

MPC MEMBERS

COPIES OF THE DECEMBER 2015 PRE-MPC MEETING PRESENTATIONS

In advance of the MPC meeting, please find attached copies of all presentations given at the December 2015 Pre-MPC briefing meeting.

Monetary Policy COO Division (TS-B)
2nd December 2015



1: Financial Markets

Financial Markets

December 2015 Pre-MPC
FED, MFAD & SMD



Timeline of key international policy events

- 3 Dec – ECB meeting and press conference
- 4 Dec – US non-farm payrolls
- 10 Dec – MPC decision
- 16 Dec – FOMC decision
- 18 Dec – BoJ decision

Plan

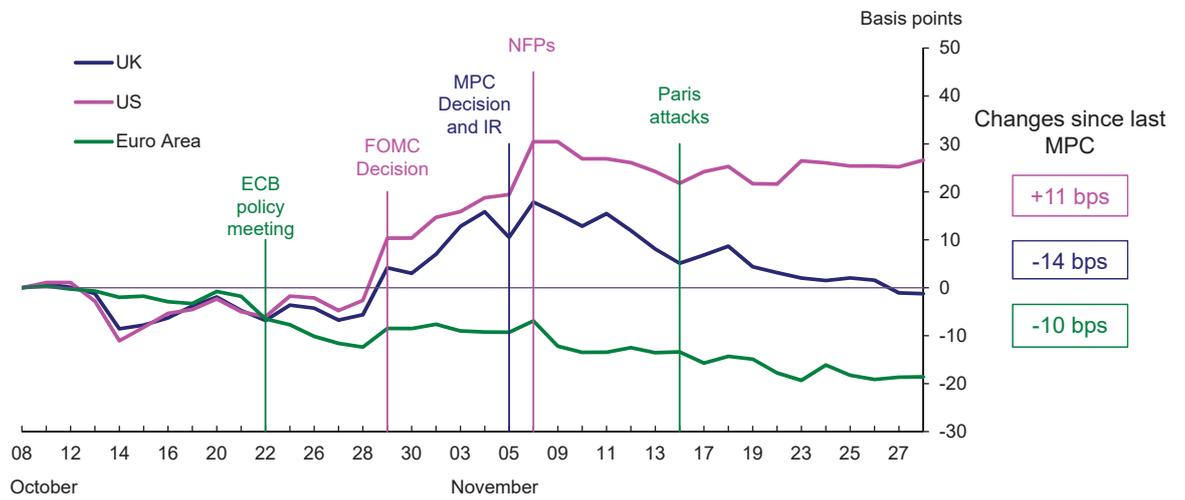
- Short rates, including IR reaction and possible impact of FOMC on UK rates
- Long rates and FX, including expectations for ECB and outlook for sterling
- Risky asset prices, including EME outflows in the face of US move

Summary table of moves since August IR and November MPC

	November IR (15 day average)	November MPC (3 November)	Latest (30 November)	Changes since	
				November IR average	November MPC
UK 1-year instantaneous OIS rate	0.62	0.75	0.64	2 bps	-12 bps
UK 3-year instantaneous OIS rate	1.26	1.46	1.23	- 3 bps	-22 bps
UK 10-year gilt yield	1.84	2.00	1.87	4 bps	-12 bps
£ ERI	91.7	93.4	93.5	2.0 %	0.1 %
FTSE All Share	3486	3498	3492	0.2%	-0.1 %
Metals index	2392	2322	2145	-10.3 %	-7.6 %
Generic 1st Crude Oil, Brent	49.2	50.5	44.6	-9.3 %	-11.7 %

Short rates

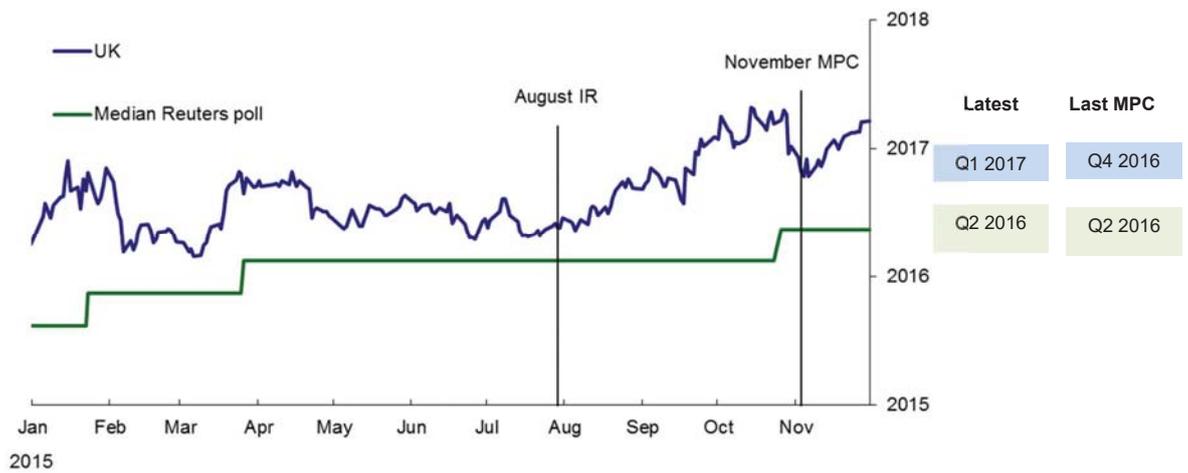
Cumulative change in 1-year, 1-year forward OIS rates



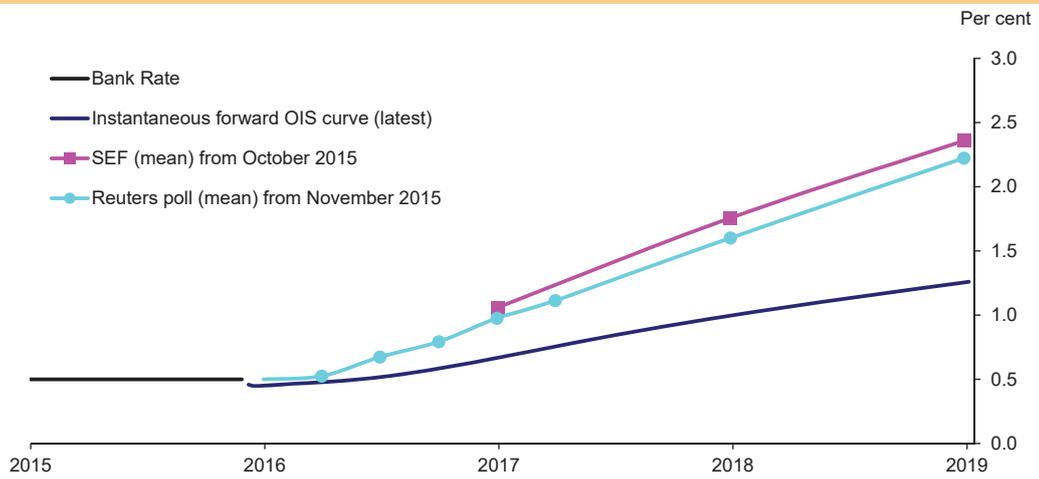
How do contacts explain the move in £ rates?

- Post-IR focus on downside news in near-term growth and inflation; and on the fact that the curve had moved significantly since the cut-off date.
- MPC comments not seen to push back materially on market interpretation of the IR whilst FOMC speakers continue to lay the ground for a December hike.
- Some views that lower rates reflect higher £ERI
- At the margin, some discussion of Brexit – but no signs of impact in £ options
- APF strategy interpreted as a marginal loosening due to later start and flow effect of QE – but no discernible market reaction.

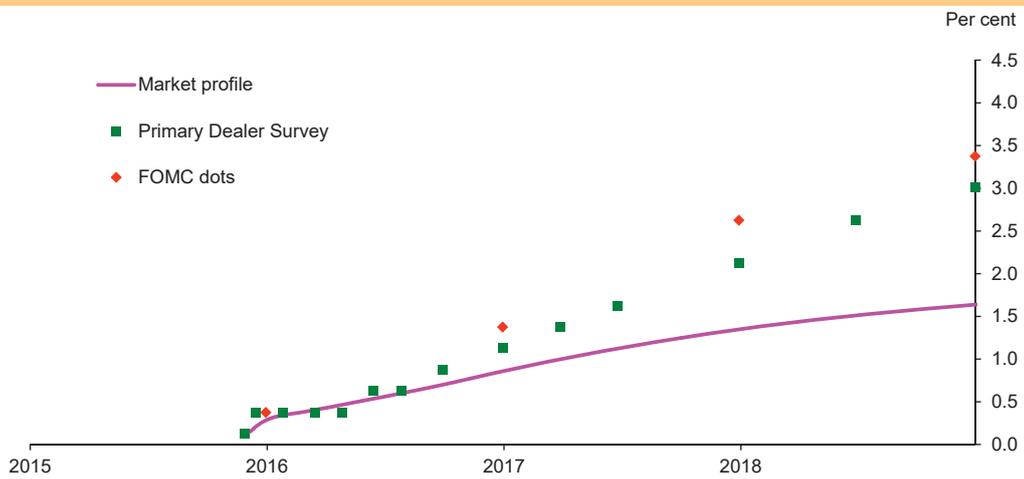
Date of first Bank Rate rise: Reuters and OIS



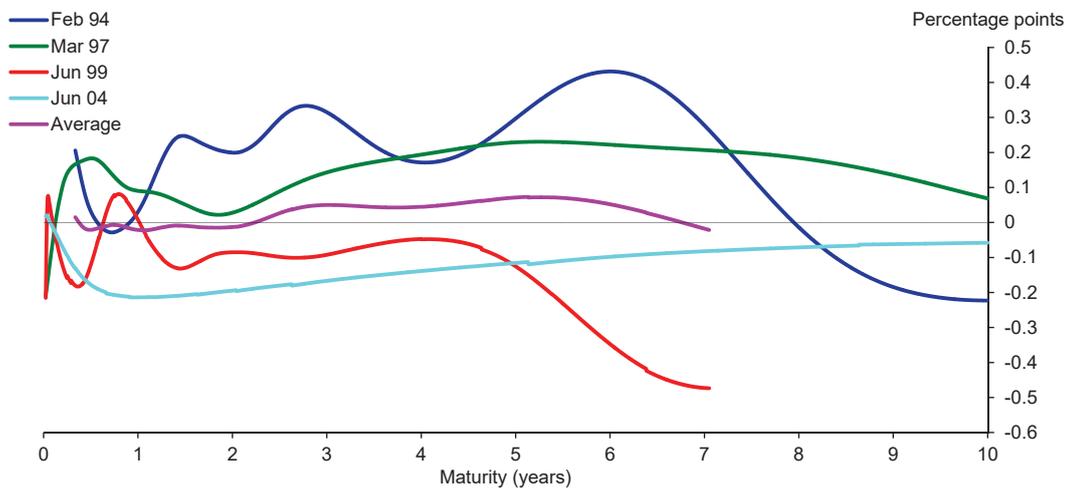
UK curve and expectations from Reuters poll/SEF



US curve and PDS/FOMC expectations



Change in UST curve – each Fed hike (2 day window)

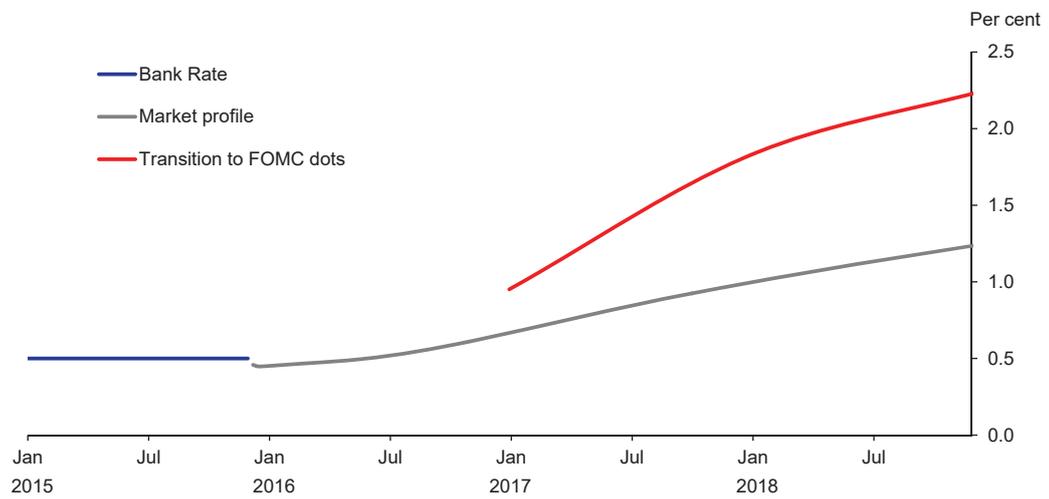


- Reaction of US rates to FOMC rate hikes has been variable – with episodes of both higher (if not anticipated) and lower (if term premia fall) rates. Average reaction is close to 0.

Contact views on impact of FOMC rate hike on UK rates

- 90% of Reuters poll thought December FOMC hike won't affect their central view.
- Strategists and traders also think there would be limited impact – given rise is well trailed and gradualist message is well heard
- Risk from Fed inaction – which could prompt questions about their reaction function and communication strategy
- But more plausibly – risk of mishandled communication, or market misinterpretation, leading to rise in short and/or long term rates

Potential impact on UK OIS curve – 2 day window

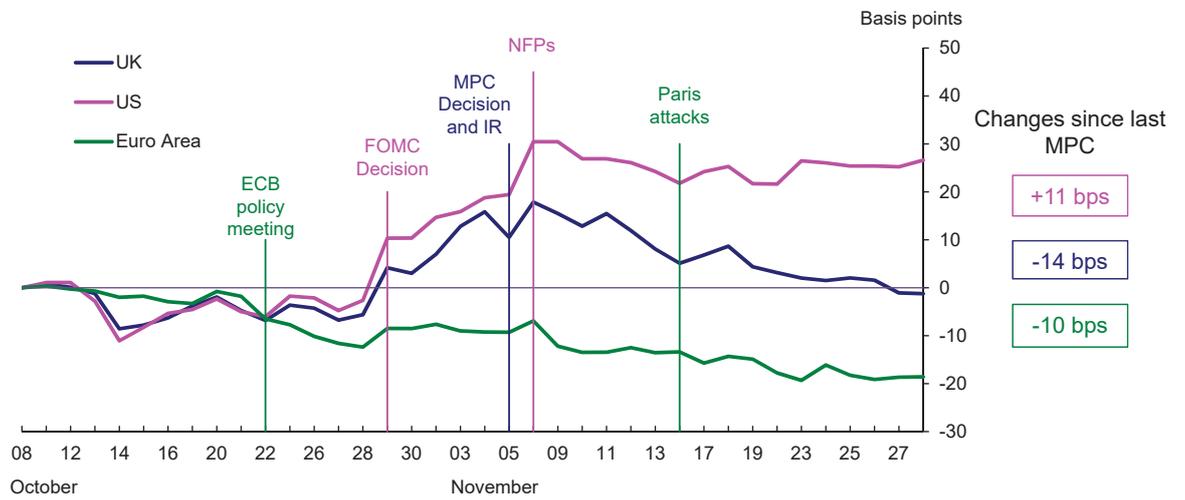


US 10-year term premia and tightening cycles/taper tantrum

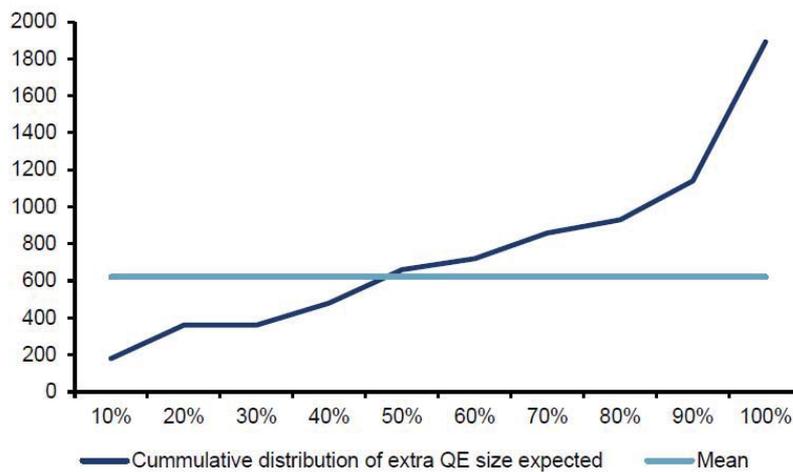


- Term premia generally countercyclical – so fall in tightening cycles.
- But current environment is exceptional. Global term premia highly correlated.

Cumulative change in 1-year, 1-year forward OIS rates



GS survey - what additional QE size do you expect?

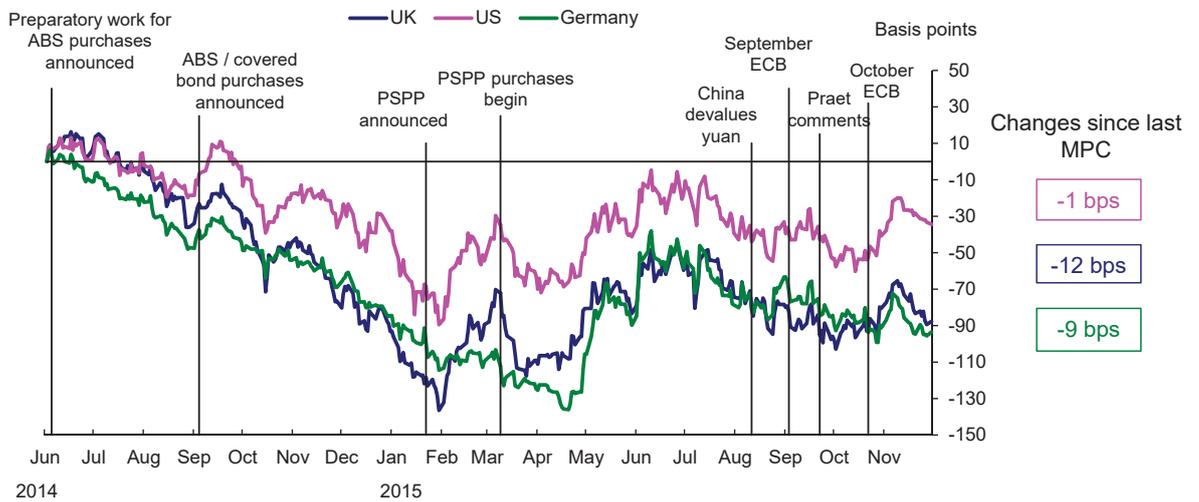


- Staff expect 650bn extension – comprising 6m extension and 20bn extra purchases per month

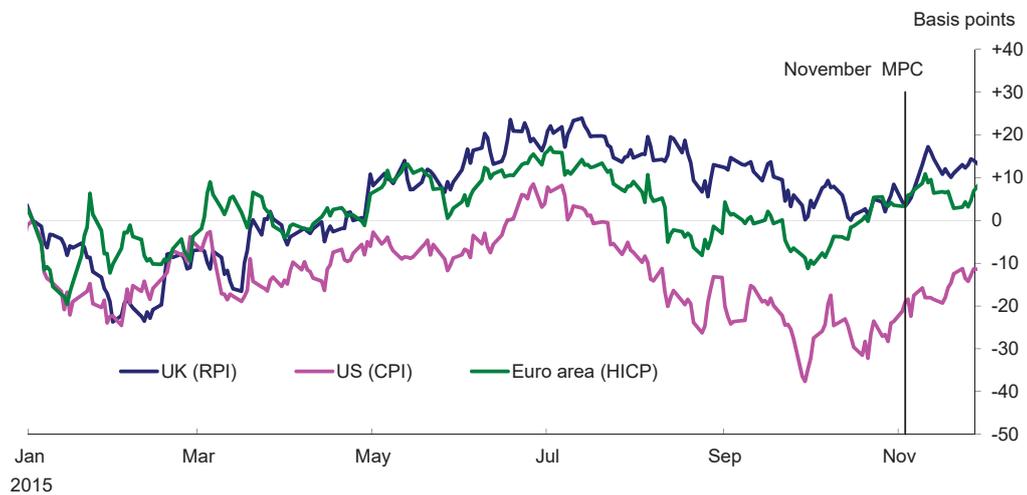
See *ECB Policy Preview* -

Long rates

Changes in 10y government bond yields since summer 2014



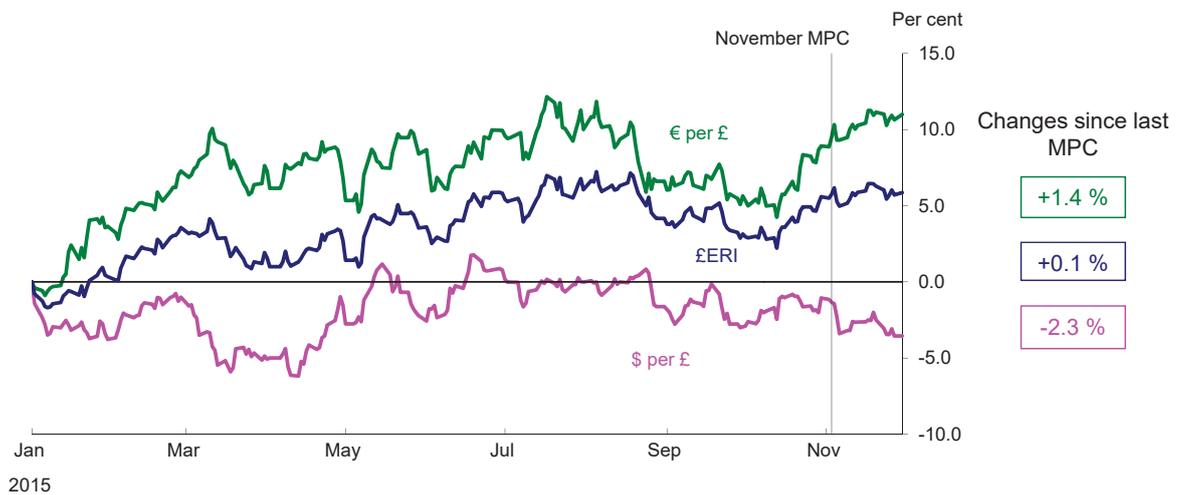
Changes in 5-year, 5-year inflation compensation



