Monetary Policy Report Press Conference

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Ed Conway, Sky News: Thank you, governor. Some of your final words there, you were talking about, kind of, echoing something that was in the minutes about having rates sufficiently for sufficiently long to bring inflation back to target. I just wonder, can you expand on that a little bit because there are many households out there, they're looking at interest rates, they're hoping that after they were high for a while that they would start to come down. Are you saying that actually we need to be prepared for interest rates to be high for longer than a lot of people might be expecting right now?

Andrew Bailey: Well, let me start, I'm sure Ben will want to come in. It's worth starting, I think, with the market curve because of course the market curve does have a fall in interest rates but it goes higher before that happens, and I made the point in the opening remarks about what that delivers as an average rate over time. Now, there are many potential paths but we've also shown, as we always do, but I would draw attention to it, what happens if you do the constant rate? If you assume it's constant at today's rate. It is another potential path and that delivers, again, a return to target. So the point I would make is we have to balance the risks here. We've got risks both ways, I think. There are inflation risks certainly on the upside which we've reflected in the mean projection. I would highlight, Ben may want to come on to this point, that relative to May more of the risk we saw in May we think has crystallised and is in the modal projection but we still have a mean projection, it's just a smaller mean projection than we had in May. But we're also of course conscious that, the projection for activity has weakened because the curve is higher than it was in May, and we will have to bear those, you know, that path and that risk in mind as well. Ben, did you want to.

Ben Broadbent: As Andrew says, there may be different paths that achieve the same end. Just one particular point, I mean, there was a lot of focus in May on mortgage costs. Those mortgage costs respond much more these days given the shift in maturity to two or three year interest rates than they do to the overnight rate and the bank rate. And that's one illustration of how there might be lots of paths that keep that two year rate roughly stable. You talked about what people expect, at least ten seconds before we came up here we had a look at that reaction of the market curve and specifically of two year interest rates to today's decision, and they move very, very little. I mean, immediately before and after the decision I think they were down three basis points. So, I don't think that this has had a tremendous affect, either what we've done or that point which I think was well worth making, has had a tremendous decision on that two year interest rate, or therefore the equivalent, say, quoted mortgage rates or indeed two or three year interest rates facing businesses, which also matter.

Dave Ramsden: And if I could just add one final point, where we go, which path we end up being on, as Andrew stressed at the end of his remarks, will depend on the evidence and the evidence of persistence. That's what's driving the decisions.

Szu Chan, Telegraph: A lot of the upgrades that you've made to your inflation forecast in the latter part to do with the MPC recognising that some of the risks to inflation that you've warned about in previous forecasts are in fact starting to happen. Why are you only fully starting to recognise these risks now given these pressures have been there for months? And I was really interested in that wage growth chart and your judgement that it will remain more stubborn, is that the first time you've moved so markedly away from traditional modelling and models?

Andrew Bailey: Well, I mean, I don't have them with me but if I showed you the chart, the same chart for last time, the line would've been, sort of, near the top of the swathe and we've been near the top of the swathe for quite a while actually. So, there is a move, and you can see obviously that move reflects the evidence we've had since May in terms of the out terms. I'd just come back to emphasise the point I made in the remarks actually because I think this is a really important point and it's what links the first half to the second half of these two parts. If the falling inflation that we think now is going to happen, we think with more confidence is going to happen this year, translates in to inflation expectations, and if those inflation expectations translate in to wage bargaining, then I think you will see, you know, there is a possibility or a risk as we would say, but a possibility that that line was actually go down and go nearer to the swathe because the swathe puts a greater weight, for instance, on inflation expectations. The question in our mind, as I said, is what confidence do we have of, you know, that happening? Well, to answer your question, your question saying why only now is, well, we've seen evidence I think in the last couple of months that element of the labour market, other parts of the labour market I think are softening but that, that pay element of the labour market hasn't. That's the point I would draw out. So you can see from that in a sense that although, I would never want in these events to say there's only one indicator that matters because that's not true obviously, it is an important point in judging the future path.

Dave Ramsden: If I can just add one point to that you draw attention to this use of the word, risk crystallising. That's the first time we've used that word in this context, but the risks have, the risks on persistence have been crystallising prior, through this year, that's why we've been having to raise rates in response to increasing evidence of persistence. So, it's not suddenly that that evidence has appeared, we've been seeing that evidence for some time, which is why we're having to keep raising rates.

