution to the decrease came from non-food stores, which was offset by increases in non-store retail, predominately food and petrol. The year-on-year number 6.2% year-on-year with the main contribution from food. And then average store prices which includes petrol stations fell for the twenty-sixth consecutive month, falling 1.9% year-on-year. So that comes out at 9.30 tomorrow. To its usual high correlation with actual consumption. Andy.

> **Andrew Haldane.** Yes one or two bits since last we met. Internationally, for the euro area we had industrial production for July which saw a larger than expected fall of 1.1%. Some of that might be relative to timing of German holidays apparently so the nowcast for Q3 from the staff remains as it was for now. Second internationally we've had a number of indicators out of China. Retail sales, industrial production, investment, all of them just a touch above expectations there. And then domestically we've had CPI for August, came at 0.6 which is a point lower than we had expected. Core inflation also about 0.1 lower than we had expected. A fairly broadly based miss and in consequence the staff have lowered their forecast for inflation for the period ahead by that 0.1 relative to Pre-MPC.
>
> Secondly we had the ONS's measure of house prices for July. That fell 0.4 on the month although the three month measure remains somewhat above that of the other indices. We also had CML data on mortgage completions for July which fell to 60,000, although that remains broadly consistent with our August forecast.
>
> And then you would have seen the labour market statistics that came out this morning. Not a huge amount of news in the quantities, they're broadly in line with what we expected. Vacancies a touch up on the month so no real signs there of a post-referendum fall off. On the pay side headline pay a touch stronger, regular pay a touch weaker than we were expecting but no huge amounts of news on either I don't think. I think that will do, thank you.

**Governor Carney.** Good, ok. So I am going to put forth the following propositions consistent with our previous discussion. First that Bank Rate be maintained at 0.25%. Secondly that the Bank of England continue with the purchase programme of sterling non-financial investment grade corporate bonds totalling up to £10 billion financed by the issuance of central bank reserves. And thirdly that the Bank continue with the programme of UK government bond purchases totalling £435 billion financed by the issuance of central bank reserves. So I would ask you to indicate favour or disfavour with each of three. Ben?

> **Ben Broadbent.** I confirm my vote for all three parts of the proposition.

**Governor Carney.** Jon?

> **Jon Cunliffe.** I vote for all three propositions.

**Governor Carney.** Ian?

> **Ian McCafferty.** I vote for all three propositions.

**Governor Carney.** Kristin?

> **Kristin Forbes.** I vote for no change in Bank Rate. I believe that the current outlook still does not warrant launching the new schemes for gilt purchases or corporate bond purchases. I would also have preferred to keep the announcement of these programmes in our arsenal for future if merited. Nevertheless, giving the cost to reversing the announcement of these two programmes, I do not vote against continuing these two schemes this month.

**Governor Carney.** Great, could you vote for or against. You vote for….

> **Kristin Forbes.** Continuing current programs.

**Governor Carney.** Thank you. Minouche?

> **Nemat Shafik.** I vote for the propositions.

**Governor Carney.** Andy?

> **Andrew Haldane.** I vote for all three propositions.

**Governor Carney.** Jan?

> **Gertjan Vlieghe.** I vote for all three propositions.

**Governor Carney.** And Michael, please?

> **Michael Saunders.** I also vote for all three propositions.

**Governor Carney.** Thank you. And I vote for all three propositions as well. So I take that as 9-0 for all three propositions in favour. Correct, good. Thank you.
So now we will close this meeting and we'll go downstairs, go through the minutes.