- Inflation swap rates have all trended higher since October. Principal component analysis attributes the moves to global factor – with reduced weight on UK specific factor

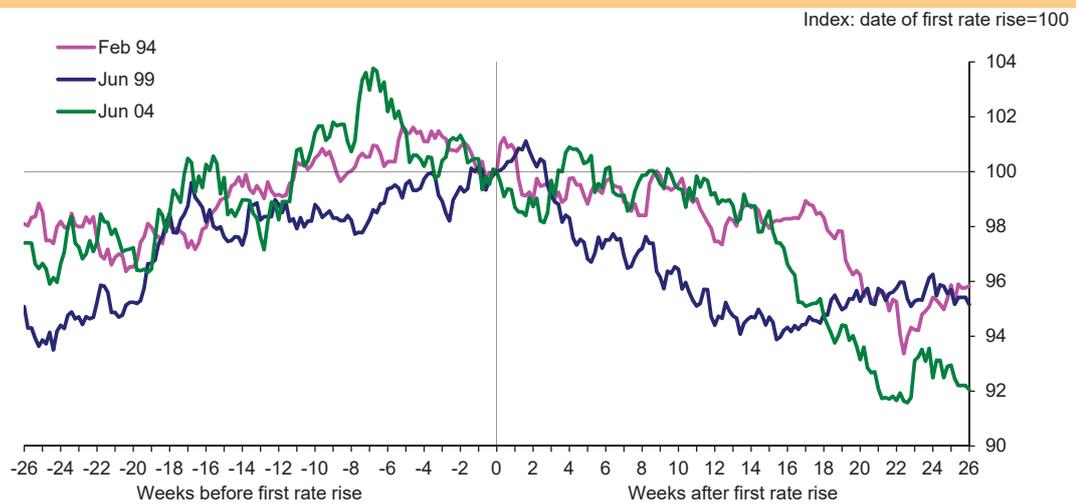
FX

Cumulative changes in sterling ERI and main bilaterals



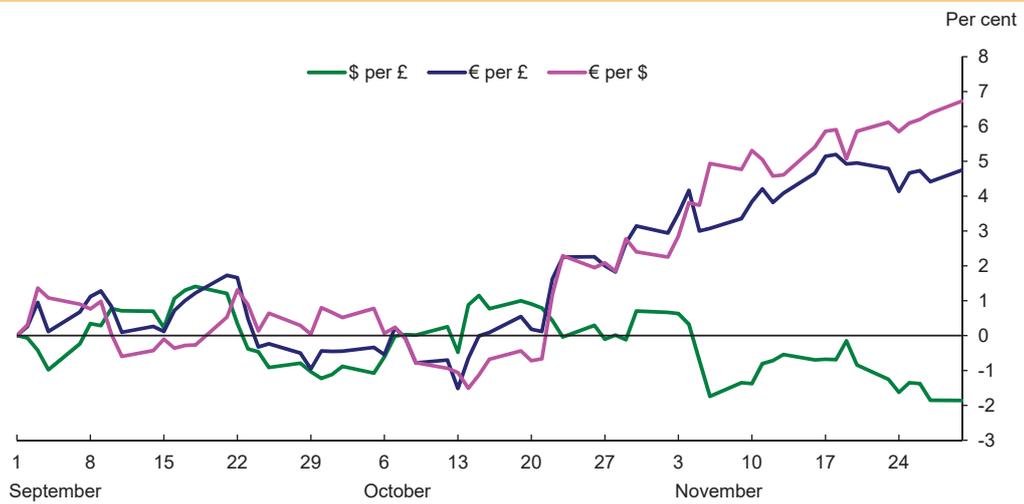
- Monetary policy divergence evidence in FX bilaterals
- Also evident in the cross currency basis markets

Dollar ERI in past cycles

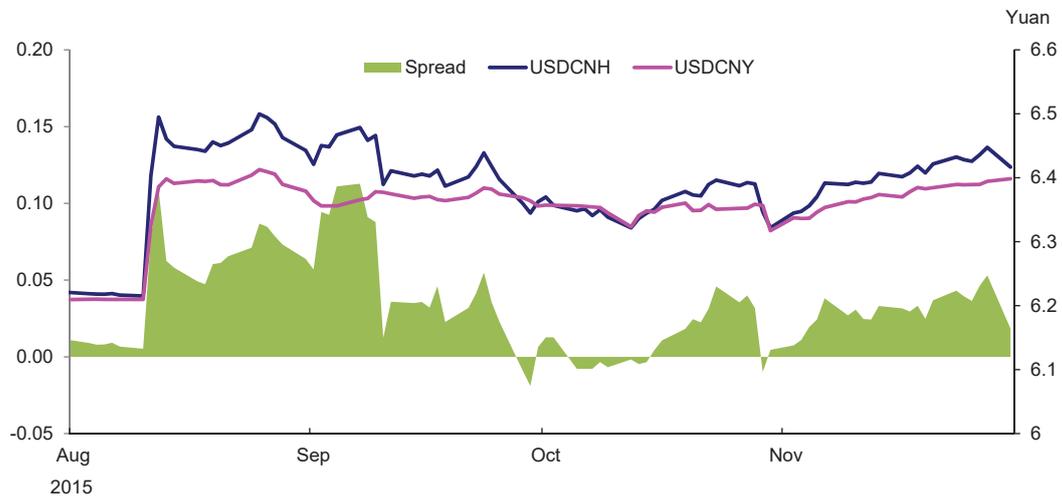


- USD has tended to appreciate up to and depreciate after lift off.
- Pattern is robust if only look at bilaterals where monetary policy is expected to diverge from the US

Main FX bilaterals



China FX: Onshore/offshore spread



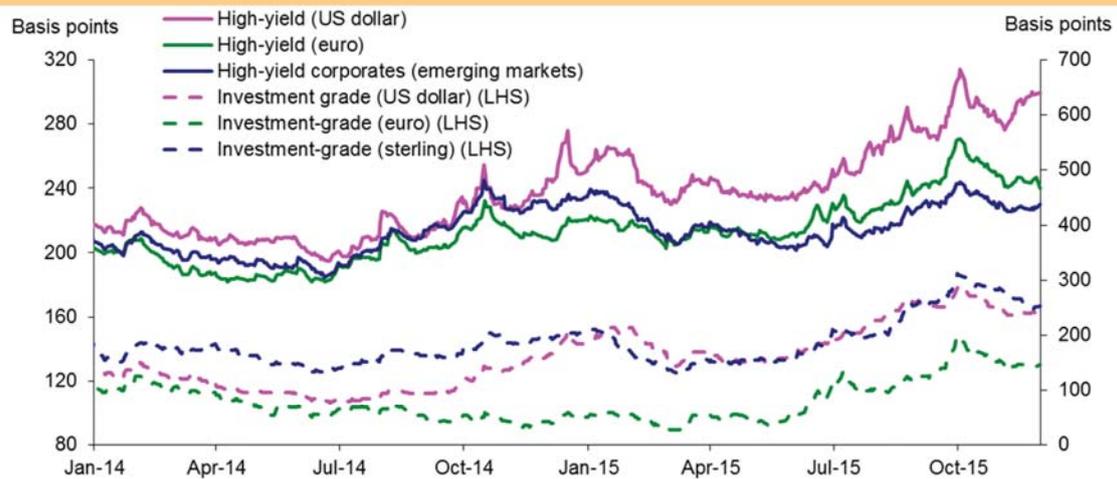
- Decision to include RMB in SDR not expected to have a big impact on capital flows
- Renewed signs of FX intervention – for more on swap spread impact

EMEs and risky asset prices

International equity indices (03 Aug 2015 = 100)

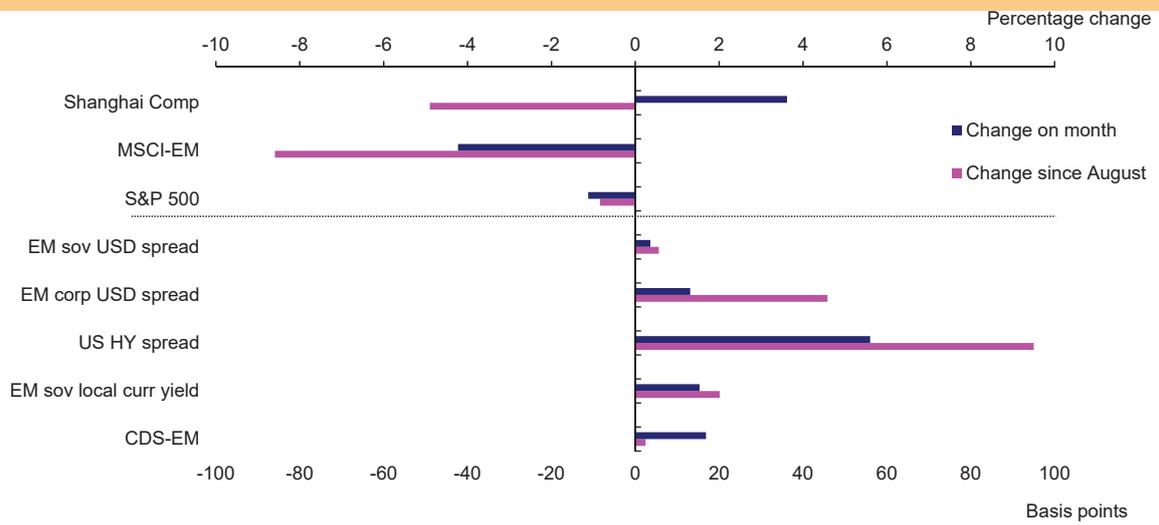


International corporate bond spreads

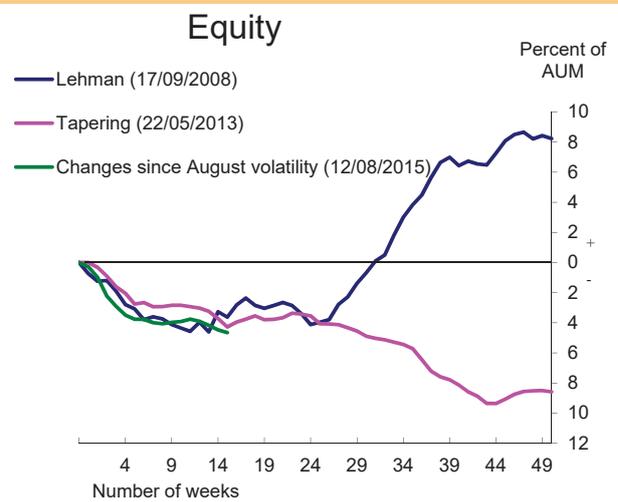
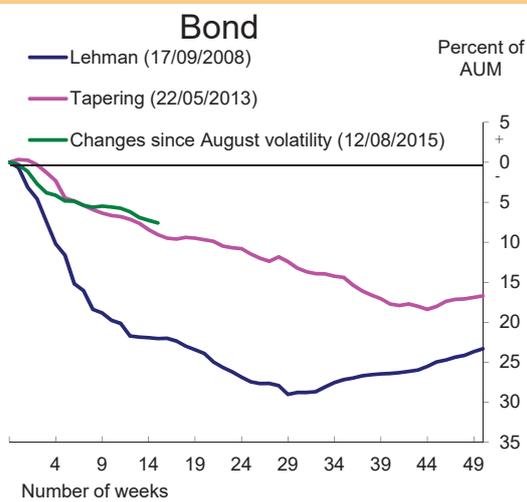


	USD IG	EUR IG	GBP IG	USD HY	EUR HY	GBP HY
Changes since November MPC (bps)	-1	-2	-10	+61	+7	-2

Change in EM and US asset prices



EM fund flows



- Outflows from EM bond mutual funds since summer – at a similar pace to Taper Tantrum

Investor's views on EM prospects

- Markets already price in “a fair amount of bad news”. Views driven by weak fundamentals and commodity prices, rather than FOMC concerns.
- Investors report significantly greater differentiation across EMs, reducing risk of indiscriminate outflows. Greater flexibility in FX regimes also helps.
- Path of rate hikes much more important than lift-off date
- Liquidity compared “well” with 1997 and the Taper Tantrum, but traditional liquid hedges (e.g. USTs/sovereign CDS) not performing as well as in the past

Summary

- Impact of a December US rate rise on UK markets may be limited – but we are in uncharted territory and effective communication will be key.
- ECB decision on PSPP likely to have significant implications for long rates and £/€ – wide spread of views leaves scope for volatility.
- Generally little news in developed market risky asset prices
- EM outflows resume – although contacts are mainly focussed on local fundamentals, there is clearly scope for reaction to US hike here too



2: Money, Credit and Nominal Trends



MONEY, CREDIT AND NOMINAL TRENDS

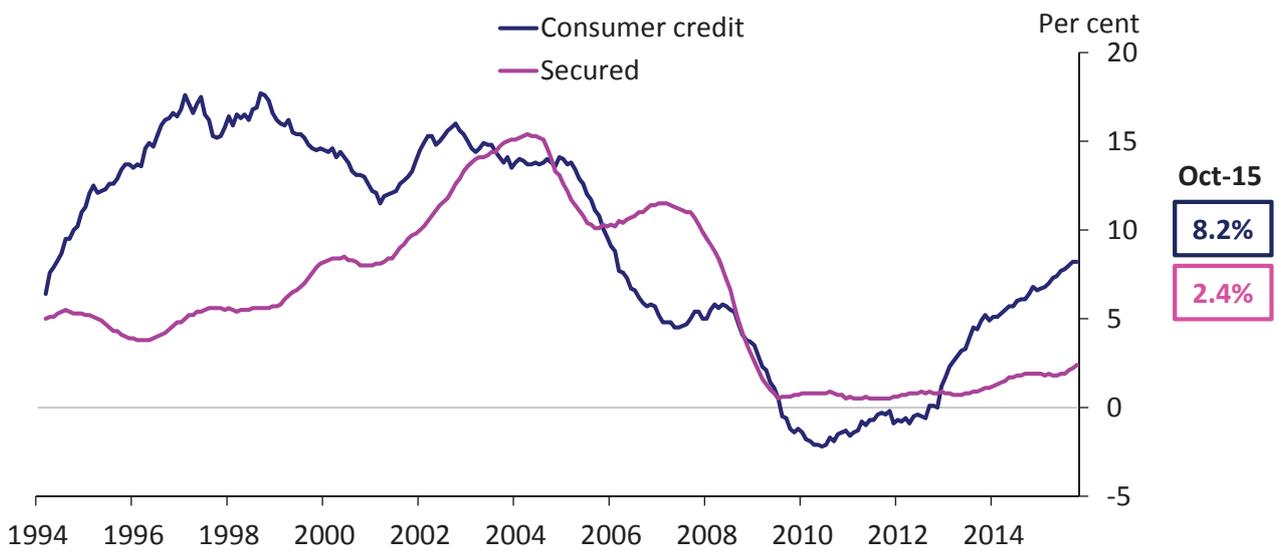
December 2015

Agenda

- Households
 - Secured credit and the housing market
 - Consumer credit
- Corporate balance sheets
- Inflation expectations

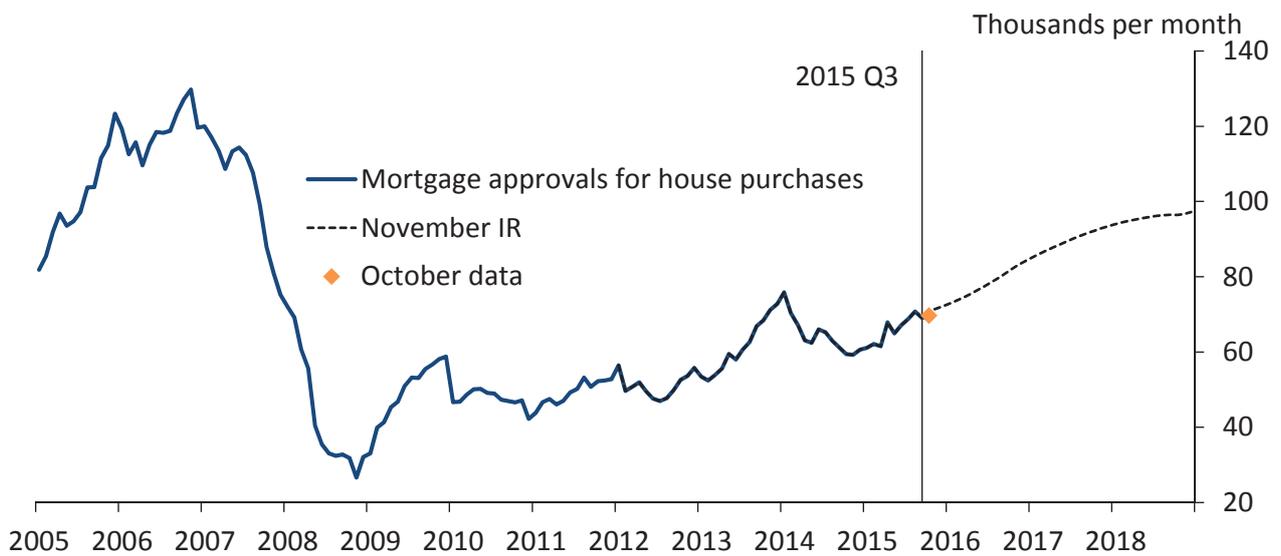
Growth in consumer credit has picked up more rapidly than secured lending

12m growth rate in the stock of lending



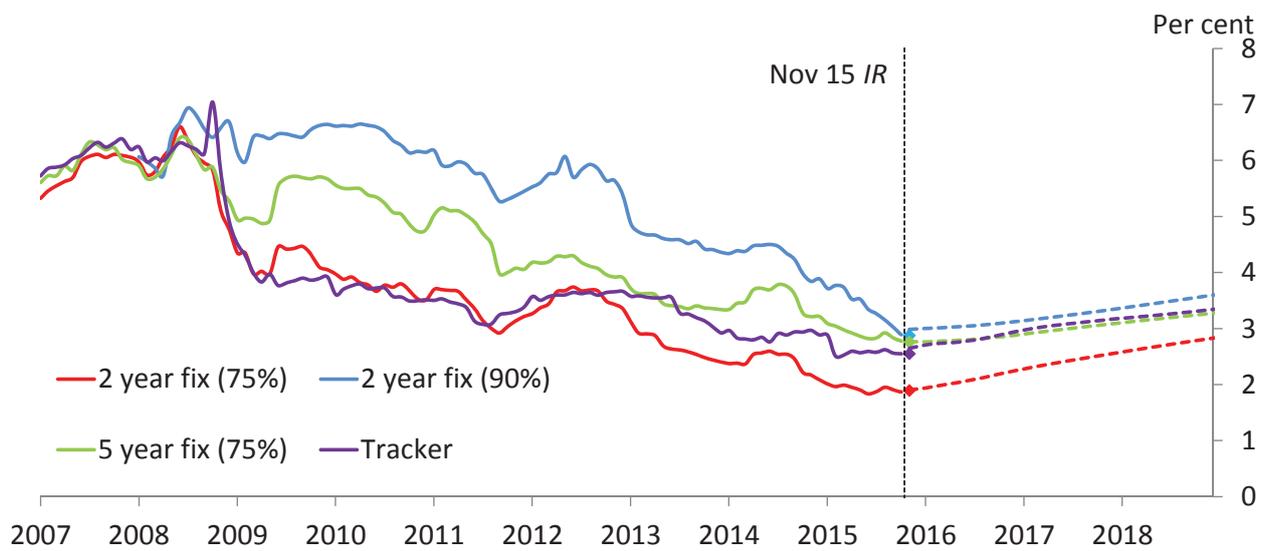
Mortgage approvals for house purchase expected to rise further...