Faisal Islam, BBC News: Could you explain why you've used that new language on bank rate being sufficiently restricted for sufficiently long? Are you concerned that households may have become a bit accustomed to zero rates over 15 years and may expect rates, that 5 percent is the aberration and may expect them to fall if inflation falls back to target and that's not going to happen? And does it also implicitly suggest that rates are very close to peak, that you're having to make this statement now?

Andrew Bailey: Well, Ben will surely want to come out on that. Let me start, I think, let's start with where the word "restrictive" in a sense first gets used, which is to describe the start of policy as of now, and how we think policy is working through and the policy is, I think I said earlier, is having an effect. And I think that's the important starting point for this. You'll be aware that obviously both, I think both the Federal Reserve and the ECB have used the word "restrictive" and we've used the word "restrictive" not because we love to use the same words but because actually, I think it's a reasonable description of where we all are at the moment in terms of the way that monetary policy is working. And of course given the lags in the vex of monetary policy it's not necessarily surprising that it's taken some time for this evidence to come through. We now think it is coming through and we see it. So that's the starting point and I think that you're right to say the comment at the end is to say, in order to get inflation back to target we are going to have to, in a sense, keep the stance of policy, but I want to just emphasise again, and I'll hand over to Ben, that the stance, can incorporate a number of quite a lot of different paths of interest rates. I think that's a very important point to make.

Ben Broadbent: It's not quite true to say that the forecast depends, and the forecast outcomes for inflation for two or three years depend on the average level of interest rates until then but it's closer to the truth than it is to say that they depend on the interest rate only today. I was talking with Ed, for example, that two or three year interest rate, market interest rate, is more important than it was as a driver of private sector interest rates, for example. We have to make sure inflation comes down sustainably to target, and therefore we have to be focused on, making sure that that average interest rate, given the information we have right now, is sufficient to ensure that happens. Now, that can change, it's not as if we're fixing the entire path of interest rates forever today and I can't say exactly where the people will be, we don't know. But our focus is very much on the medium term and we have to sure that interest rates over that period are sufficiently restricted. So, I don't think we're saying any more than that. We didn't have in mind somehow that households in particular were underestimating the risk, households right now have been facing two year interest rates, have for some time been facing two year interest rates that are markedly higher than they have been for decades, frankly. So, I don't think that was our particular reason for saying that.

Helia Ebrahimi, Channel 4 News: Good afternoon, Governor. You talked about there being some good news at the beginning of your opening statement but we've got slower growth, higher unemployment, higher bank rate, inflation looks more challenging, it sounds like the wage price spiral looks like it's crystallising. What's gone wrong with the economy and has the Bank lost control?

Andrew Bailey: Well, I wouldn't agree with that, Helia. To start with the good news is that, I saw it a few minutes ago, that I think the path of inflation in the first half is now much more assured. The number that we saw a couple of weeks ago, to be frank, was a number that we had thought would happen. I showed you earlier that chart which, for instance, on goods prices which compared producer prices to consumer prices and as you can see on that chart there's a major puzzle in that chart, a really major puzzle as to why you've had this, dislocation between consumer and producer prices. And it's been puzzling us, we really had thought that we would start to see, you know, evidence of that fall soon but we have seen it now. Now, of course, you can never put too much weight on just one number but I think it's not aberration as a number so I think it is a sign that inflation is coming down. As I said in the opening remarks, because of the way that the UK energy policies work there are two quite substantial base effects to come, and those base effects are annual effects. And, there would have to be a massive change in energy prices to take those away now. So, there is, I think, a much more assured path down with inflation, that's a good thing. As far as the second half of the forecast where obviously, as I said, policy and judgement in terms of how policy will work and how we should set it comes in. I mean, let me give a bit of a counter for you. The economy has been much more resilient. Now, that's good news. I mean, that is good news. We have to then set policy to in a sense work with it but the fact that, for instance we were sitting here, what is it? Back last November saying we thought there was going to be a long but shallow recession, a lot of that was based on energy prices at the time which obviously as you remember were much higher. That has not transpired. We've had a much different and more resilient picture on economic activity. Yes, we have seen some increase in unemployment but, unemployment remains historically very low, that's a good thing, we all want to see that. So, I would give you the counter and push back there are arguments that you can definitely put the other way.

Joumanna Bercetche, CNBC: Thank you, Governor. In the run up to the June 50 basis point hike we saw two upward surprises in CPI. Going into today's decision we had one downward surprise in the CPI figures. I have a question about your reaction function going forwards. Are you likely to place more emphasis on where inflation numbers come in relative to your own expectations, or are you watching the evolution of domestic inflationary pressures, things like services, service price inflation, wage pressures more than where the headline number comes in relative to your expectations?