Mortgage approvals for house purchase (SA)



... driven by mortgage rates remaining low

Quoted household mortgage rates

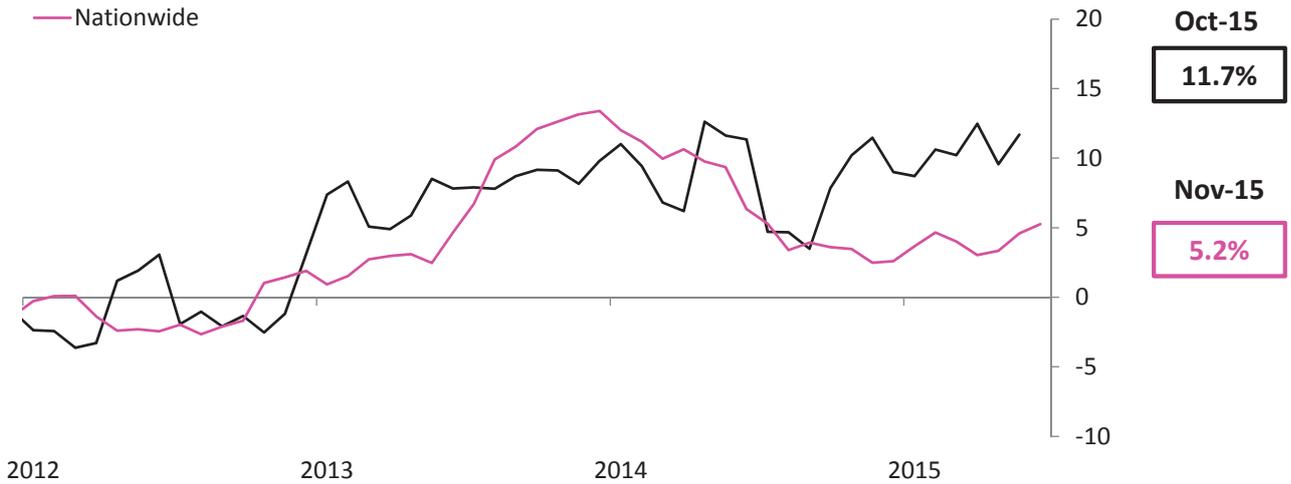


Lenders' measures of house price inflation have diverged this year

House price indices

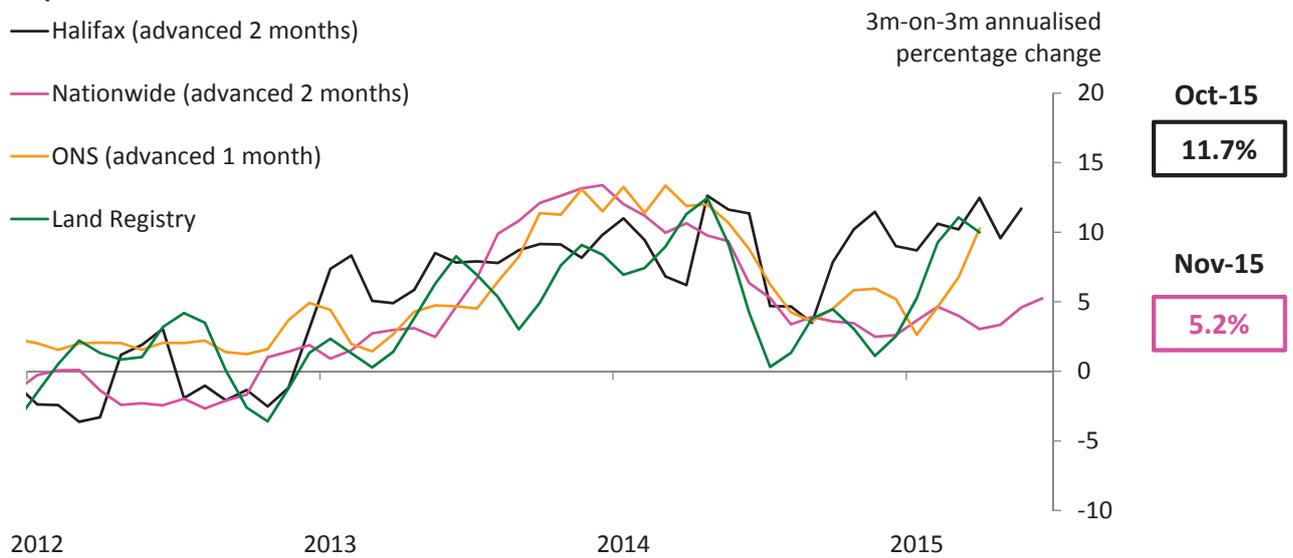
— Halifax
— Nationwide

3m-on-3m annualised
percentage change



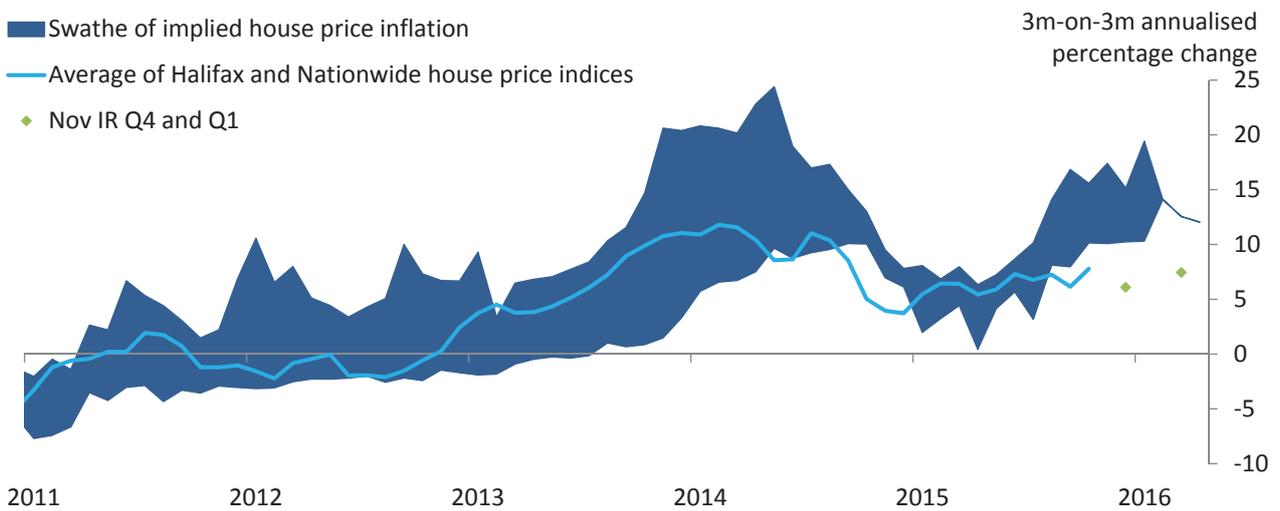
ONS and Land Registry measures closer to Halifax

House price indices



Some house price inflation indicators are starting to turn down

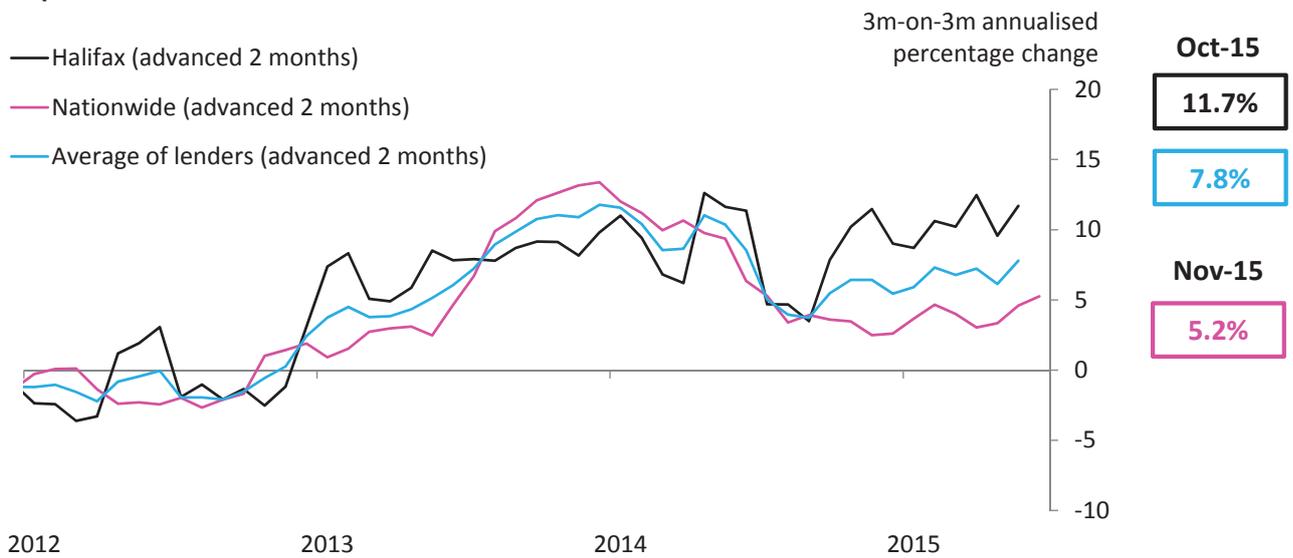
Swathe of leading indicators of house price inflation and house price forecast



for more details

Overall, our preferred measure continues to be the average of the lenders' indices

House price indices



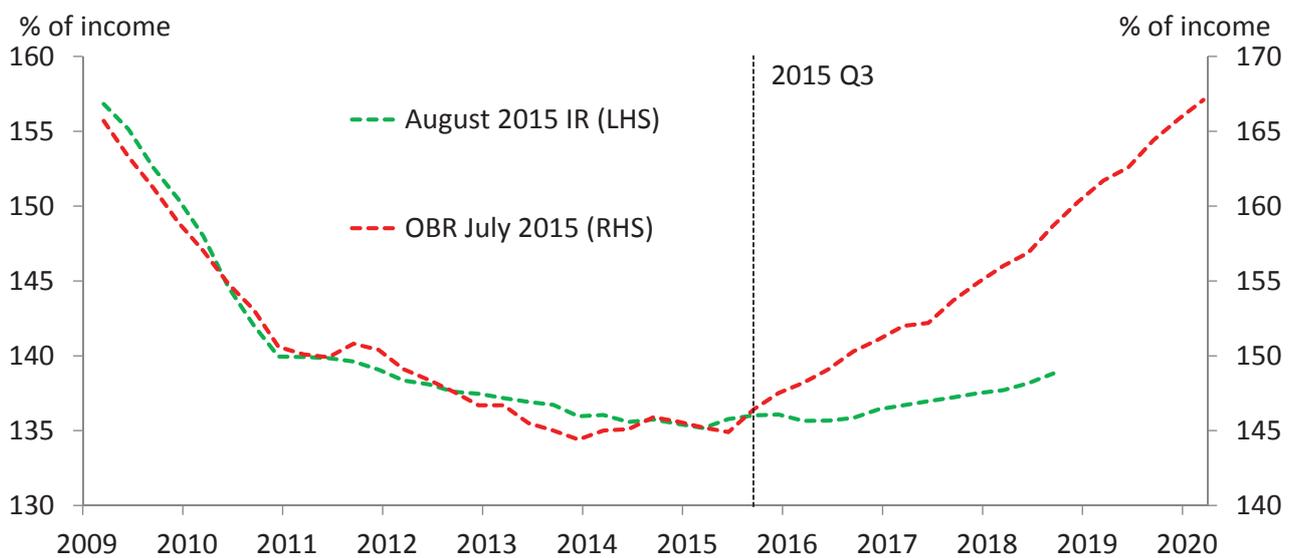
Autumn Statement measures on housing

Measure	Detail
Stamp duty	Increase in stamp duty on additional properties (including buy-to-let and second homes) of 3pp from April 2016.
HtB: Equity Loan scheme	Extended a further year to 2021 Up to 40% equity loan provided in London
Home building	Deliver 400,000 affordable housing starts by 2020-21 <ul style="list-style-type: none">• Of these, around 150,000 are newly announced. Measures to boost housing supply: <ul style="list-style-type: none">• Bring forward planning reforms• Release public land for house building• Extension of £1bn builders' finance fund to 2020-21 to help SME house builders• Re-generation projects, supporting up to 60,000 new homes.

[for more details](#)

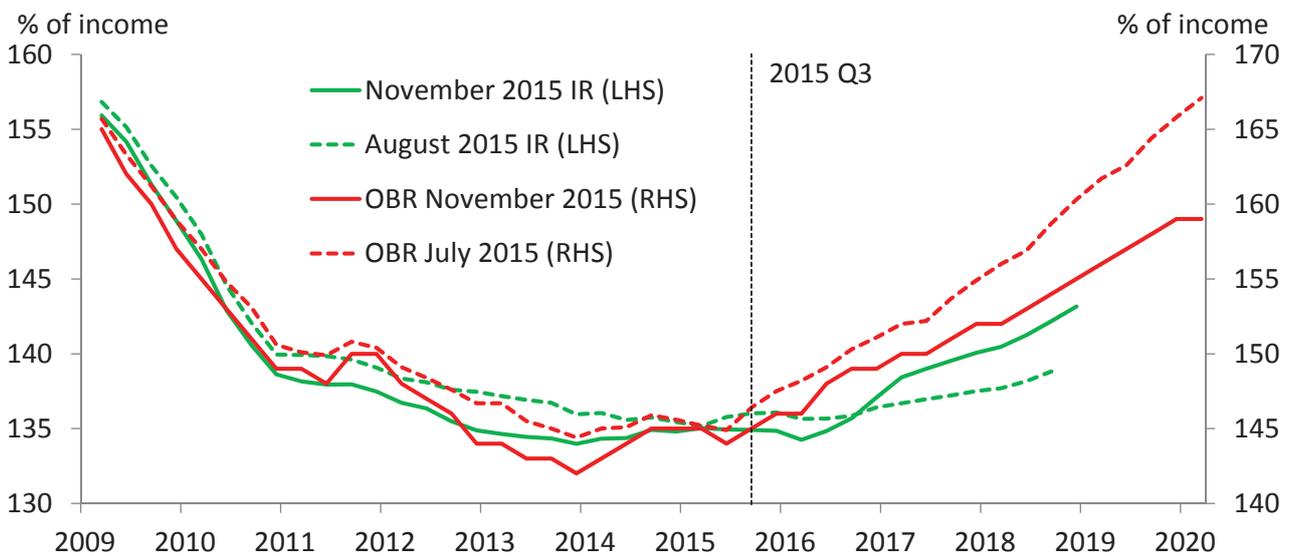
Divergence between Bank and OBR debt-to-income projections....

BSM vs OBR Household Debt to Income Ratios



... now largely revised away in latest projections

BSM vs OBR Household Debt to Income Ratios



Housing and secured lending – key messages

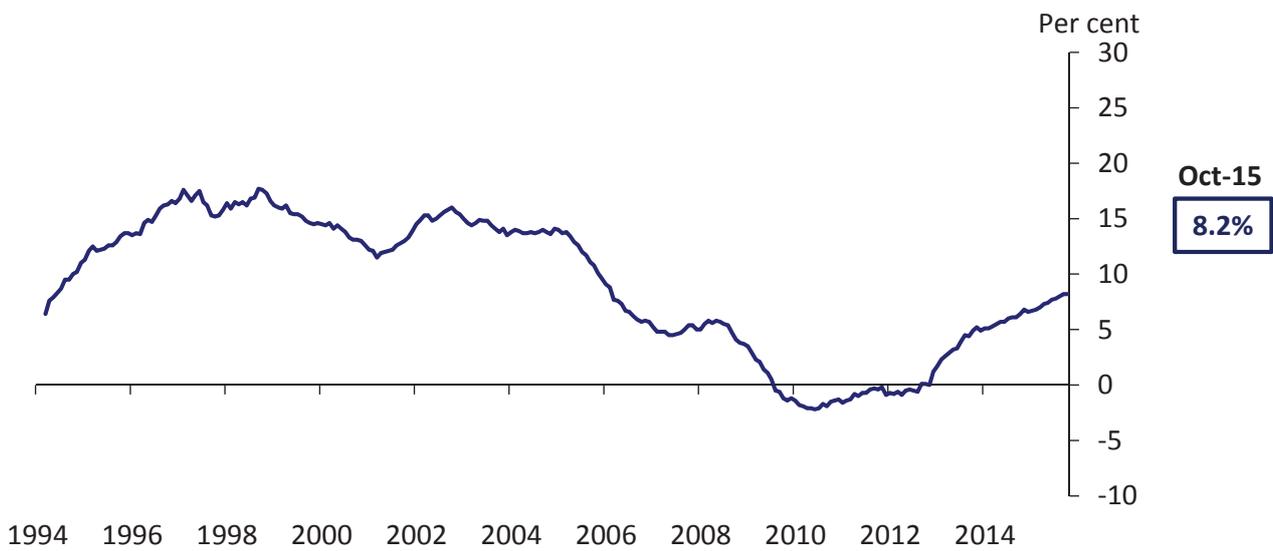
- Housing activity increased in 2015 and is expected to pick up further, driven by low mortgage rates
- House price inflation probably not as strong as suggested by the Halifax index, but nevertheless has picked up recently
- Changes in the Autumn Statement are likely to have only a small impact on activity and prices in the near-term
- Homebuilding announcements suggest some upside news for November *IR* dwellings investment forecast

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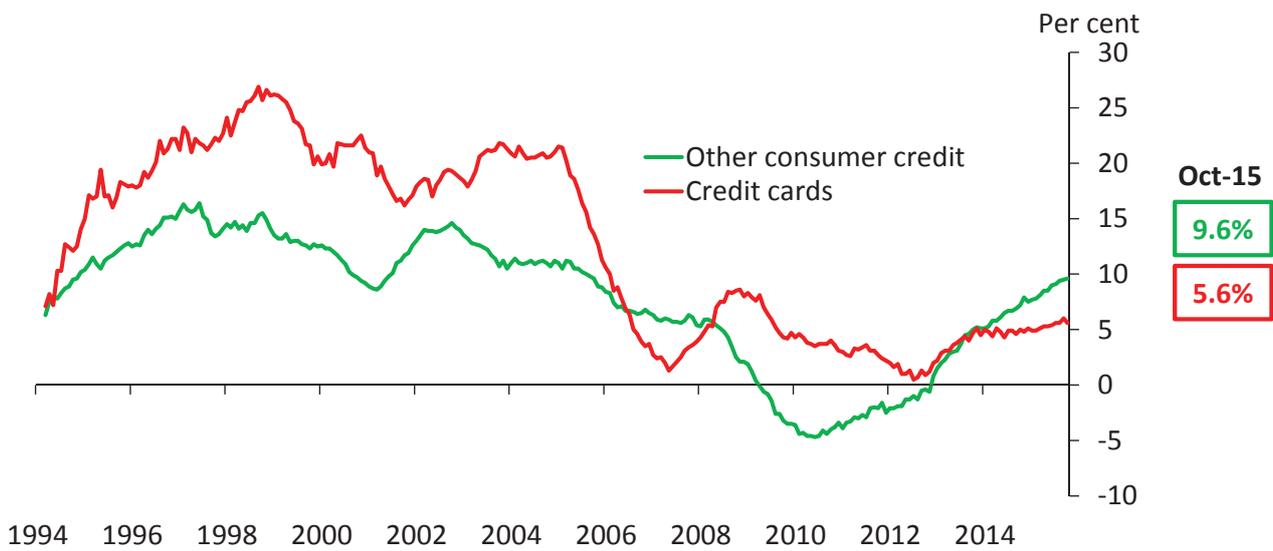
Growth in consumer credit has picked up since 2012...

12m growth rate in the stock of consumer credit



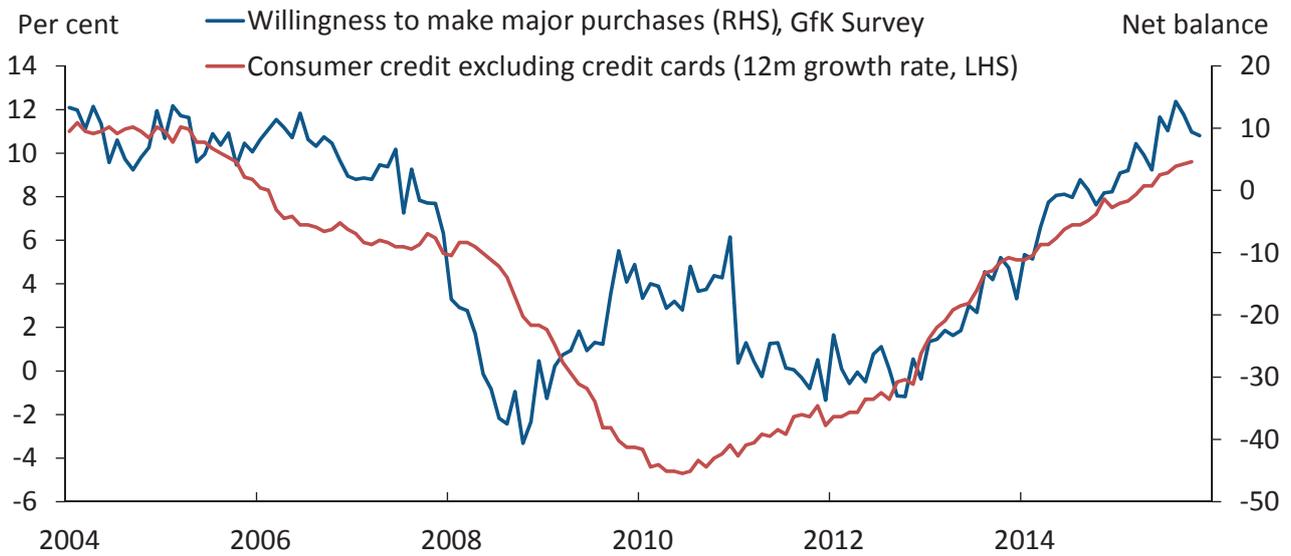
... mainly driven by growth in non-credit card lending

12m growth rate of the stock of consumer credit



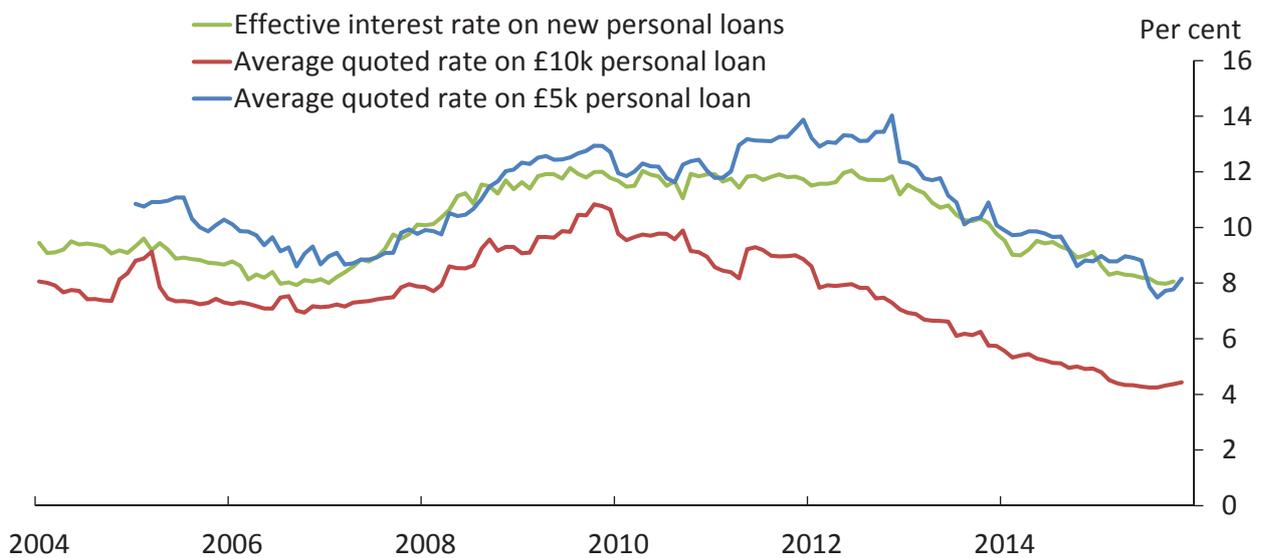
Rising consumer confidence likely to be a factor...

Consumer confidence and growth in consumer credit excluding credit cards



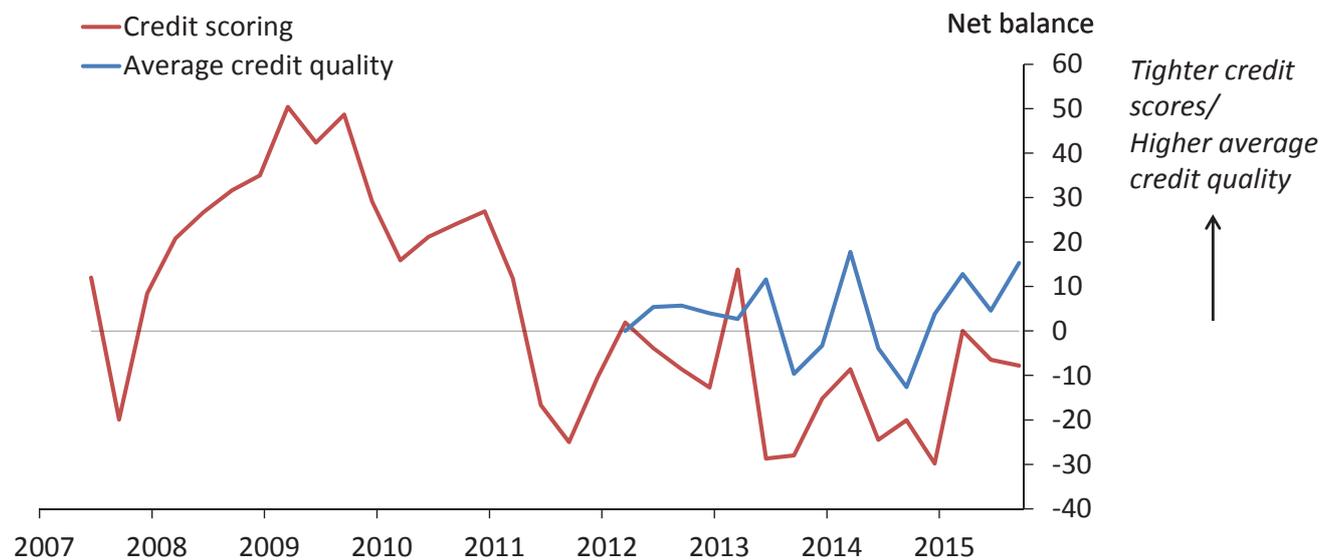
... alongside a fall in the cost of borrowing...

Quoted and effective interest rates on personal loans



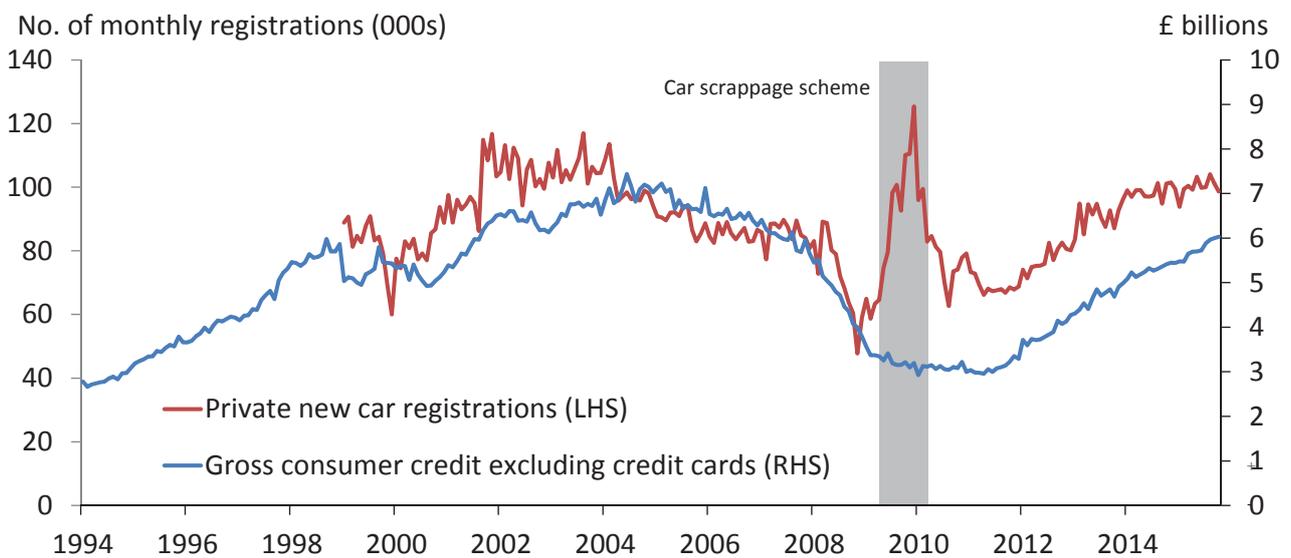
... and a loosening of underwriting standards

Responses on consumer credit excluding credit cards (*Credit Conditions Survey*, quarterly change)



Consumer credit is frequently used to finance the acquisition of a new car

Private new car registrations and gross consumer credit excluding credit cards



Consumer credit – key messages

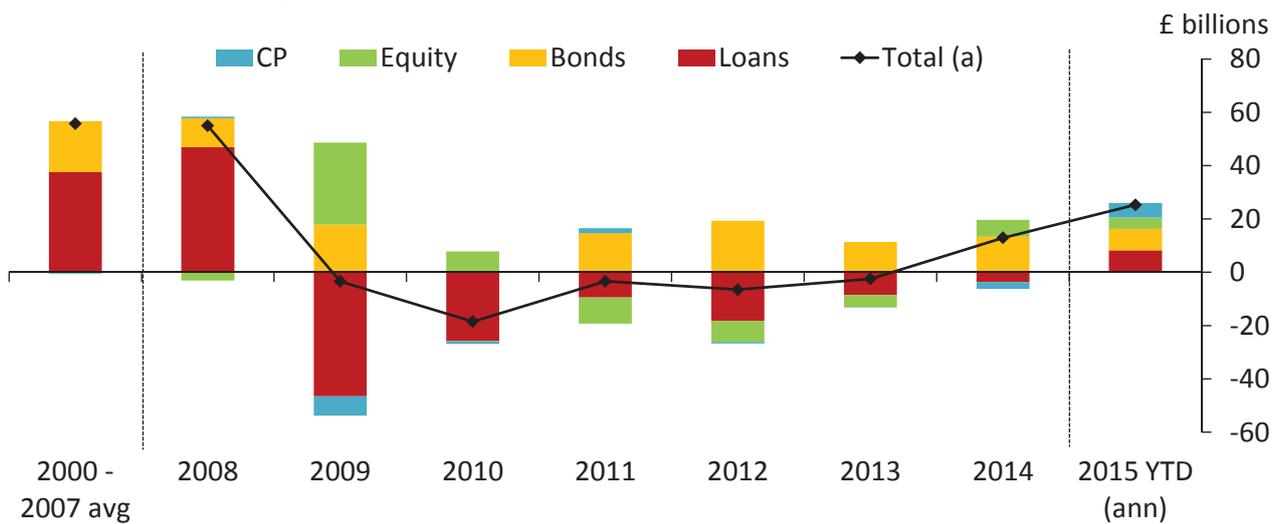
- The pickup in consumer credit growth is likely to reflect both demand and supply factors
- Car finance accounts for a majority of the increase in consumer credit over the past few years
- PCP agreements account for an increased proportion of consumer credit, which may reduce borrower distress in the event of a default
- Growth in consumer credit is projected to flatten off in the near term, consistent with a plateau in car sales

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Net external finance continues to pick up in 2015

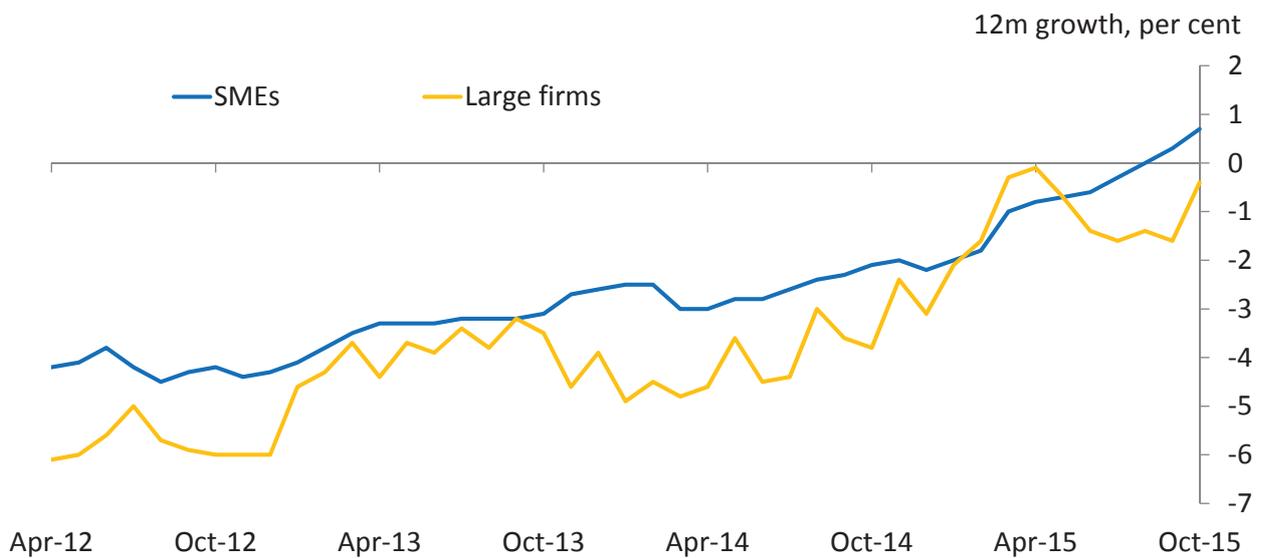
PNFC net finance raised, SA flows



(a) Owing to the seasonal adjustment methodology, this series may not equal the sum of its components.

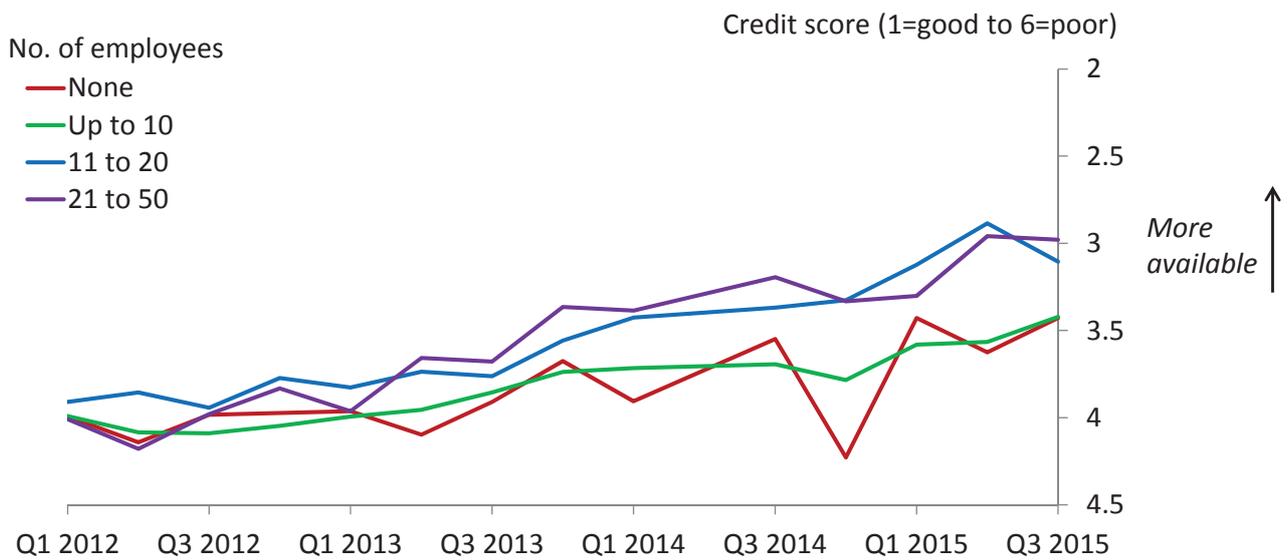
Lending growth to SMEs has turned positive

Growth in the stock of lending to UK non-financial corporations by UK MFIs, by firm size



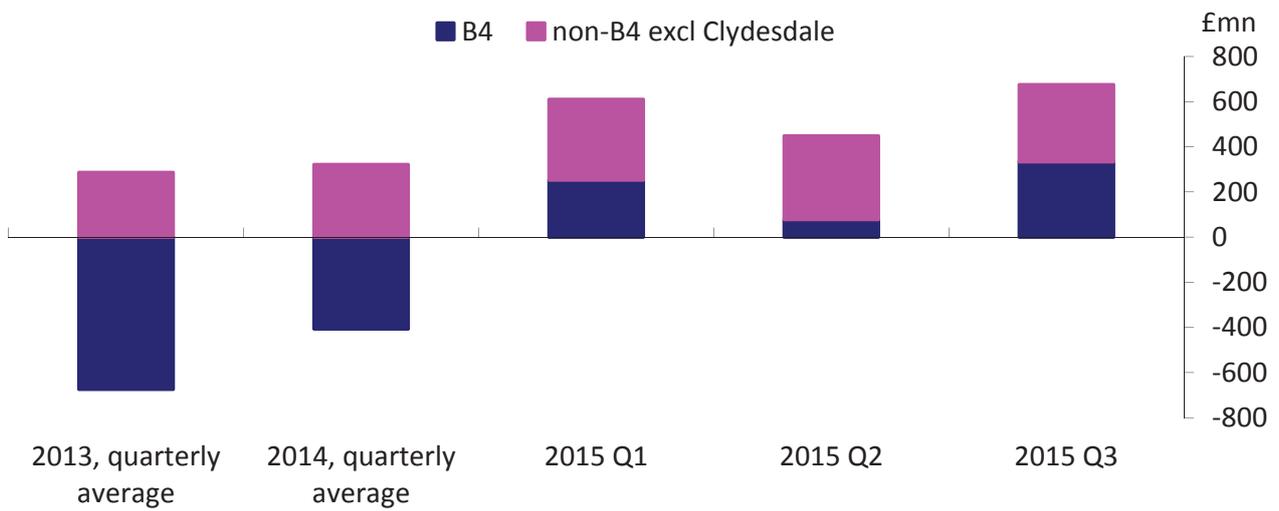
Credit availability has improved for the smallest firms...

Credit availability as rated by FSB survey respondents



... although less clear that FLS extension has played a big role

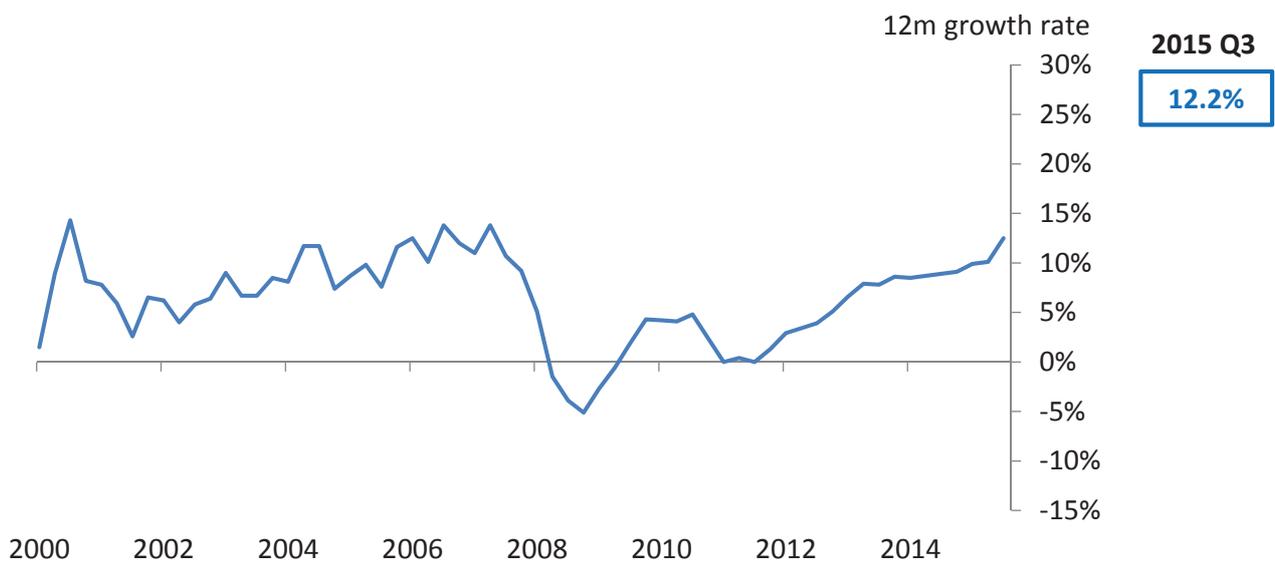
Lending to SMEs by FLS participants*



*HSBC and Barclays are not participants in the FLS extension

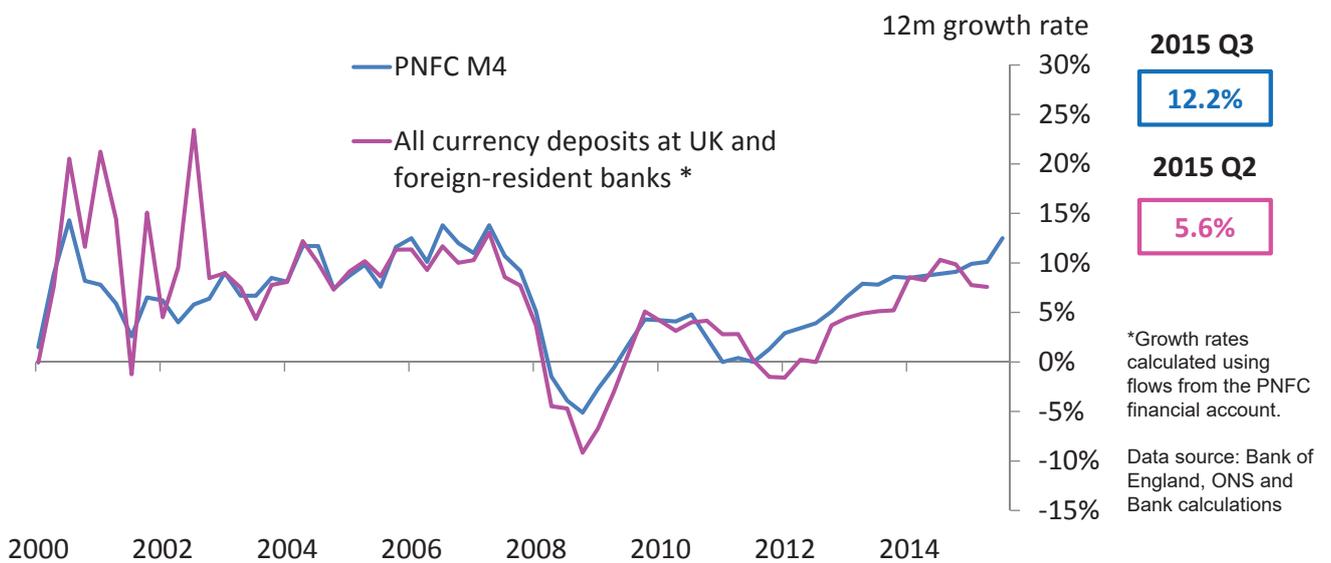
PNFC sterling deposits with UK banks continue to rise at a strong pace...

PNFC M4 money



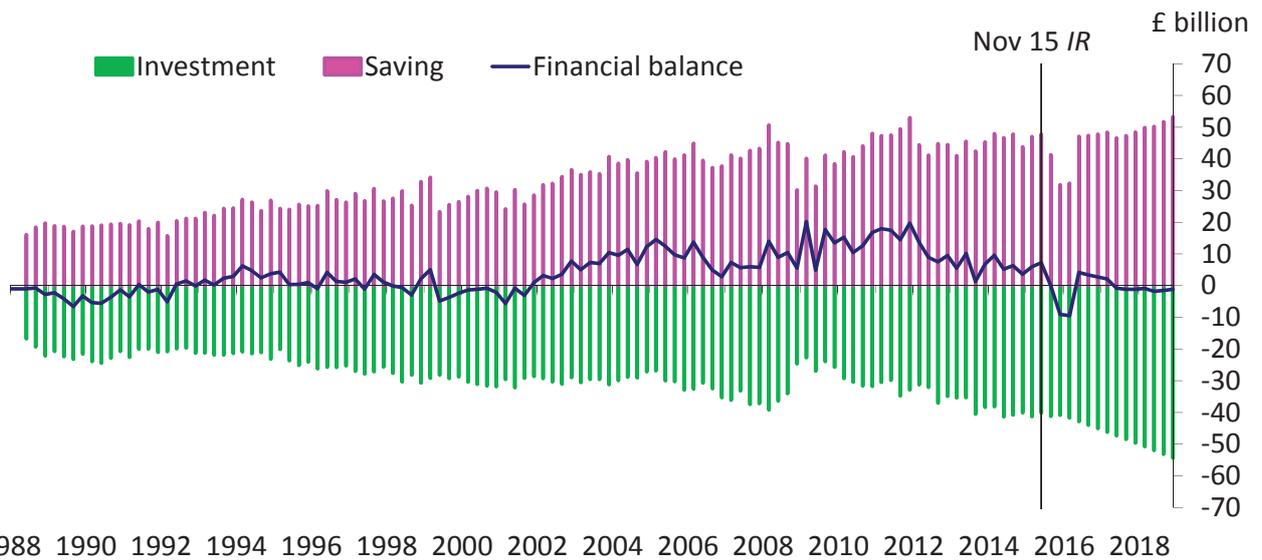
... although a broader measure of deposits has been growing at a slower pace