Andrew Bailey: Well, I think my first answer would be all of the above probably. Because I don’t think the way you set it up its sort of in conflict. I mean, I think what we always have to do is, we have to look at the news and of course then judge how the news in a sense sits against where we thought things would go to. And as I said, I think just to put that into context, as you rightly say, we had some quite large evidence in June which was quite clearly at odds with the view we took in May. Today I would say we've seen, one thing, correct itself and one thing not correct itself in a way, that's a way to sum it up. So, the one thing that has corrected itself is actually headline inflation because in fact headline inflation on the latest number is pretty much exactly where we thought it would be in the May forecast. The components though are not quite the same. The thing that hasn't corrected itself, coming back to some of the earlier discussion, is pay, and the labour market particularly. And you see some of that also in services prices although I did make that caveat that, there's what looks like a possibly non-persistent bit of services and then there's a persistent bit of services and you've got some of both in there. So I think putting all of that in to context we had some unpleasant surprises in June, we've seen some of that turn round which is frankly, you know, you can put in to context today why I don't think the case of, speaking personally now I don't think that was the case for a 50 basis point raise today. But we have still got, there's very clear risk there which I think is well summed up by some of the charts. So, I don't think your question is really at odds in that sense, I think both things have to come in to play.

Dave Ramsden: If I could just add, Andrew, on that, I thought, your presentation brought out that difference between, our focus in the presentation for the remainder of this year is on those short term forecasts where we publish a lot of detail including on the component of inflation as well as on wages, and so when it comes to our reaction function we can track those three indicators that we've highlighted, services inflation, labour market tightness, and the third metric, private sector regular wages, against those short term developments. That's what we were doing in May, that's why June the majority went for a 50 basis point increase. As Andrew says, for August the majority has gone for a 25 basis point increase. We have that detail for how inflation we think will evolve over the coming few months and the components in that, and as Andrew says, there is more confidence about that than further out.

Joel Hills, ITV News: I want to go back to the language and the, sort of, messaging. Last week at the European Central Bank press conference Christine Lagarde was asked about with the interest rates, she said, 'Do we have more ground to cover at this point in time? I wouldn't say so. There is the possibility of a hike next time. There is the possibility of a pause.' She is very clearly suggesting that interest rates may be peaking. Are you suggesting they are here in the UK, Governor? And also can I ask you if policy rate now is restrictive, where is it neutral?

Andrew Bailey: Well, let me, I'll take the first part, I might hand over to Ben then. I think you'll see from the language we've used that, we’ve emphasised that we remain evidence-driven, and I think that's important. I'm not sure the ECB would necessarily disagree on that point but I think it is important to be evidence driven. I think if we go back to the last question for a moment. As you know, as you can see, we've had quite contrasting evidence in the last couple of months or so. The evidence has gone one way then, gone a bit the other way. So I don't think at this time to declare it's all over and we're sticking where we are for the moment because I think that really does sit at odds with the fact that we've had some very big pieces of news and that they are not going in the same direction so I think we have to remain evidence-driven. We've continued to use language which we've, I know, used before which is to say, if we get more evidence of more persistent inflation, then we will have to react to that. But I'd finish this point by just emphasising the fact that also, there is no presumed path of interest rates from here and I said in the opening remarks, and I'll emphasise again, there is more than one path from here that delivers us back to the target.

Ben Broadbent: I'll quote you if I remember it, a quotation from another paper by John Williams, US economist who wrote a well known paper about the neutral rate of interest, tried to estimate it some years ago. Lots of these, sort of, estimates have been made. And he quoted his namesake from a long time ago, there was a Welshman who was an economist at Harvard in the '30s who liked conceptually the idea of a neutral interest rate but was sceptical that it could be of much practical use, because it was very difficult in real time to say precisely what it was. He said only after the event, once you've seen the response of the economy, can you say where you think it might have been. So, he said it's like faith, was the quote, it's seen by its works. And I have some sympathy for that view. So, we have not given a precise number and even if you look at that Williams paper I think the error bands around that estimate were, several hundred basis points. What we can say is we think we're seeing evidence that the rate of interest is above the neutral rate without saying precisely what that is because we're beginning to see an effect on demand. That's what we're prepared to say. I'm not going to give you some precise number because I don't know precisely what it is, and I don't think it's possible to be precise. But we think we're seeing a sign that it's weighing now on demand growth, unemployment has gone up slightly, the VU ratio, as the Governor said, has come down. These are signs that policy is restricted, by which we mean simply that right now the interest rate is probably above our star but beyond that we're not going to give you a precise number.

Joel Hills, ITV: In 2018, August of 2018 the bank's assessment, I think, was that it was around 2.25 percent, has that view changed or is that still the same?

Ben Broadbent: That was, A, a long run estimate and so there's a difference between what we call, long run R star and short run R star which may depend on other factors affecting demand. B, look at the error bars around that number. They were very, very significant. So, I will not give you a precise estimate. A, because it can change and, B, because it would be misleading, and it would convey that the estimate is more precise than it really can be.

Larry Elliot, The Guardian: Isn't the language that monetary policy will remain restrictive for long enough to bring inflation down, isn't that just a new way of saying if it isn't hurting it isn't working? And isn't your real message out to people that a certain amount of pain is inevitable from this monetary tightening, and the degree of pain is going to be affected by the willingness of pay bargainers to take a real pay cut in the months to come?

Andrew Bailey: Well, I think, Larry, I'd draw back to the answer to Helia's question, actually, which I think, in a sense varied to that question. I would not use words like pain because as I said, the economy is more resilient and we've had to respond to that but there is a good news element to that. Now, we do recognise, and I think it's very important of course to say that inflation has, a very serious affect and it has a serious affect also particularly on those who are least well off. And particularly as I've said a number of times before, the make up of inflation that we've been experiencing because of its concentration and, the essentials of life, energy and food, so that’s important but I would emphasise this point, the economy is more resilient and that's a good thing. Yes, unemployment's gone up a bit but it is still at historically low levels and that's good, obviously. Growth in the economy has been more resilient that we thought it would be. We both haven't experienced a recession and we're not forecasting one. So, there are important elements to that. So, would put the word restrictive in to that context. Of course, we hope that we can deliver a path that we've set out in the report because the path we've set out in the report does not have a recession in it, we will have to see. But I really would emphasise that point. Yes, of course we understand that monetary policy has an effect but, and I'll just finish with another thing I've said many times before that, if we don't bring inflation down the effects are worse.

Ben Broadbent: Just very quickly, I quite agree with everything Andrew just said. One of the reasons for the resilience is that actually contrary to what you've said, real incomes are growing now. The big picture story of the last couple of years is that the economy got hit with these enormous, almighty rises in import prices, that was an unavoidable hit to real national income. That has been extremely painful already. Those are now subsiding actually and import prices, as Andrew said, have fallen back everywhere some have, most obviously energy but some other imported goods crisis. And that is, for that reason, real incomes are actually now growing.

Larry Elliott, The Guardian: That's not what the ONS said, the ONS said that prices still growing faster than wages.

Ben Broadbent: No, well, hang on, sequentially I'm talking about. So, it seems to me likely this is certainly our assessment right now, in the third quarter real labouring will be higher than in the second quarter. You're talking about year on year growth up to May, so growth from last May to this May, that's what we've got from nominal wage growth. I'm talking about right now, real incomes are growing, our assessment is in this calendar year real labouring will be higher than last year and the same will be true next year. So, it's not true to say that real wage growth is, that wage bargains have to be negative. Our forecast, as it happens, for the end of the year, even in annual space for the fourth quarter, is that average earnings growth will be above inflation.

Dave Ramsden: Just to reinforce that, and we set this out, Larry, on page 54. We've got four quarter growth in real household income to average 1.4 percent for the rest of this year, and, we've got that real income growth is materially higher than was projected back in November 2022 when, as Andrew was saying, we and many others were expecting to see a recession. So, this is kind of, what is underpinning the resilience that we've seen in the economy. One of the key drivers. Obviously, there are other factors going on, there have been fiscal interventions, but that, you know, that's why we emphasise this resilience so much.

Delphine Strauss, Financial Times: So, you've set out in quite a lot of detail in the report various ways in which the forecasts are more than usually a judgement call and it seems there are various areas where the MPC just doesn't believe the numbers that come out of the modelling. Is the Bank's forecasting process broken and can you talk in a bit more detail about what you'd like the Bernanke review to address?