Measures of PNFC money



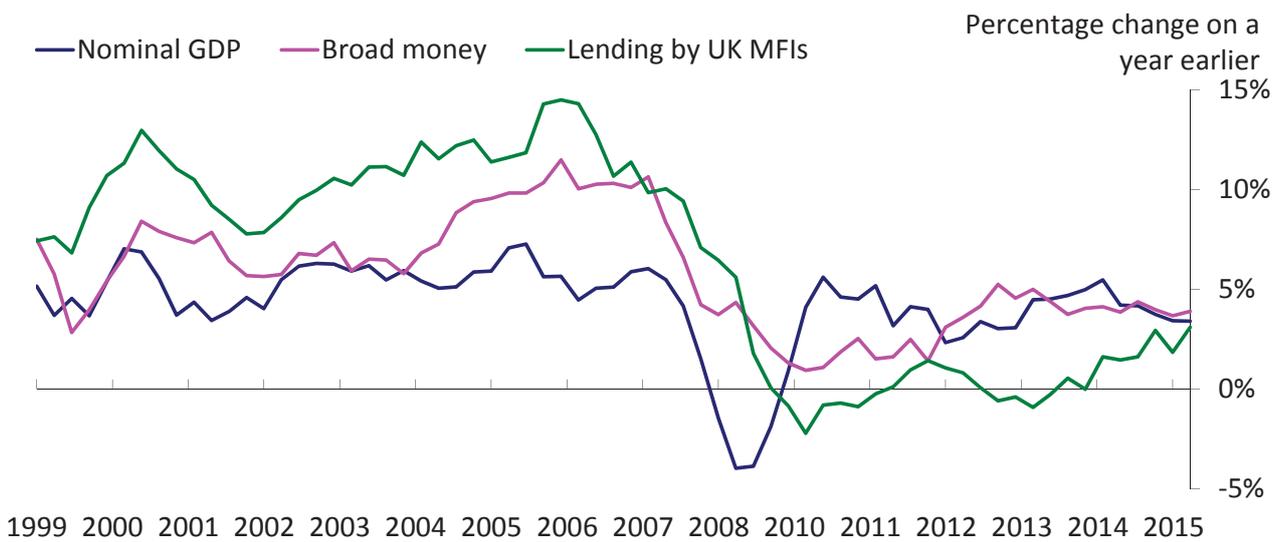
Nov IR forecast of corporate financial balance is consistent with a slowdown in deposit growth

Corporate financial balance



Money and credit now growing broadly in line with nominal GDP

Money, credit and nominal GDP



PNFCs - key messages

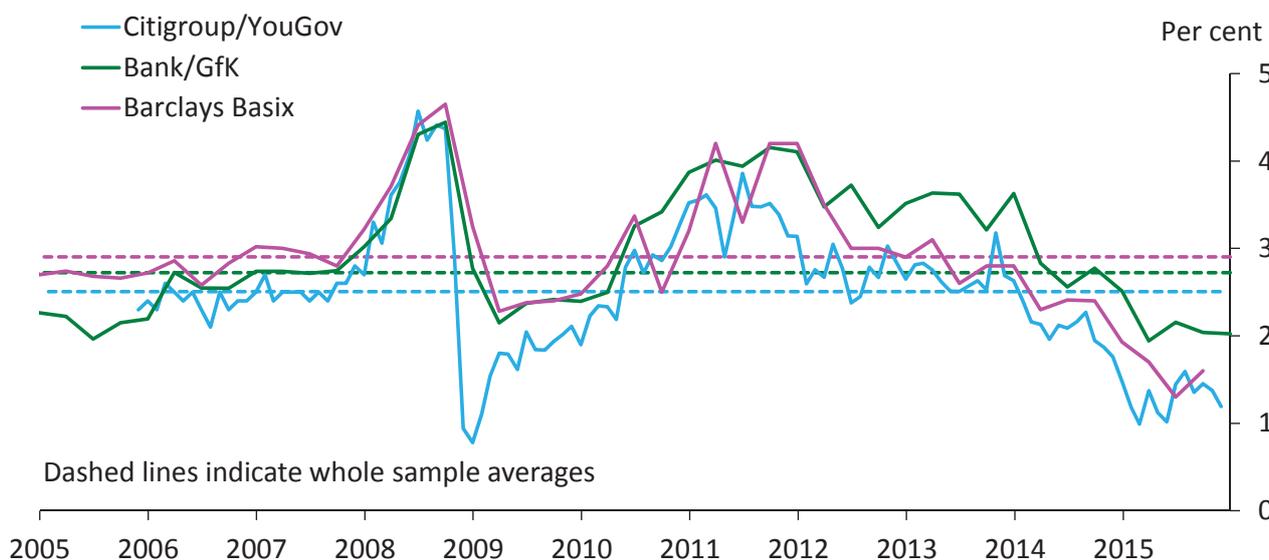
- 2015 has been the strongest year for PNFC net finance since the crisis, with positive loan issuance offsetting somewhat weaker bond issuance
- Growth in the stock of SME lending has now turned positive
- Corporate money continues to grow strongly, but we expect growth to slow next year

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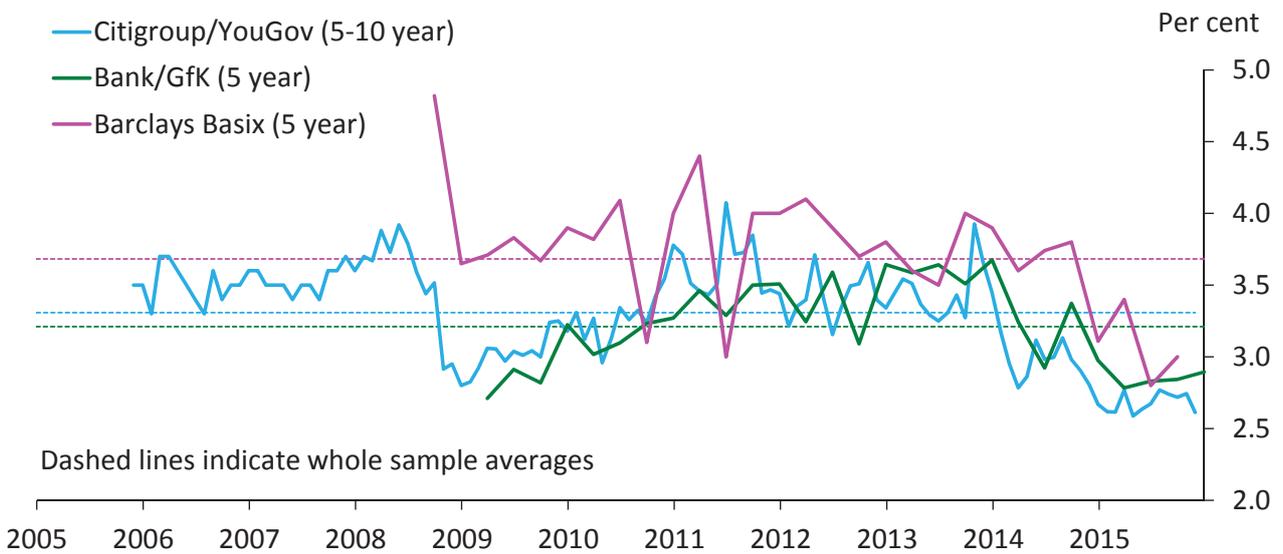
Short-term household inflation expectations remain low...

One-year ahead household inflation expectations

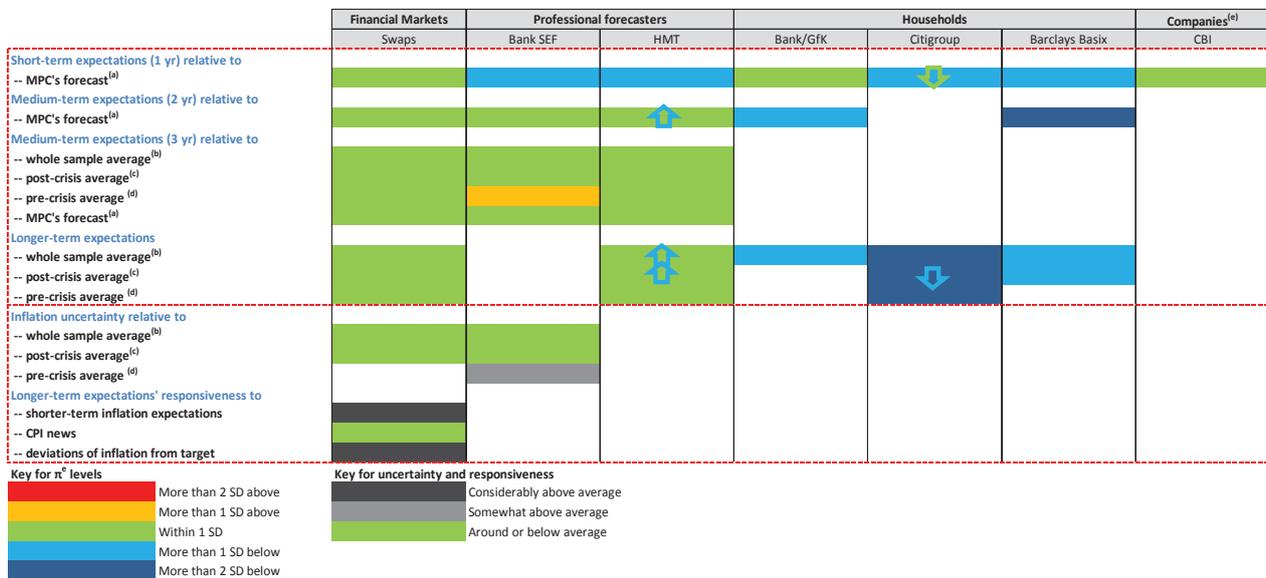


... as do long-term expectations

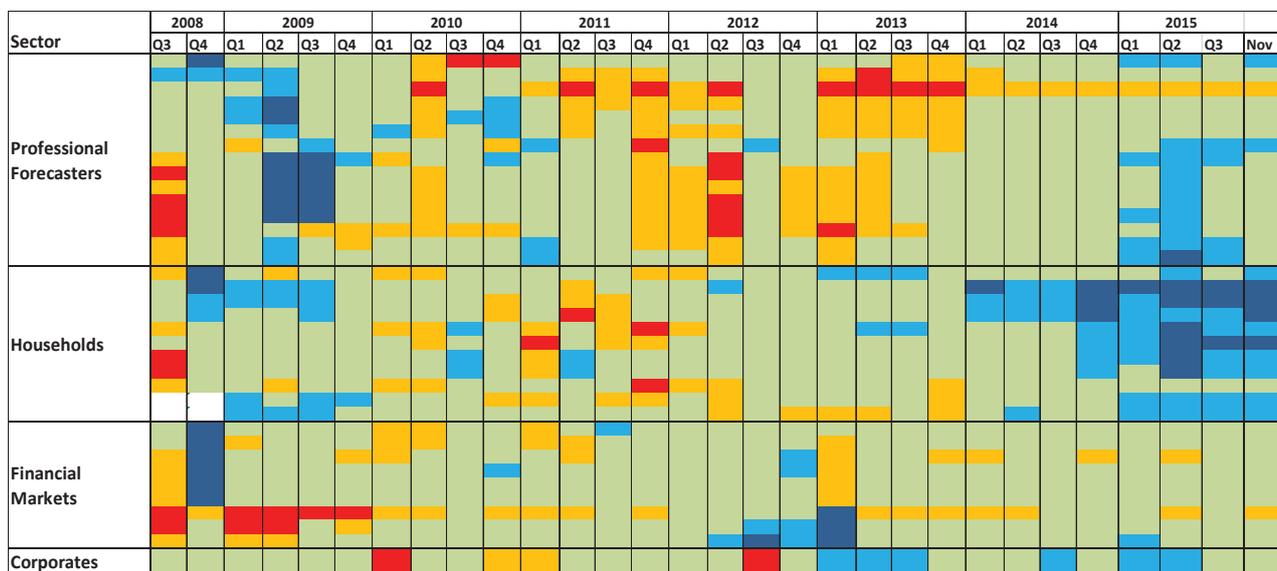
Long-term household inflation expectations



Mixed picture on the month for inflation expectations



Aside from households, heatmap looking more 'normal'



Key messages

- Housing activity and house price inflation have picked up this year
- Secured lending growth expected to pick up, unsecured lending growth expected to flatten off
- Corporate lending growth continues to pick up, some signs that deposit growth might have peaked
- Aside from households, the inflation expectations heatmap looks more normal



3: Global Environment



**Bank of England
International Directorate**

**Global Environment and Risks
December 2015**

Plan

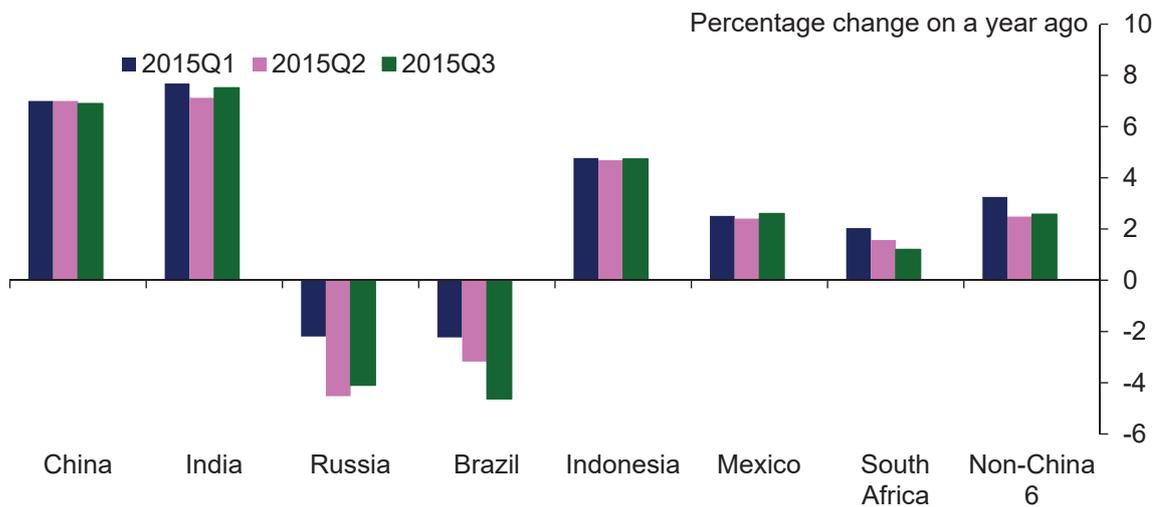


- **How is the emerging market growth slowdown progressing?**
- **How is that shock spilling over to advanced economies?**
- **What factors might explain policy divergence around the globe?**



EMEs

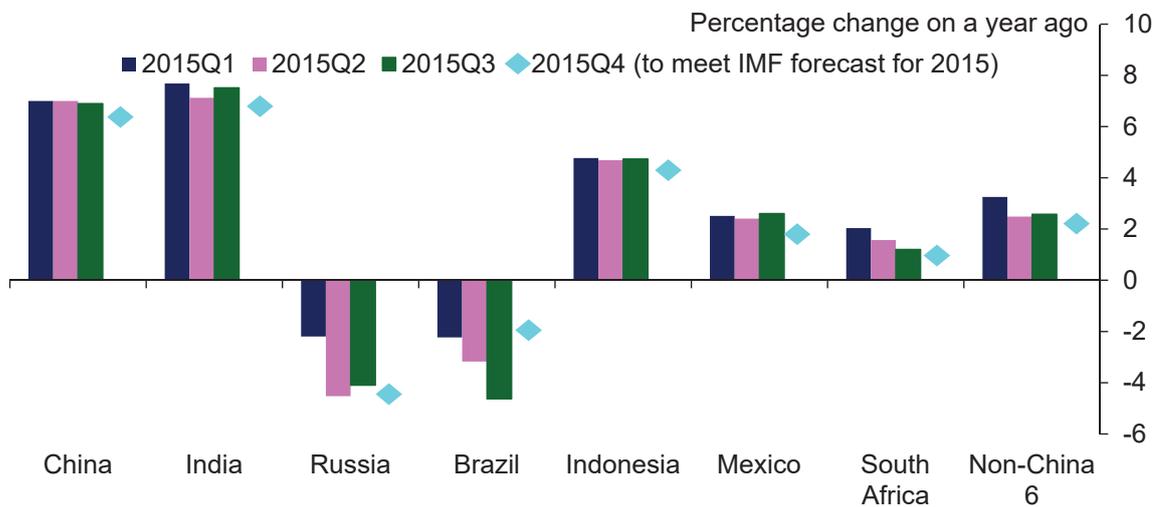
EMEs GDP data



Source: Datastream

- Overall, 4-quarter growth rates were broadly stable in Q3

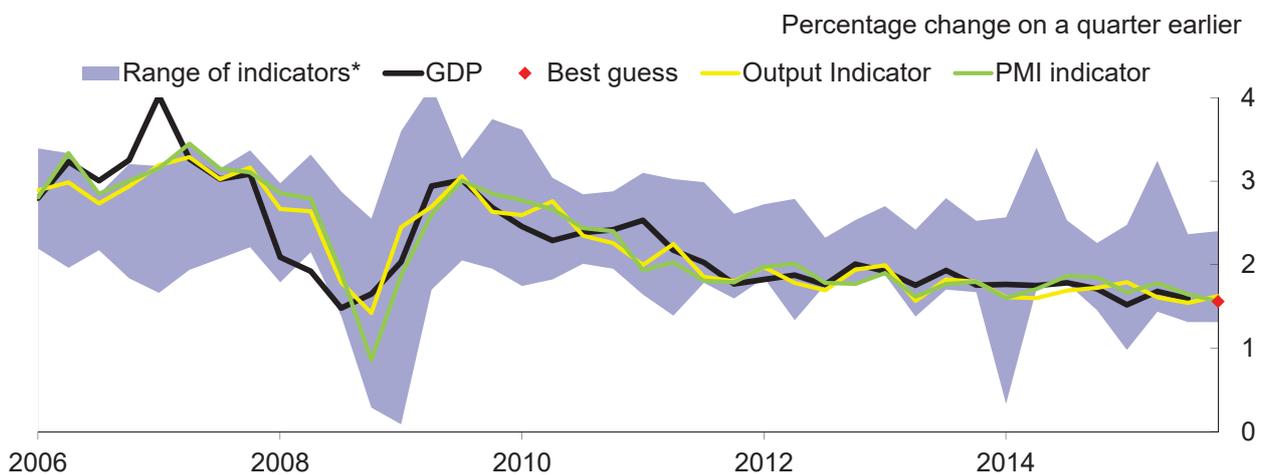
EMEs GDP data



Source: Datastream

- Overall, we'd need to see a slight slowing in growth in Q4 to remain consistent with Nov IR.

China activity swathe



Source: CEIC, OECD, Datastream and Bank calculations

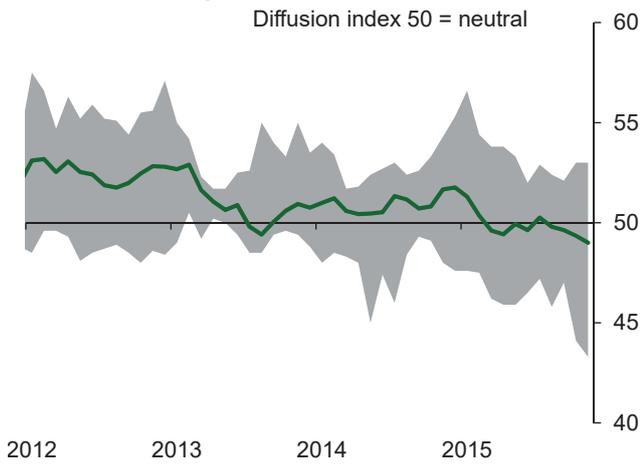
- Overall, we'd need to see a slight slowing in growth in Q4 to remain consistent with Nov IR.

EMEs Manufacturing and Services PMIs



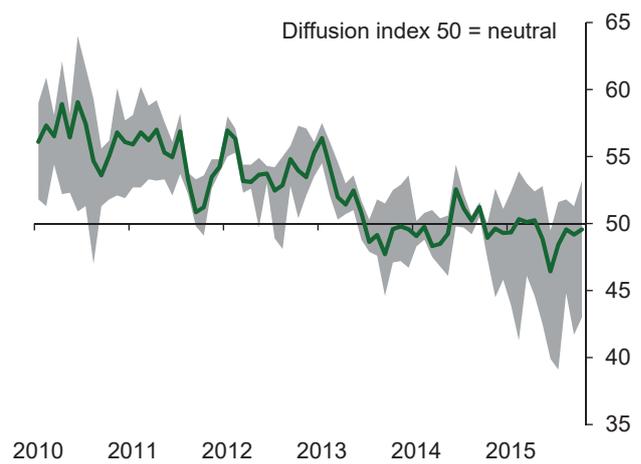
Manufacturing; Non China 7

Diffusion index 50 = neutral



Services; Non China 3

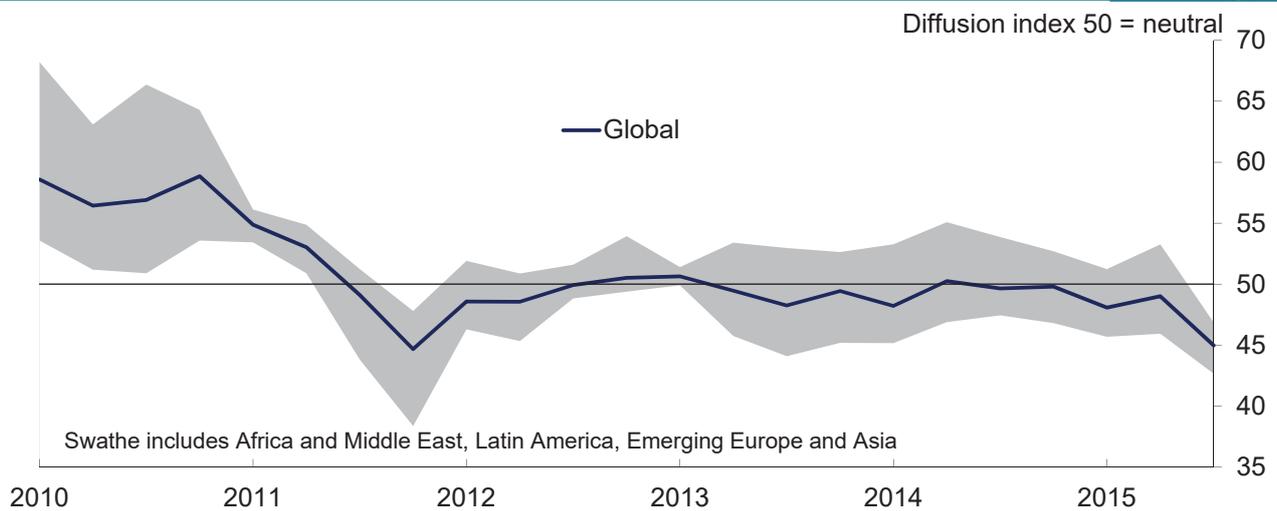
Diffusion index 50 = neutral



Source: Datastream

Non-China 7 includes Brazil, India, Indonesia, Mexico, Russia, South Africa and Turkey, weighted by GDP at PPP
Non-China 3 includes India, Brazil and Russia, weighted by GDP at PPP

EME credit conditions (IIF survey)



Source: IIF

- Broad-based tightening in credit conditions in Q3.