Andrew Bailey: Well, let me start, you're right in the sense of, there are always judgements that we have to make so going back to the chart I showed, even if we were inside the swathe, as you can see, the swathe is actually, reasonably broad so we're always going to have to make judgements about where we are but the, you know, the unusual thing, it's not unique but it's unusual is that we're outside it and therefore we're having to make judgements and of course, that can have other consequences about how bits of the overall forecast fit together. But what I would come back to is, so, for me this is not about saying, 'Well, the models are broken.' In some sense of, 'How could this possibly happen? They must be perfect.' Because obviously they're not. But the fact that we've had, and Ben was mentioning a few moments ago, such very, very big shocks in the world economy, these models are not built with the-, we don't have a run of history that has those sorts of shocks, it doesn't have, a global pandemic, it doesn't have a war in Europe, in the historical data to draw upon. So, it's not in a way surprising that these things have come up, that these models have been put under such strain. So, it's not the fault of the modelling process. The reason I think it's so important to have the review is to say, I mean, who knows what's going to happen in the future? I mean, there are all sorts of predictions you can read out there, I'm not going to add to those predictions today about future shocks in the world. But I think there are a lot of lessons we hopefully can draw about how do you, in a sense, approach policy making in a situation where you're having such big shocks hitting the economy. And that, for me, is what I hope we will get a lot of value from. Not because I think, well, you know, we obviously should have avoided this situation, I'm not sure that's possible because of the size of the shocks and the way the models are created but how do you make policy, how do you use models, how do you use forecasts in a world where that sort of thing is happening?

Ben Broadbent: That's absolutely right and for my part I don't think there's any model that could have been estimated, certainly over the inflation targeting period. And for other reasons one tends to limit oneself to a given monetary policy regime when you estimate these relationships that could have dealt with what we've had in the last couple of years. So, it's not a question of the models being wrong, it's a question of the sample period and the unprecedented nature of the shocks we've had. And the review is really about that and about the relationship between forecasts and policy in that environment, that's what it's about.

And the only thing, and by the way, if we go back there's a box in the report about the forecasts for inflation, we happen to be above significantly in February '22 the consensus forecast for inflation right now. That doesn't mean that these models or the other forecasts were wrong, it's simply a reflection of the scale of the shocks we've had and the ability of models to deal with.

Delphine Strauss, Financial Times: What about the interaction between what comes out of the models and the process

Ben Broadbent: Yes, I mean, I, look, it's always been the case that-, this is my, what did I say? I can't even remember now. 49th forecast run, I think. There are always judgements. The forecasts are rightly described as the best collective judgement of the committee. The models are a guide and as Andrew said at the beginning it's models plural. Those near term models of wage growth, there's not just one of them. But it's always the case that the forecasts the committee publishes are the best collective judgement of the committee. We spend a long time going through them and if it was simple that we've pressed a button and a model churned out some number we wouldn't have to spend those hours. It's a matter of degree, the extent to which you put the weight on the model, and we've had to, the wage higher end judgement has inevitably grown during this period, that's true.

Dave Ramsden: Just to add to that, that's true, I mean, I haven't been involved in as many forecast rounds here in this role but when I was at the Treasury working with the OBR on their forecasts, OECD forecasts, IMF, none of them are mechanical. They've all got judgement in them and it's the question the degree of judgement, the type of models you use, the range of models, how you interpret those informing your forecast judgements.

Ben Martin, The Times: I just wonder, given the structure of the mortgage market has changed since previous tightening cycles and so that means there's more of a lag, are savings rates now proving to be more important to monetary policy than perhaps you thought a year ago? And second, on the same issue are you seeing signs that commercial banks, highstreet lenders are now raising saving rates to levels that are fairer for consumers and will actually help bring down inflation.

Andrew Bailey: Well, I'd like to take the second part, Ben or Dave may want come in as well. I'll start with the second part because it's a good question, we'll come back to the first part. So, as a matter of fact actually, interestingly our most recent numbers suggest that in June, following our June rise the pass through to sight deposits, let me draw an important distinction in sight deposits and term deposits because the pass through to term deposits has throughout been much faster but it's sight deposits that have attracted obviously all the attention, quite rightly. So, actually interestingly the latest numbers we have in June suggest that the pass through of our June increase interest rate rise, 50 basis points to sight deposits have been pretty full actually. So that's a change because it certainly was not full as has been well covered obviously in a lot of coverage. That was not the case previously. The only thing I would say is that I think it, I mean, just go back to something I think I said at the financial stability report press conference a few weeks ago, it's very important that we have, and I think we demonstrated there in the stress test, we have a banking system that is resilient, and therefore financial stability is not an impediment to passing through interest rates in that sense. Banks are not having to make decisions, in my view, based on their concerns about financial stability. That is not the case at all so that's important, that creates, in a sense, the preconditions. The final thing I'd say is that, I think the initiative that the FCA has taken is very important because I've said before that I think, competition is very important in the sense there should be competition for deposits, the public should feel that it can actually shop around for deposits and the rates it receives. And I think the measures the FCA has announced particularly on transparency is important in that respect to give the public what they deserve which is a much better line of sight of what they can get for their money so I think that's important.

So, I think the sum up on that point, the latest news is encouraging that we seem to be seeing a change, but I don't think we can regard it as done at this point by any means. Coming back to your points on mortgage rates and saving rates, I think it's clearly important obviously, that we, as you say, the mortgage market has changed, that does affect the monetary transmission mechanism, we have to make that judgement every time we make a decision on rates as to how the transmission mechanism is working through. And we know it's slower now because of that shift to fixed rate mortgage markets. And then we have to also balance the fact that there is, as you say, there's an affect in this part of the transmission mechanism and bearing in mind this is only one part of the transmission mechanism, there's an effect that comes through via mortgage rates and then there's an effect that comes through via saving rates. They're different of course because the behaviour of savers and the behaviour of borrowers is different.

Ben Broadbent: Well, I mean, even if you add those up those two are only a minority of the transmission of policy and on average through the cycle our guess is that the mortgage channel is probably, it's only a guess or estimate, barely a quarter of the total effect on other asset prices, the effect on housing investment, the effect on business investment. So, a lot overall through which monetary policy works. Catherine Man made a good speech about this a while ago. There's a bit in the middle of the report here about these various channels. You know, more significantly even often than the effect on consumption, the mortgage rates' effect on housing investment, on business investment and so forth. We've not seen as much until recently through this cycle, there's one other channel that often matters which is the exchange rate, but that too has started to move now. So, there was a lot of focus in May in this mortgage cash flow stuff and that matters, but I think it's important to keep it in perspective.

David Robinson, Market News: Just on that point, the old ready reckoner was it took 18 to 24 months for full effects of interest hike or change to come through. Should we think it's now shortened, gone longer, how confident are you? Is it a divisive point on the MPC? What would you suggest is the ready reckoner now?

Ben Broadbent: I don't think our view has changed overall. I mean, there are times when there are certain shocks which take longer to pass through but in terms of the marginal effect of policy, perhaps, sort of, two year point and beyond there's a reason we get focused on that when we discuss what has motivated policy changes which is that's still roughly our view of, when you're getting to the peak effects of today's interest rate decisions. So, although there are bits that may have got longer including minus mortgage cash flow, I think in terms of the overall affect I don't think we've made a material change and it's not something over which the committee has, you know, argues, or debated, or disagreed much.

Francine Lacqua, Bloomberg: Governor, how soon, or what's the soonest you think the bank could actually cut interest rates?

Andrew Bailey: Well, I'm not going to make a prediction on that. As I said earlier, we've taken a decision today based on the facts as we see them today and the evidence we have, we think it's the right decision to take today. As I said, I think there are a number of paths from here. I mean, there's always a number of paths from here you could rightly say to me, but I think it is important to stress that point. But I wouldn't want to at all speculate, it's far too soon to speculate on when we might see a cut.

Francine Lacqua, Bloomberg: Twelve months?

Andrew Bailey: I think that falls in to the "nice try" category.

Jessie Hewitson, iNews: So, what would it be that you would need to see or feel confident of in order to pause rates or bring them down?

Andrew Bailey: Well, let me lay out the evidence that we've looked at. And as I said, we've got a, I think, a short run profile of inflation that we're increasingly, sort of, confident because the short run eventually becomes today and I think it is, the piece of news we had a couple of weeks ago, firms that, begins to firm that up. But what we're really focused on, and if you sit in the discussions of the committee, the second half is the thing that takes up all the time because it's the much more, judgemental and behavioural part of the forecast. And I think I have to come back to this point that there are, obviously there are a number of elements there that are the source of risks to the upside. So, highlight obviously services inflation, the labour market, and particularly the wage element of the labour market. No one wants to through all the elements again. Services, yes, it has been on the upside, question mark about just how persistent some of that is but we'll see. The non-wage element of the labour market, we are beginning to see softening and by the way our regional agents are supporting that, they've come back, when I, say Ben and others go out on visits we are picking that story up, signs of softening. You see it in the VU ratio as we said earlier. Pay, I'm afraid we haven't yet seen that.

Jack Barnet, City AM: This probably speaks back to the growth point there and the rate cuts as well, I think if you look in the forecast going toward the end of next year growth is very, very close to going into recessionary territory but inflation is still just about above target. Does that mean there's almost less room for the Bank to cut interest rates at that point, and then probably over the longer term, obviously you've spoken recently about the weakness in the supply side of the economy, is the economy almost less capable of absorbing lower interest rates without developing higher inflation?