Plan



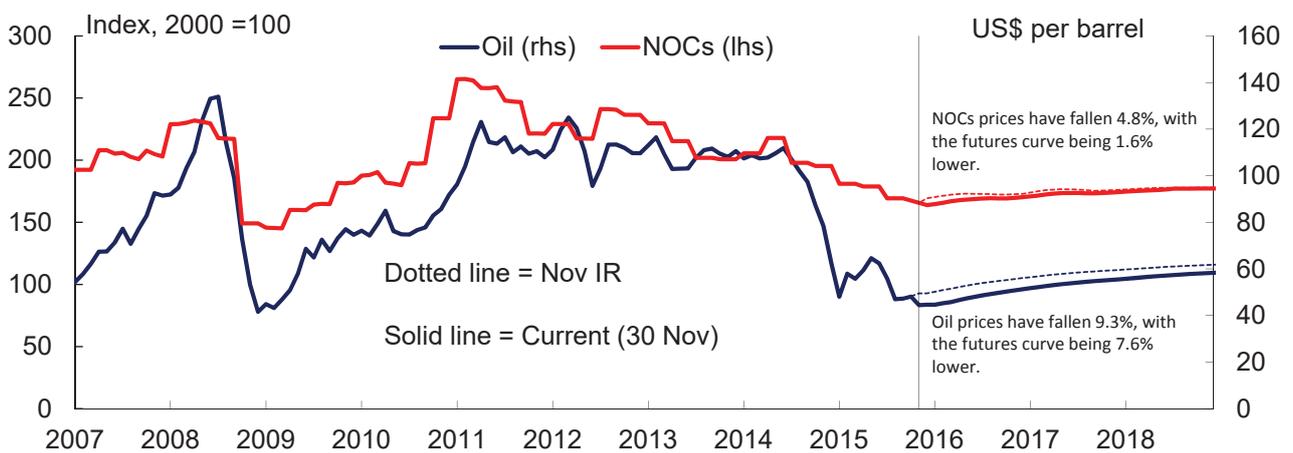
Three themes today:

- **How is the emerging market growth slowdown progressing?**
Growth appears to have stabilised in Q3. But with credit conditions tightening, there is a good chance of a further slowing in Q4 in line with the Nov IR.
- **How is that shock spilling over to advanced economies?**
- **What factors might explain policy divergence around the globe?**



Spillovers from slowing growth in EMEs

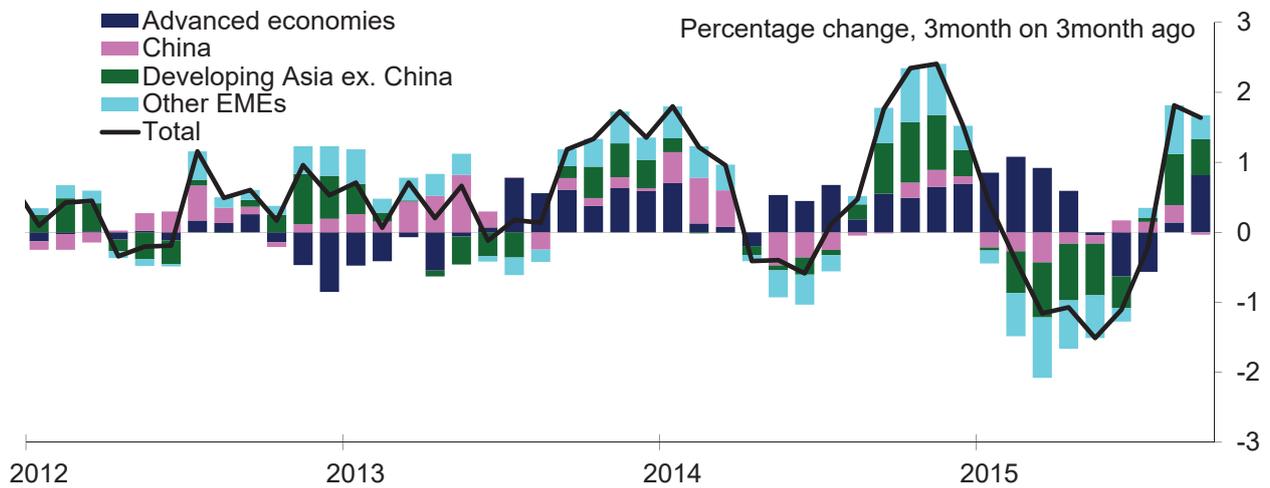
Oil and NOCs futures



Source: Datastream and Bank calculations

- Commodity prices have fallen further, driven by sluggish adjustment to supply.

3-month growth in world trade



Source: CPB, CEIC, Bank calculations

- Some of the weakness in world trade in first half looks to have unwound in Q3.

Exposure to slowdown in EME growth



Table of advance economy trade exposure to EMEs

	Exports to EMEs, % of GDP					
	Total	Latam	CIS (Russia)	MENA and SSA	Eastern Europe	Asia
UK	7.0%	0.8%	0.4%	2.3%	1.1%	2.4%
Euro Area	14.0%	2.7%	1.3%	1.8%	5.3%	3.0%
US	5.0%	2.9%	0.1%	0.3%	0.2%	1.6%
GDP News*		-9.0%	-7.0%	-5.6%	-2.1%	-1.2%

Source: National accounts, UK Pink Book, and Bank calculations

* Levels news to end 2018 since Nov 2014 IR

- Euro-area most exposed to slowing in EMEs.

Plan



- **How is the emerging market growth slowdown progressing?**
Growth appears to have stabilised in Q3. But with credit conditions tightening, there is a good chance of a further slowing in Q4 in line with the Nov IR.
- **How is that shock spilling over to advanced economies?**
Trade growth looks also to have stabilised in Q3. Commodity prices have fallen further, driven by sluggish adjustment in supply. EA most exposed to EME trade.
- **What factors might explain policy divergence around the globe?**

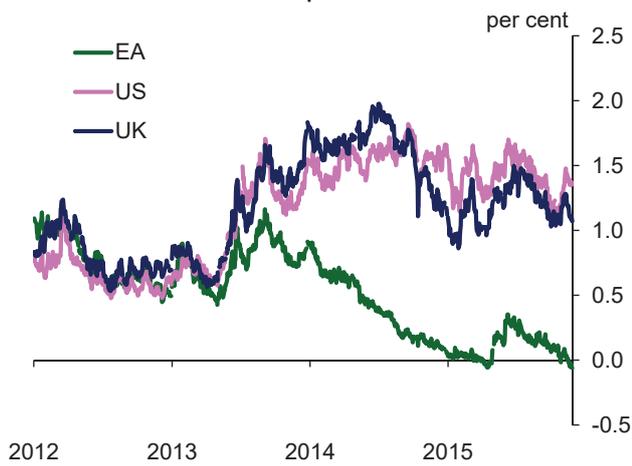


Advanced economies

Advanced economy policy divergence

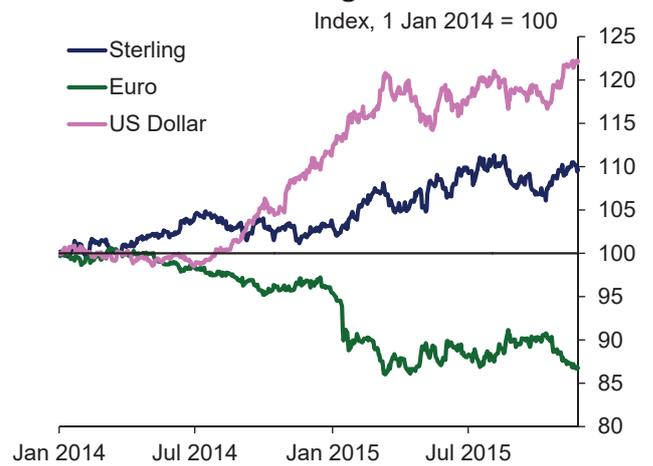


Five-Year Spot OIS Rate



Source: FAME

Effective Exchange Rate Index



Source: Bank calculations

- Monetary conditions have diverged recently.

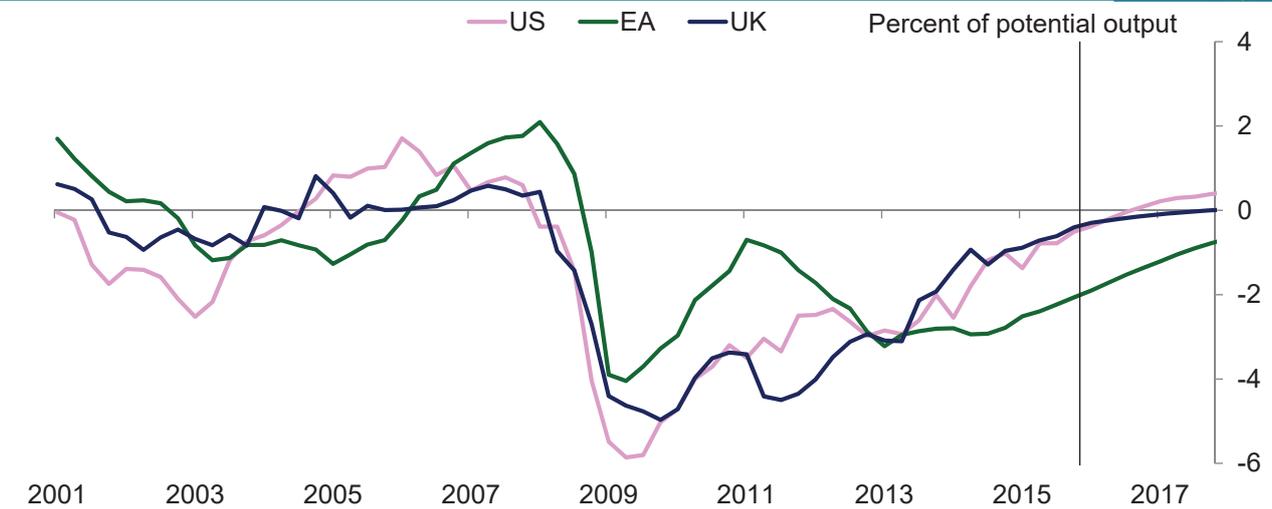
Factors shaping policy divergence



Spare capacity and domestically generated inflation

Headwinds to growth

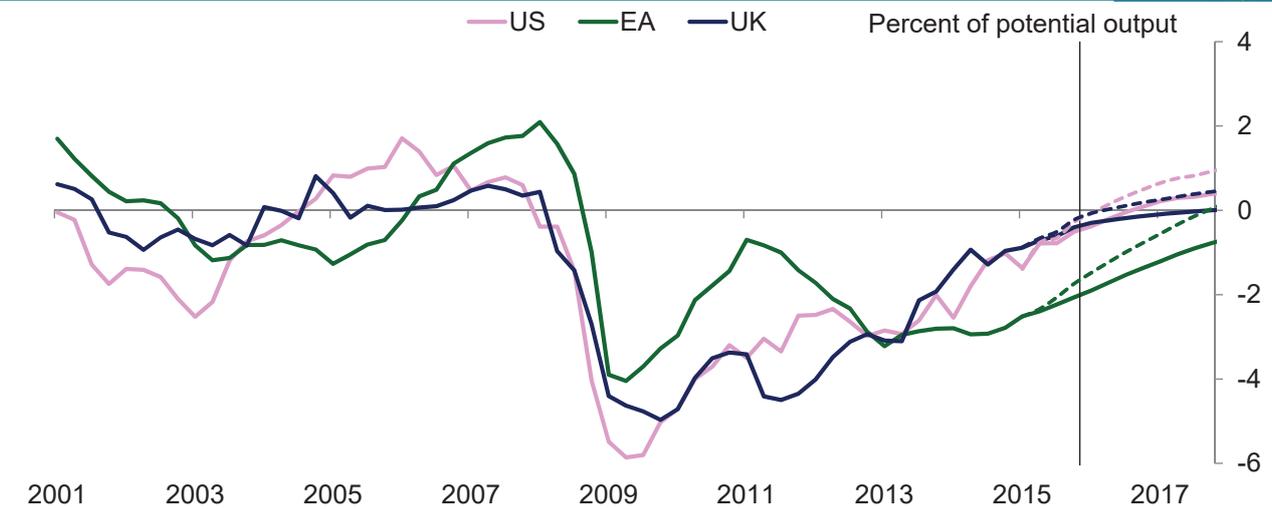
Advanced Economies Output Gaps



Source: Bank calculations

- Substantially greater margin of spare capacity in the Euro-area.

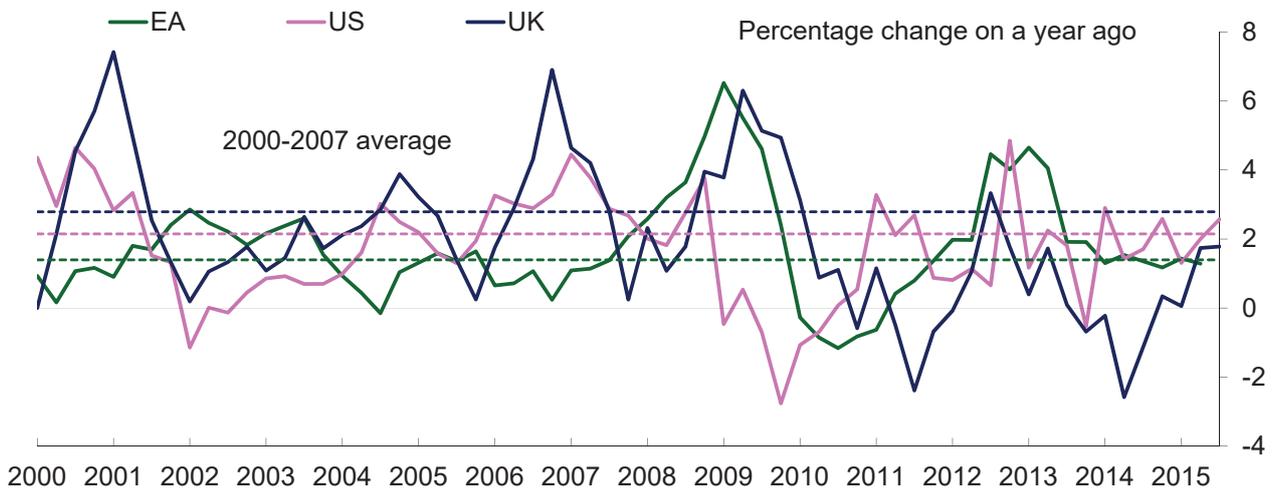
Advanced Economies Output Gaps



Source: Bank calculations

- Substantially greater margin of spare capacity in the Euro-area, driven in part by EME shock.

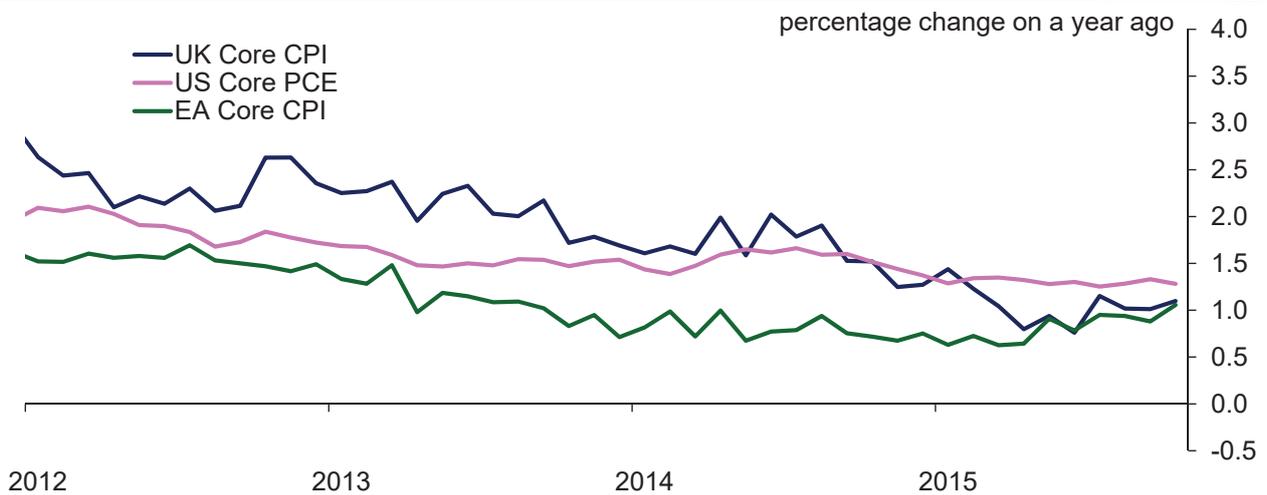
Advanced Economies ULCs



Source: Datastream and ONS

- US and EA ULC growth in line with historic averages. UK picking up but below average.

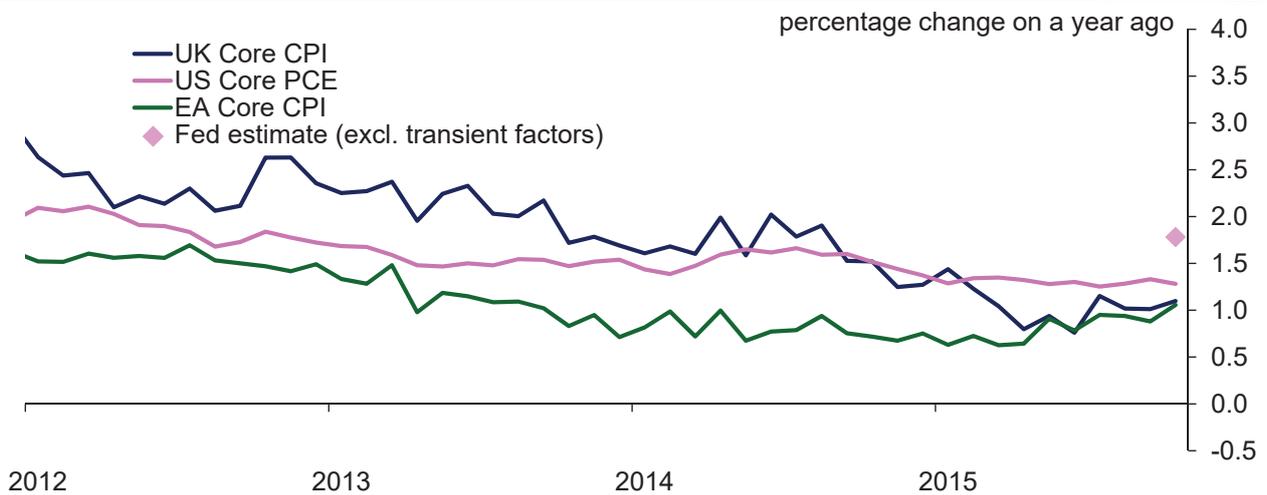
Advanced Economies Core Inflation



Source: Datastream Core CPI (for UK and EA) excludes energy, food, alcohol and tobacco; core PCE (for US) excludes energy and food

- Core inflation a touch stronger in the US.

Advanced Economies Core Inflation



Source: Datastream Core CPI (for UK and EA) excludes energy, food, alcohol and tobacco; core PCE (for US) excludes energy and food

- ... particularly when one accounts for transient factors.

Factors shaping policy divergence

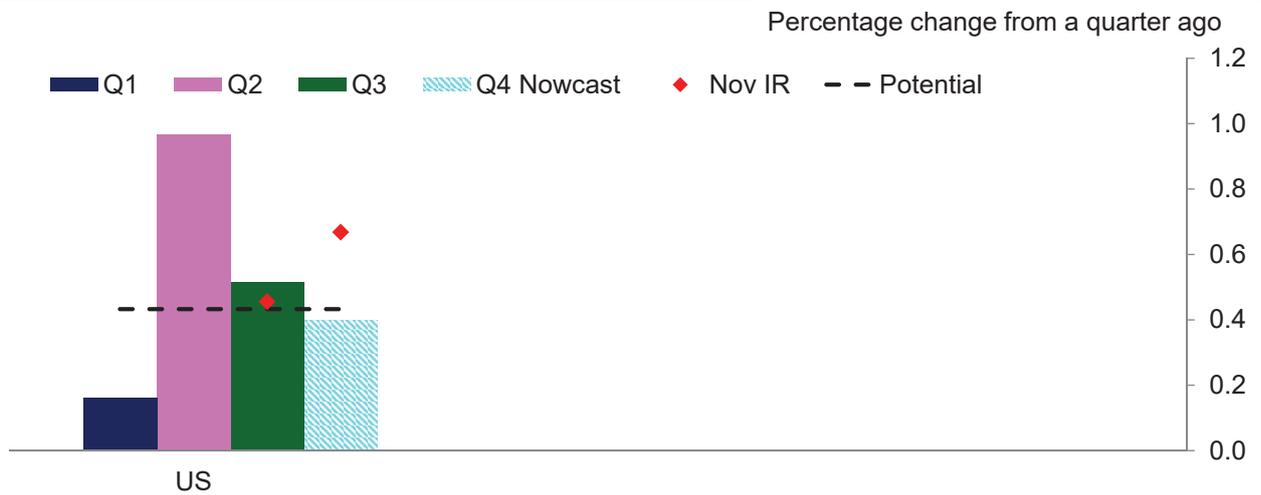


Spare capacity and domestically generated inflation

- €A output gap four times that in US/UK. Domestic cost growth correspondingly more subdued.
- US and UK in the same place on output gap. Domestic cost growth perhaps a touch higher in the US.