Andrew Bailey: Well, the weakness in the supply side of the economy is something we've talked about quite a lot over time, and I wouldn't particularly change view on that. By the way, the next time we gather here in November we'll have done our annual supply side review, so we'll probably have something to say about that next, you know, next time and see what we come up with. But you're right, we have got a potential growth rate that is considerably below certainly what I've experienced throughout much of my career. I think all of us would probably say that. And you're right, that's relevant. On the weakness of growth points, I mean, the thing that has really changed the forecast in this respect of course is the curve has moved upwards since last time, that's the thing that's really move. Dave, did you want to come in on that?

Dave Ramsden: Well, only to say that, I mean, obviously there are, as Andrew stressed in that second part of the forecast we're much more in to judgement territory but on the demand side of the economy it is the movement up in the curve where we're now, over the three years of the forecast, I think we've now got bank rate averaging in the market implied curve about five and half percent compared to four percent back in the May forecast. That is really weighing on demand. Currently, as we've said, we've had more resilience on the demand side. We're seeing growth at the moment, underlying growth of around a quarter percent a quarter. We do think that into next year, as Andrew stressed, that will slow to much closer to, really the economy not really growing through next year. I think it grows a little bit in annual average terms. So that is the impact of tighter financial conditions both from the market implied curve, but also the exchange rate being rather stronger in this forecast.

Jack Denton Barron's Magazine: Governor Bailey, do you believe that you've got rates right or have you made a mistake? With an economic slow down on the horizon, inflation still unbearably high, should the UK have embraced slowdown, even recession, earlier in order to bring inflation down faster?

Andrew Bailey: Well, I've said before in these sessions I think we have to be very careful about, if you don't mind me saying, hindsight judgements. We don't set policy with the benefit of hindsight, we set policy as we have done today with the facts as we see them at the time, and we've always done that, and I think we've always, based our assessment at the time on the best evidence and the best judgement we can have. So, I'm afraid I don't agree with that assumption. I would also say that given the nature of these very big supply shocks that we've had, if you run these sorts of tests or simulations, call them what you like, I think Ben, you made a speech on this, and I think Silvana Tenreyro who has recently left the committee made a speech on that. And say, 'What would you have had to do to monetary policy? Had you known that this was going to happen what would you have had to have done to offset it and to therefore maintain this inflation target?' And I'm afraid the answers are well, slightly eye-popping, frankly, in terms of what they come up with. So, but we didn't know that, I mean, we didn't know that Russia was going to invade Ukraine. Obviously, that's, I'm afraid, not something any of us knew. But I would just caution that the important point is we don't have hindsight, and I would just add, these are huge shocks that we have to deal with it. It's coming back to Delphine's question on models, the question is how do you deal with these shocks and how do you set policy in shocks? Does raise some very important lessons learned but I do not think they suggest you've got monetary policy fundamentally wrong. What it does suggest is there are always, and I think this is the right thing to say for any policy making institution, lessons that we can learn from the experience.

Tom Rees, Bloomberg: If rates need to stay higher for much longer as you suggest in the guidance today, is that likely to prolong and worsen the downturn we're starting to see in the housing market, and what signs would you need to see to get out of restrictive territory?

Andrew Bailey: Well, I'll start with the first line, Ben may want to come in. On the housing market I think, what I would say is yes, we are seeing of course some adjustment in the housing market but let me just say, I mean, the evidence, it needs to be all of the evidence needs to be taken into consideration so yes, we've seen some decline in house prices. On the other hand, the latest numbers suggest, that we had in earlier this week, suggest that there was a small increase in net lending on the latest numbers. And a small increase in mortgage approvals. That will take some months to come through because there's, you know, there's a lag of some months between approvals and actual lending. So I think the evidence on the housing market is yes, there's an adjustment, of course I don't think that we should be surprised at that but I would certainly not wish to talk this up in to a crisis in the housing market, because I think there's plenty of evidence that suggests that this is a process that has some moderating influences in it as well, and the data suggests that.

Ben Broadbent: In general on the interest lid, we spent all of today, and this is the main purpose of the day, explaining the decision we've taken today. It's about the outlook for the future and clearly future interest rates will depend on that similar judgement in advance, and we're not going to make predictions about what the, you know, with them we had a question earlier about what might happen to interest rates at the end of next year. Well, I can tell you the end of next year the interest rates will depend on what the outlook is for inflation in 2028. And we're not making that judgement right now. Clearly in this report, I hope it's clear and let's hope it's been clear in what the MPC has said, that we're focused on things that we think tell us about medium term inflationary pressure. And the interest rate will in future continue to depend on those things. The best judgement we have now is that, you know, the starts of policy, certainly embedded in the market curve or even the constant interest rate, these are the kinds of alternatives that one can use, get you, bring you back to target on the mean forecast which I think is what really matters, in a sustainable fashion. But, future interest rates will depend on future news which we're not getting in to now.