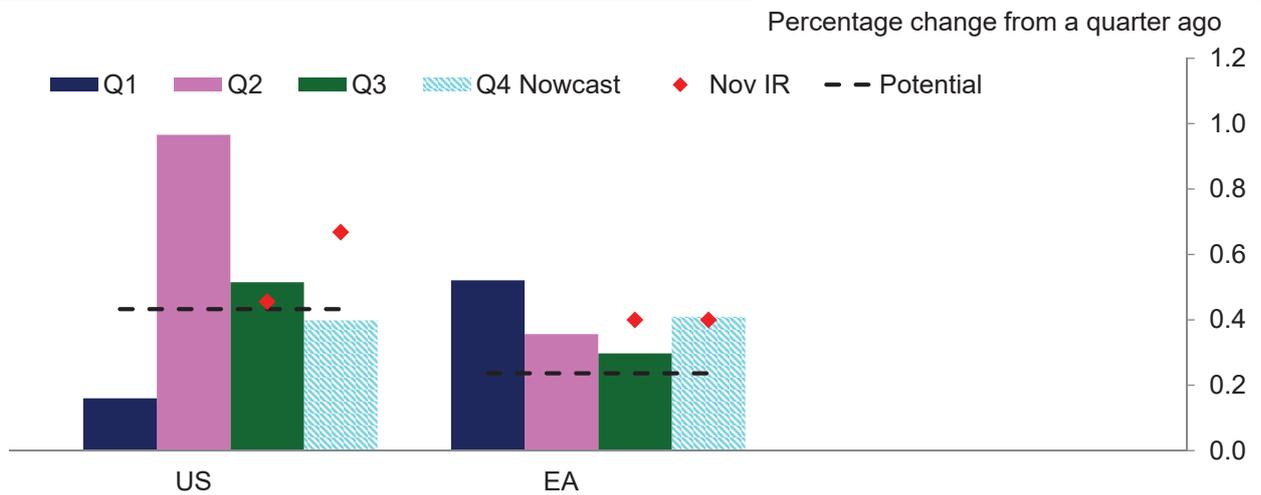
Headwinds to growth

Advanced economies GDP outturns



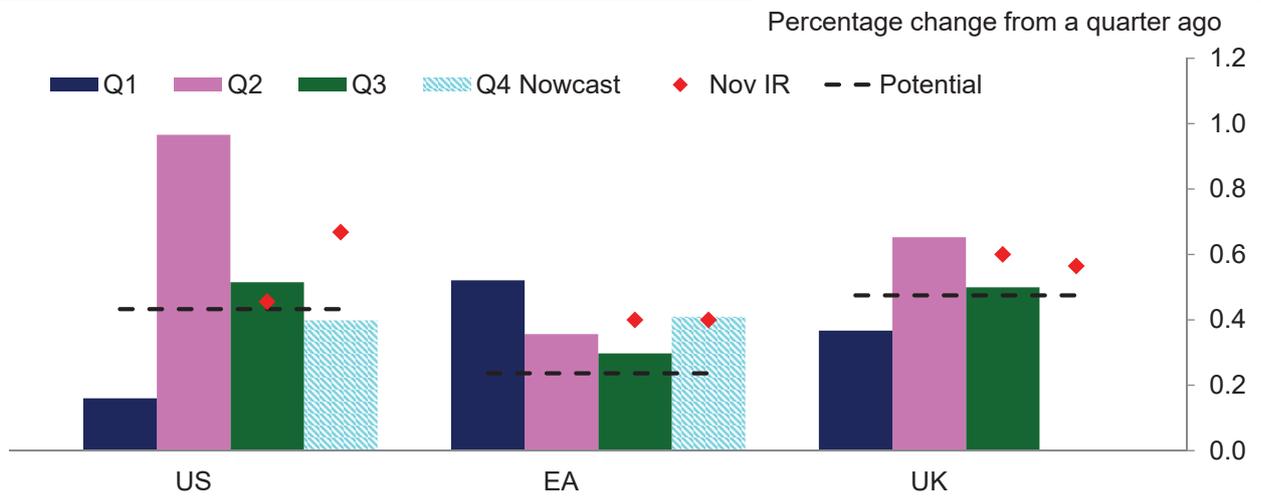
Source: Datastream and Bank Calculations

Advanced economies GDP outturns



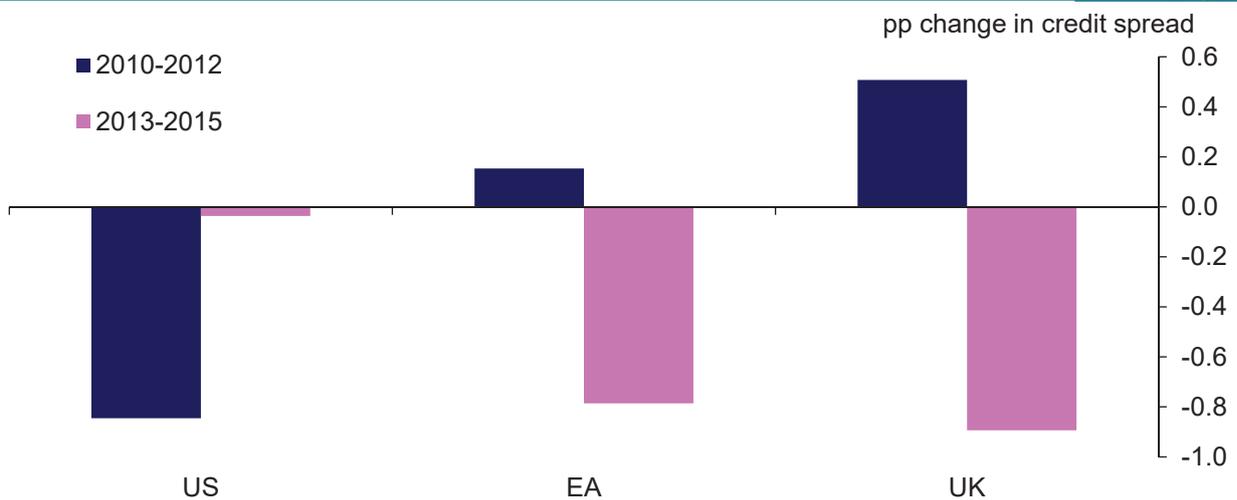
Source: Datastream and Bank Calculations

Advanced economies GDP outturns



Source: Datastream and Bank Calculations

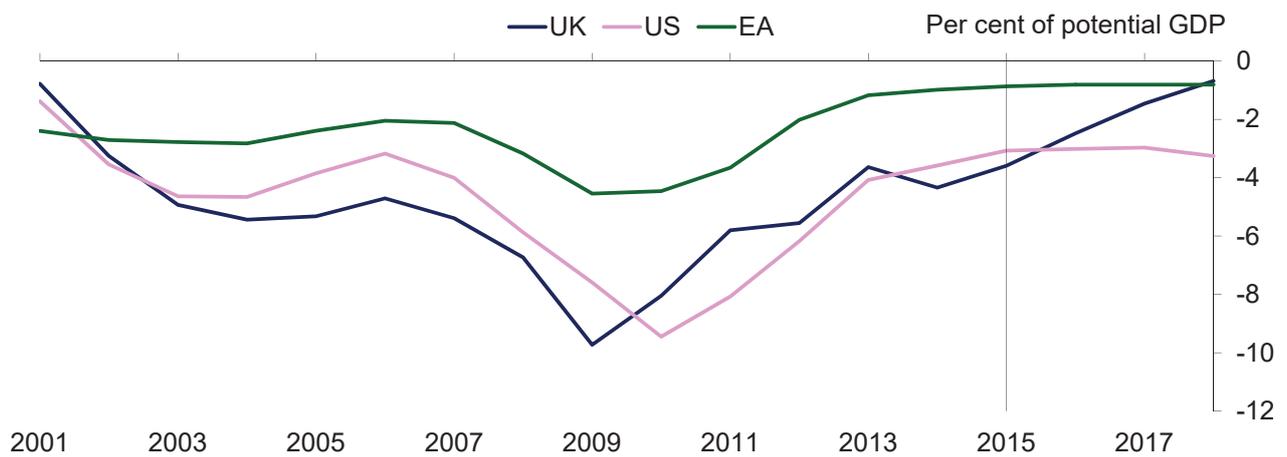
Advanced Economy Credit Spreads



Source: Datastream, ECB, St Louis Fed and Bank calculations.

- The tailwinds from easing credit conditions came earlier in the US.

Fiscal – structural balance



Source: IMF WEO

- UK had the fastest pace of tightening in 2015 and that is set to continue over the forecast.

Effect of Paris attacks and geopolitics



- We have only limited data, but so far there are few signs of a significant macroeconomic impact from the attacks in Paris on 13 November.
- The French PMI survey mainly carried out after 13 November showed the services measure falling slightly. But the move wasn't particularly large in the context of a relatively volatile series.
- Financial markets similarly have shown little sustained impact beyond the first week after the attack. Reports from the FCO suggest significant declines in turnover for hotels, restaurants and bars in the immediate aftermath of the attacks.
- Experience from previous similar events suggest little impact in the medium term
- But this time may be different. Events in Brussels, continued political difficulties in the EU, and heightened geopolitical tensions between Turkey and Russia could well lead to a larger and more sustained impact.

Factors shaping policy divergence



Spare capacity and domestically generated inflation

- €A output gap four times that in US/UK. Domestic cost growth correspondingly more subdued.
- US and UK in the same place on output gap. Domestic cost growth perhaps a touch higher in the US.

Headwinds to growth

- Euro-area most exposed to the EME shock.
- US had their tailwind from easing credit earlier than in the €A and the UK, so underlying growth has been stronger there recently.
- Unlike the €A and US, the UK will have to deal with an ongoing fiscal tightening over the forecast period.
- Little evidence of a growth impact from Paris as of yet, but events still unfolding.

Summary



- **How is the emerging market growth slowdown progressing?**
Growth appears to have stabilised in Q3. But with credit conditions tightening, there is a good chance of a further slowing in Q4 in line with the Nov IR.
- **How is that shock spilling over to advanced economies?**
Trade growth looks also to have stabilised in Q3. Commodity prices have fallen further, driven by sluggish adjustment in supply. EA most exposed to EME trade.
- **What factors might explain policy divergence around the globe?**
ECB easing explicable by large output gap, weak core infl. and exposure to EMEs.
For US, output gap all but closed and ULCs are close to average (though core weak)
Fiscal headwinds mark the UK out has different from the US.



End



4: Demand and Output

Demand and Output

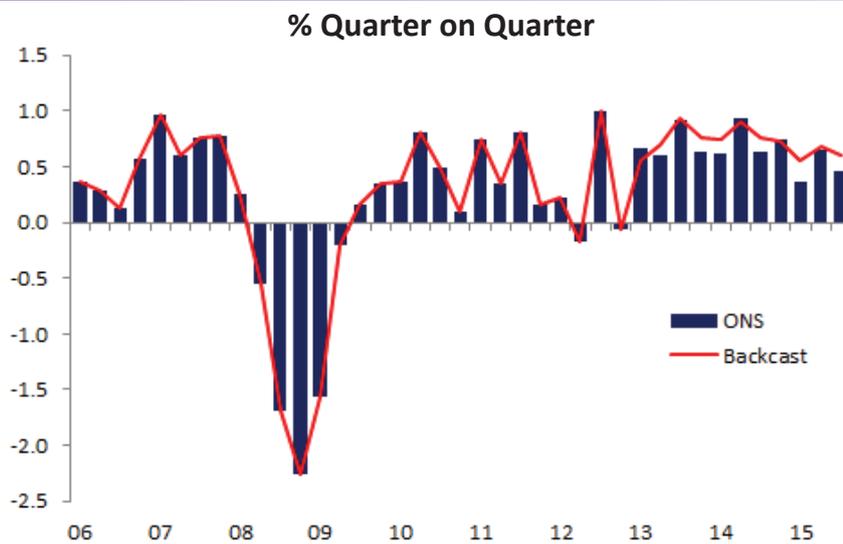
December 2015

CAPD and SEAD

Outline

- 1) Q3 GDP and near-term outlook update
- 2) The Autumn Statement and Spending Review

Real GDP growth



- Q3 unrevised at 0.5%. Backcast still 0.6%.

Expenditure components

	<u>GDP 2nd release</u>	<u>Nov IR</u>	<u>Contribution to error</u>
	%	%	pp
GDP	0.5	0.6*	-
Private consumption	0.7	0.8	0.0
Total Investment	1.8	1.3	0.1
<i>o/w business</i>	2.2	1.2	0.1
<i>o/w housing</i>	-0.5	2.3	-0.1
<i>o/w government</i>	4.5	0.0	0.1
Government consumption	1.3	0.0	0.3
Net trade**	-1.5	-1.2	-0.2
Stockbuilding & Align adj**	0.9	1.0	-0.1

*Backcast

**Contribution to GDP growth

- Expenditure components generally close to Nov 15 IR forecasts

Expenditure components

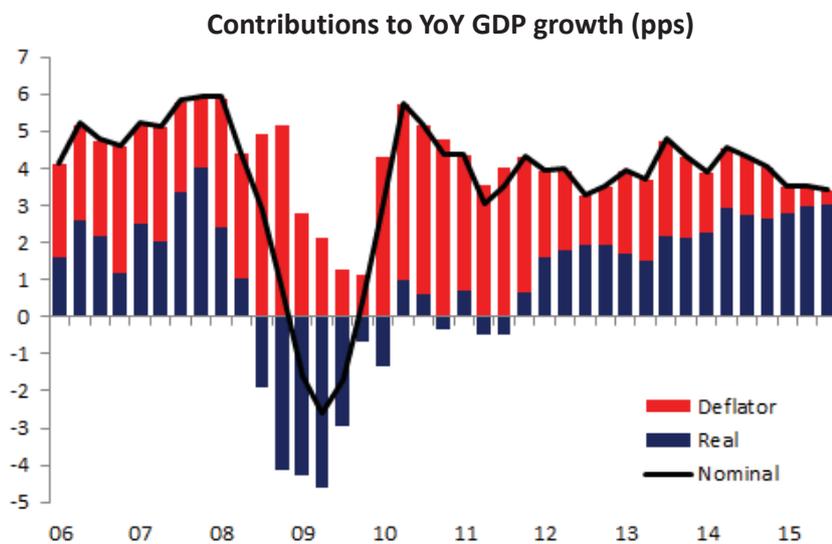
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*Backcast

**Contribution to GDP growth

- Private consumption pulled down by non-profit sector.

Consumer spending



- Real consumer spending remains robust, nominal growth has slowed

Expenditure components

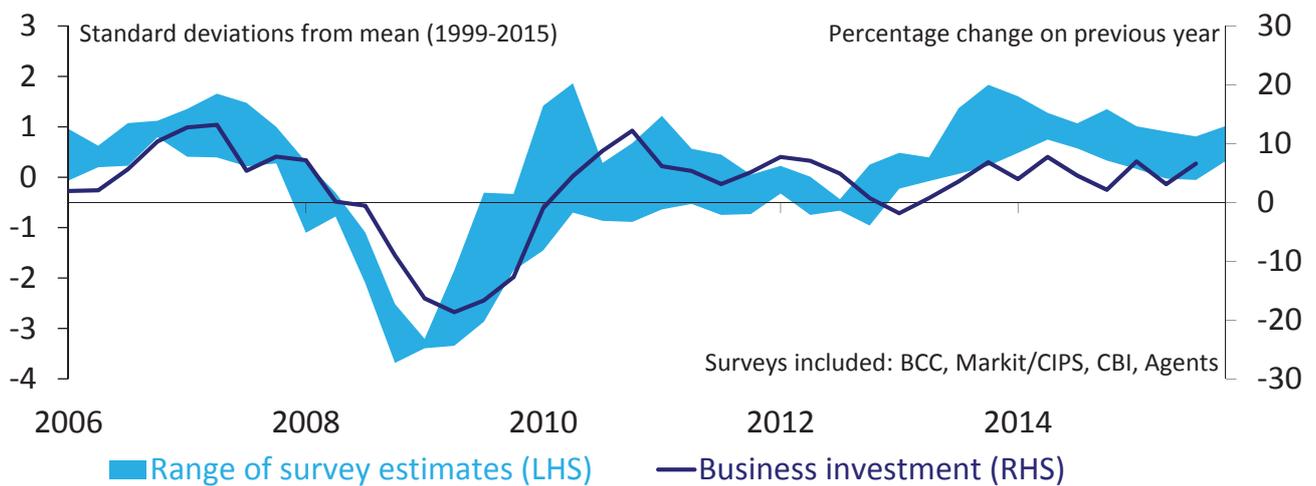
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*Backcast

**Contribution to GDP growth

Business investment

CARE: Data are market sensitive and confidential until 3rd December.



- Business investment intentions remain robust

Expenditure components

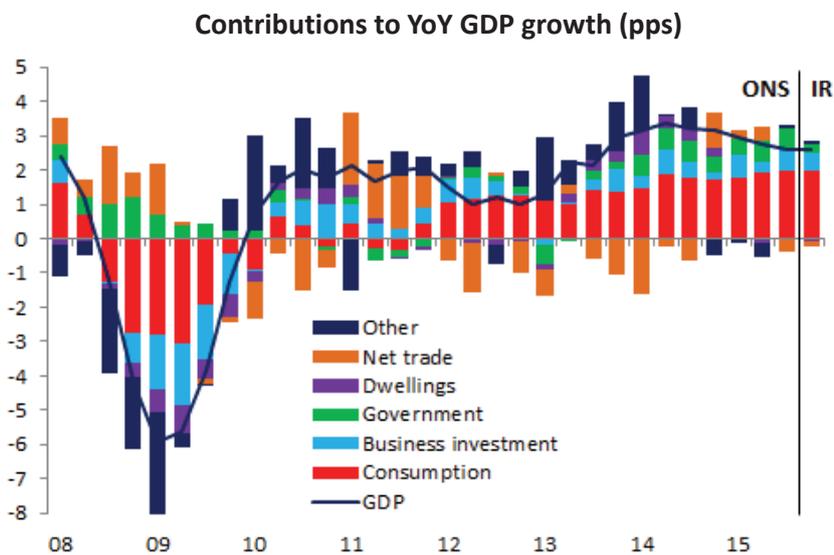
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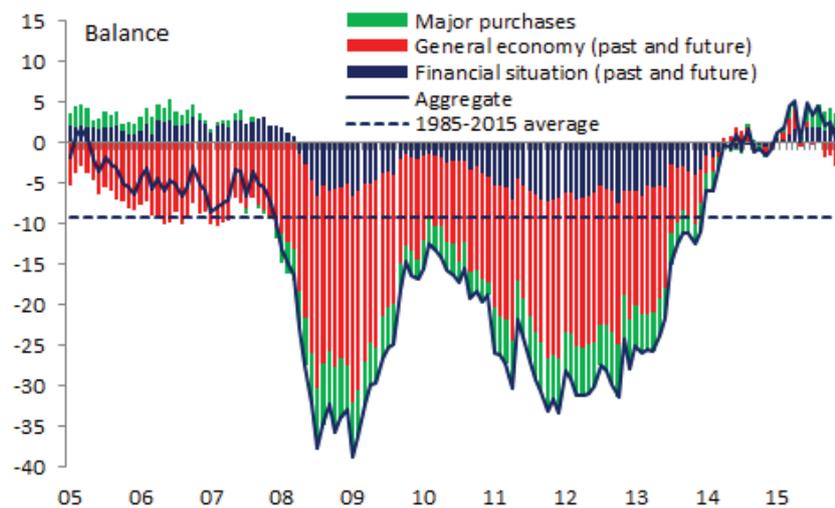
**Contribution to GDP growth

- Trade data to be revised on 10th December.

November IR narrative unchanged

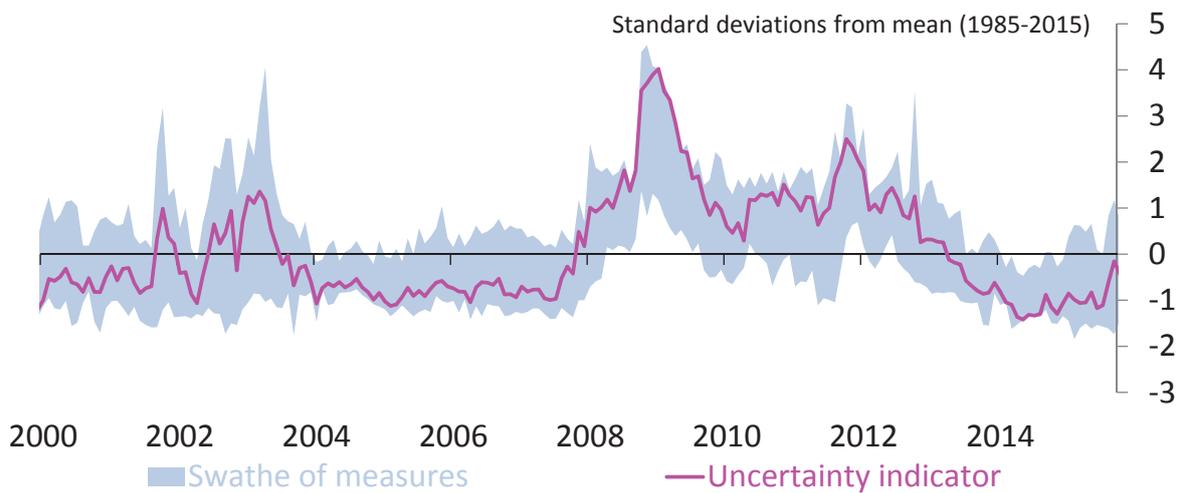


Consumer confidence



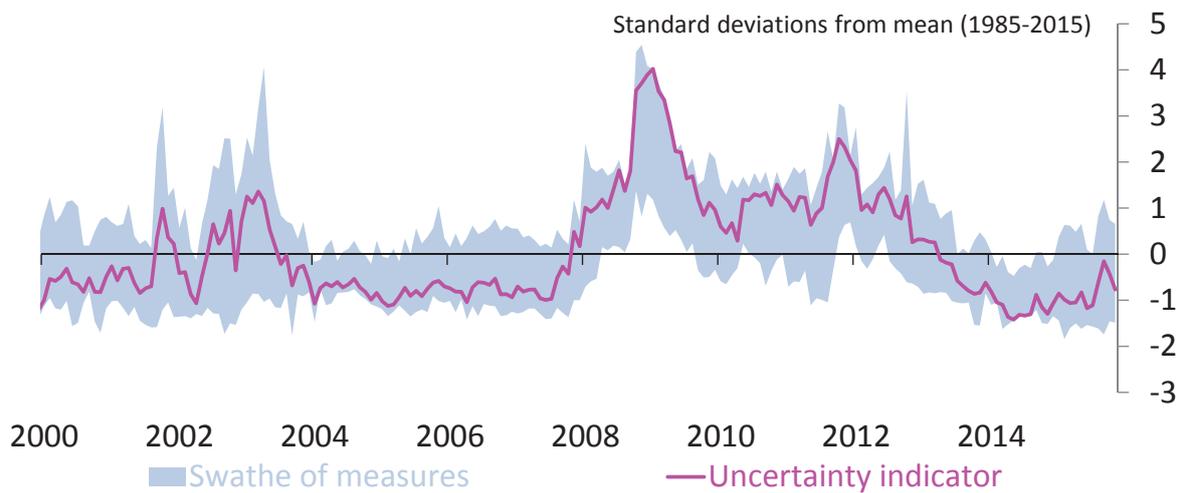
- Sample largely pre-dates Paris attacks.