Dearbail Jordan, BBC: Just on food price inflation, is expected to ease later this year but I just wonder, do you think that Russia's withdrawal from the grain deal with Ukraine, will that have any impact on UK food prices this year?

Andrew Bailey: Well, it's a good question. So, just to set the scene, I think we've all spent, I've certainly spent a lot of time, visiting and talking to food producers and food retailers in recent months, it's very important, and if I draw out the message that I, you know, draw out a, sort of, single message from it, it is food price inflation is declining and is going to go on declining, it's taken longer than I think anybody expected. And that includes many people involved in the food industry. I think the reasons for that are in the light of everything that's happened,, easier to now, in a sense, discern. I think I get two messages come through quite consistently. One is actually the energy contribution. It's quite interesting actually that food production has quite a high energy component in it, and so energy costs are important, but energy costs are now coming off. Business energy costs, you know, behave-, have got a somewhat different pattern to household energy costs. The second thing that many, particularly farmers, have told me is that they, because of the sheer uncertainty about access to, you know, raw inputs as it were, last year they bought forward for longer and therefore locked in higher prices for longer out of a concern, and we did throw out fertiliser which Russia is a major producer of, and a concern about getting access to it, they bought forward for longer and so that's locked in higher prices for longer and I think that's one of the other things that's helping to explain this pass through. But, the consistent messages, and we see it in the data now, that it is coming off but it's coming off later and more slowly, I think, than we thought. On the Russia Black Sea point that you make, I think it's something we have to watch carefully. I mean, certainly it has had an effect on wheat prices, but I think that so far I would think, so people are saying, not as much as probably initially last year. But I think we just have to keep watching this because

I think going back to other, some of the other questions, it's these shocks that we are now having to, sort of, in a sense, get accustomed to dealing with, in a sense, because we are seeing more of them. So, we do have to watch it very carefully, yes.

Dave Ramsden: And just on that, through our agents network we're always talking to the food industry but in the last couple of months we've intensified our engagement so you'll find it's on page 75, we've got a three page box about key messages from our meetings on food price inflation, which goes in to a lot more colour, a lot more granularity to, sort of, underpin what Andrew was just saying to help us understand why there's been slower pass through, greater persistence in food inflation. So, we'd encourage you to have a look.

Andrew Bailey: I'm very grateful to everyone in the food industry, has certainly taken the time to explain it to me which is, you know, is incredibly helpful, frankly.

Geoff Smith, Politco: This is a question for Mr. Ramsden, really. You said in your recent speech that QT rolling off in the background nice and calmly, last couple of days the long end of the bond market has come very much into the foreground and there's a sense in the bond market, particularly with the downgrade of the US, that something structural may have changed. Maybe one of the shocks that we're going to have to get accustomed too as well perhaps. So, I appreciate you didn't have to make the decision today but did you talk about the pace of QT over the next 12 months at today's meeting? And are you really going to accelerate the pace if the situation in the US is as unsettled as it is currently in a months time?

Dave Ramsden: Well, thanks very much for the question, let me answer is in two parts. I mean, in today's Monetary Policy Report we have quite a large section setting out-, it's from page 27, setting out the analysis that staff have done on the first year of QT. Last September the MPC voted to reduce the stock of gilts by 80 billion over the following year. So, there's a box in the MPR which really repeats a lot of information that I put out in a speech I gave back in July. It's really important to stress that the MPC will make a decision on the pace for reduction in the stock of gilts at the September meeting. So, we've got the analysis out there today. As I said in my speech back in July personally, I can see a case for slightly increasing that pace from the 80 billion. But the MPC has not made a collective decision or make that in September. So, the second part, in the last few days we have seen some movements in the long end of global bond markets, we've obviously had what the Bank of Japan has done today with its second intervention in recent days, given its new, more flexible policy on yield curve control, we are seeing markets react as they always do to developments, including from the US. So, we are conscious of those developments and as we always do, we are monitoring markets very closely. I wouldn't put the interpretation on those developments of the sort that you did, that there's some huge structural change. I think we're seeing more reactions to either financial developments or other announcements rather than something more significant. Anyway, the MPC will get updated briefing in September in order to inform its decision on the pace of quantitative tightening, the pace of gilt stock reduction then.