Broader uncertainties since Aug IR



- Nov IR judgement: greater uncertainty to lower GDP level 0.1% in yrs 1 & 2.

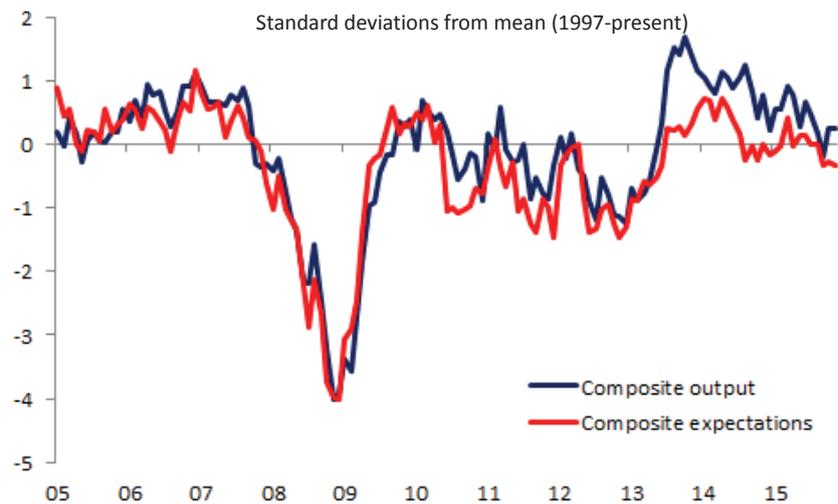
Broader uncertainties since Aug IR



- Uncertainty indicator fell back in November

Markit/CIPS output and expectations composite

CARE: Data are market sensitive and confidential until 3rd December.

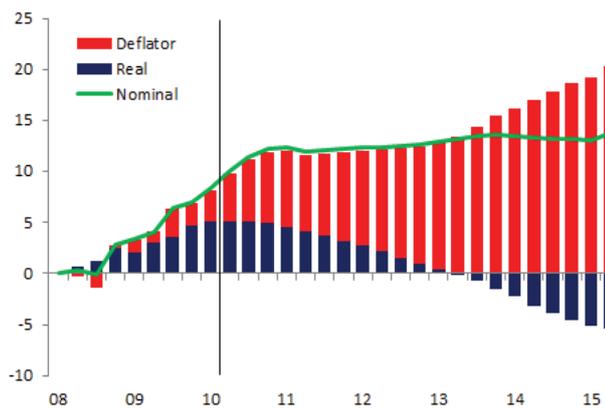


- No change to Q4 nowcast from Nov IR: 0.6%.

OBR Government consumption forecasts

% change since 2008Q1

2010 June Budget

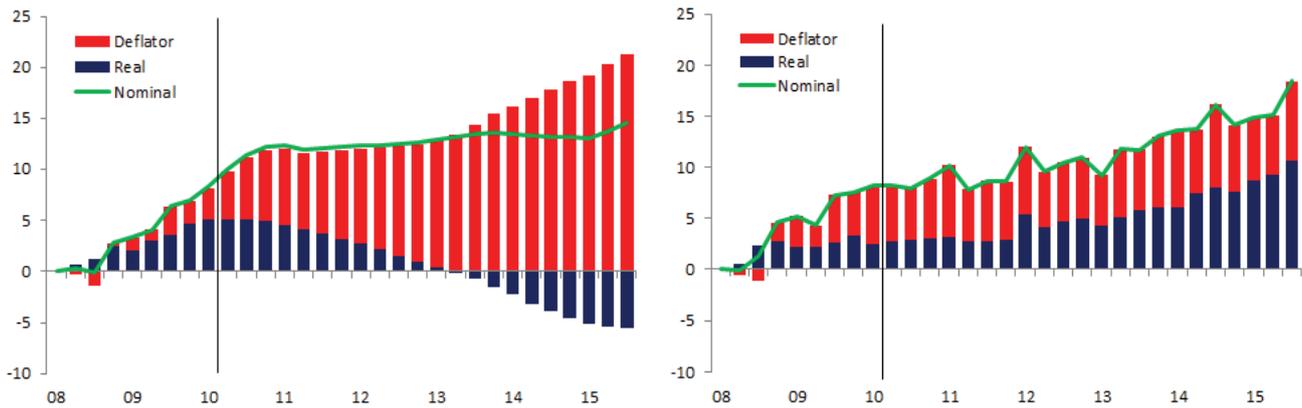


OBR Government consumption forecasts

% change since 2008Q1

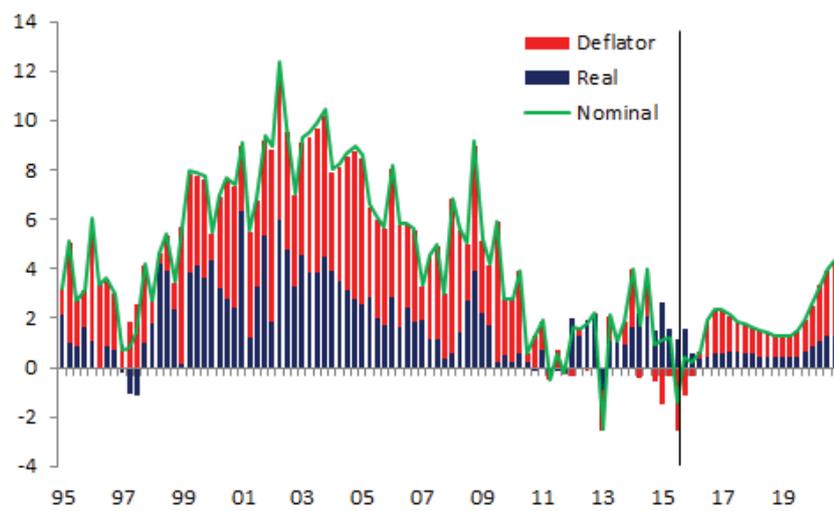
2010 June Budget

Latest



OBR Autumn Statement forecasts

Government consumption: % change on year earlier



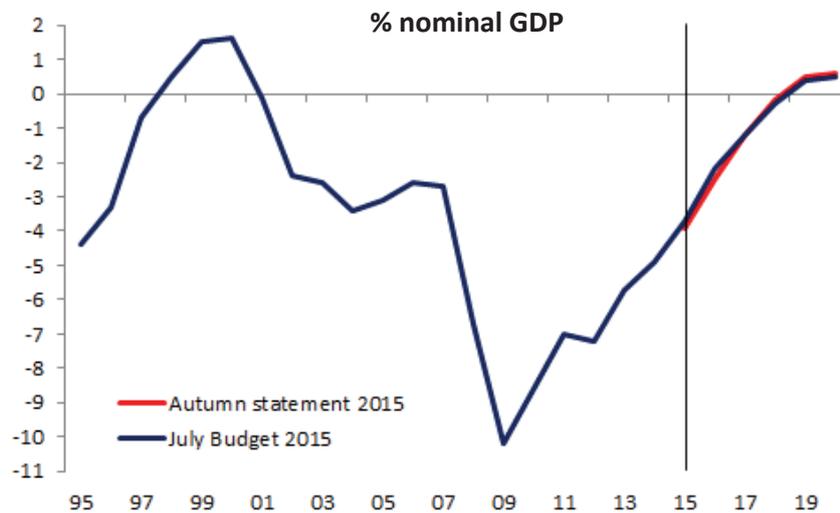
Outline

- 1) Q3 GDP and near-term outlook update
- 2) The Autumn Statement and Spending Review

Public Sector Net Borrowing

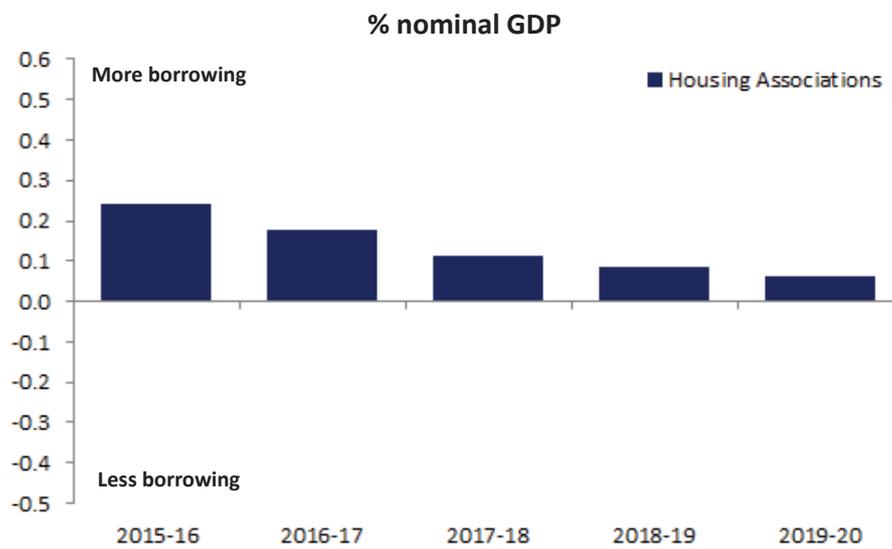


Public Sector Net Borrowing

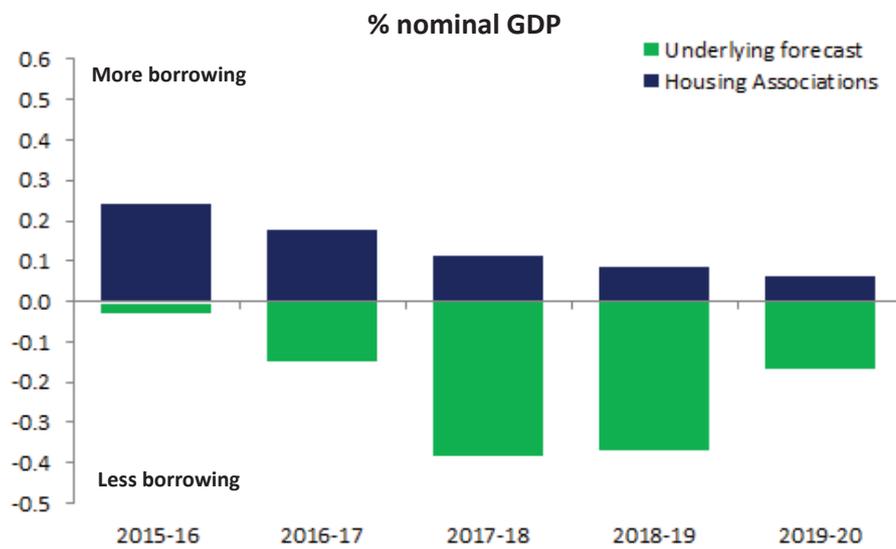


- Small overall changes. Larger offsetting changes within the detail.

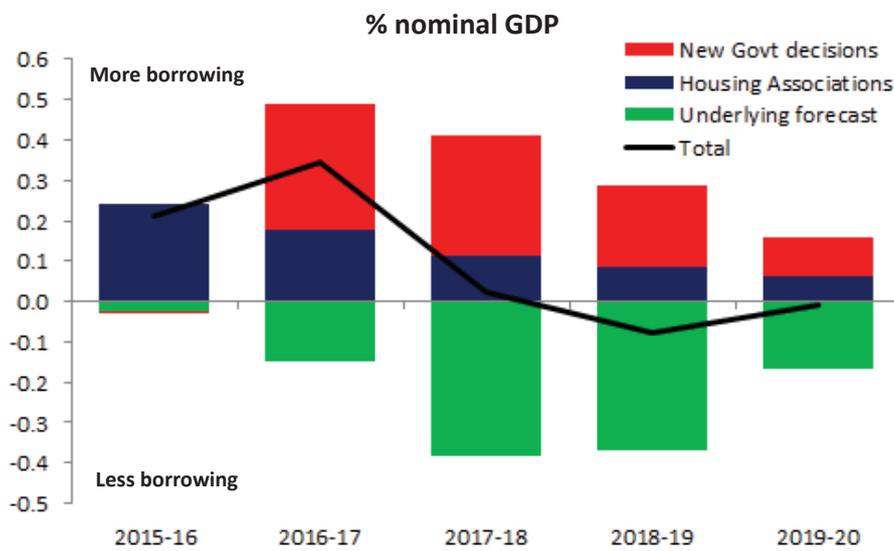
Changes to PSNB



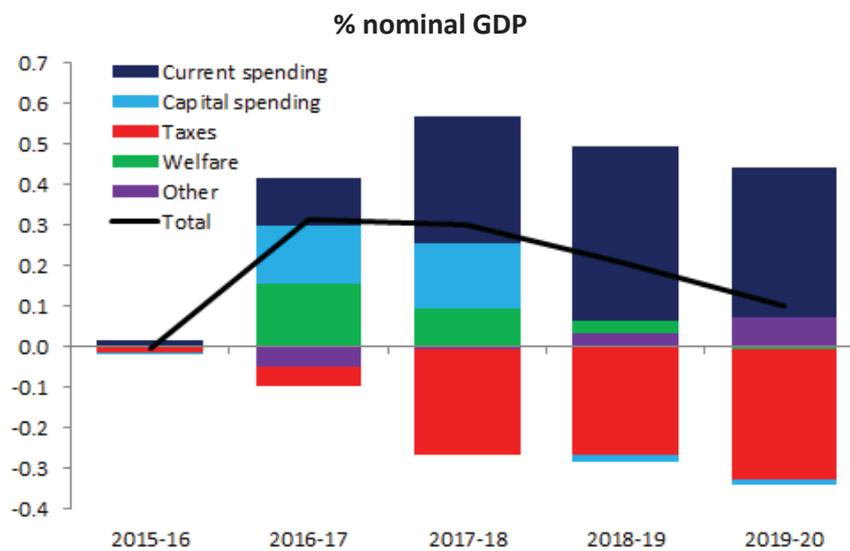
Changes to PSNB



Changes to PSNB

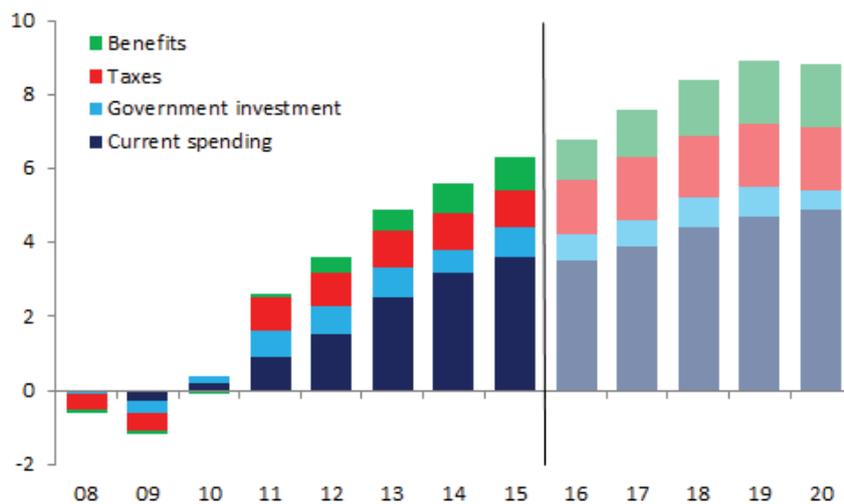


New discretionary fiscal measures



Total discretionary fiscal tightening plans

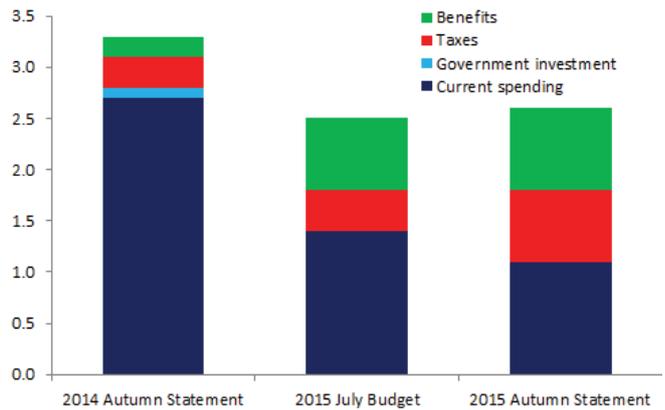
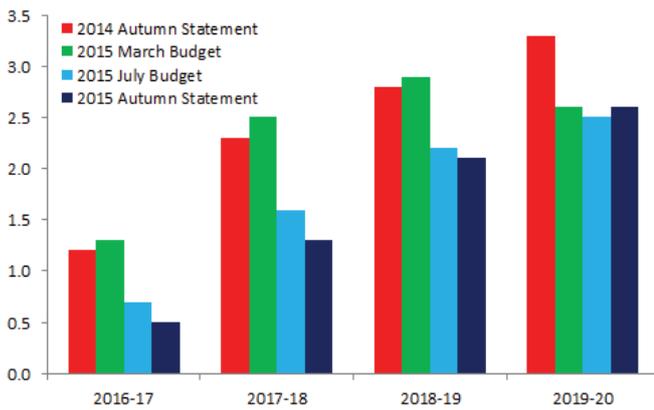
Cumulative IFS-measures fiscal tightening since Budget 2008 (% GDP, fiscal years)



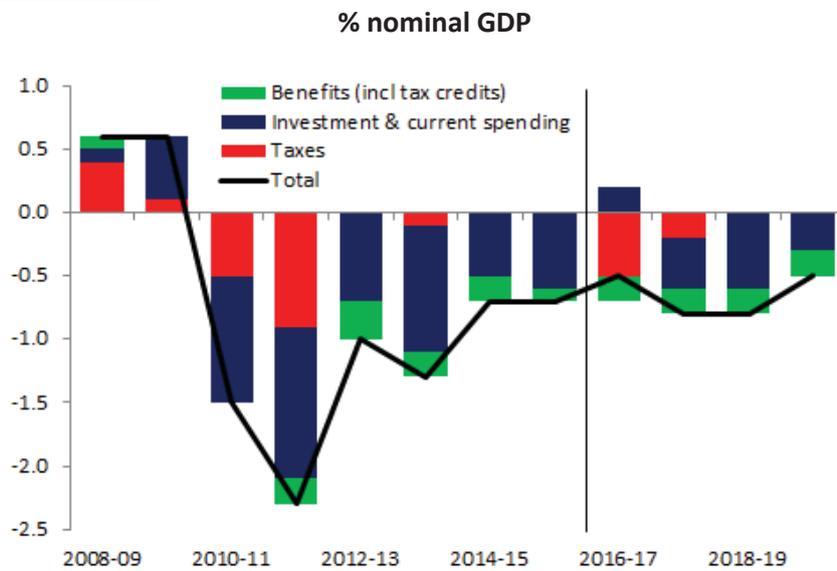
Discretionary tightening ahead

IFS-measures tightening from 2015-16 (% GDP)

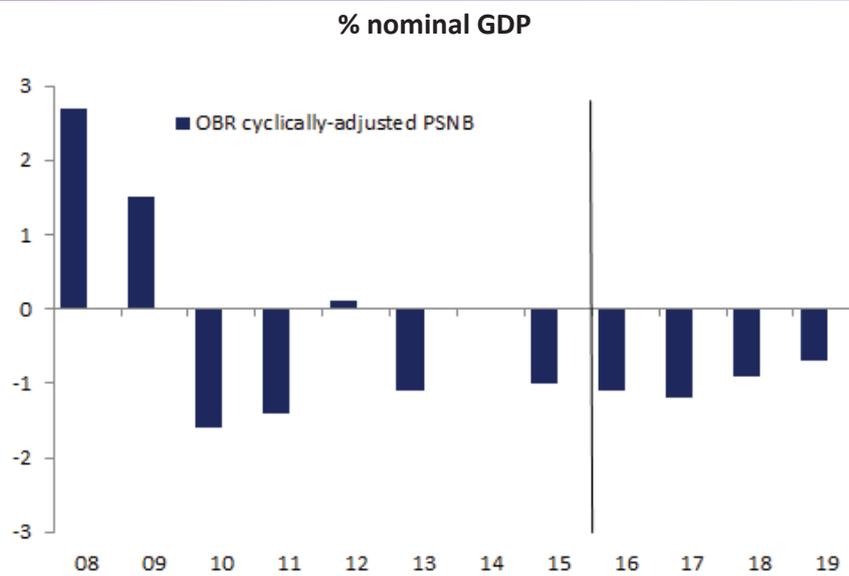
IFS-measures tightening from 2015-16 (% GDP)



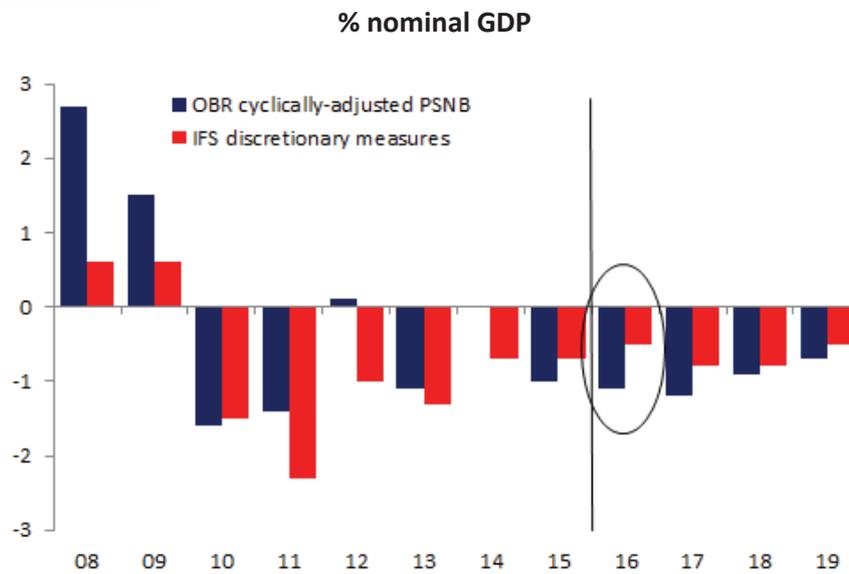
Total IFS discretionary fiscal tightening



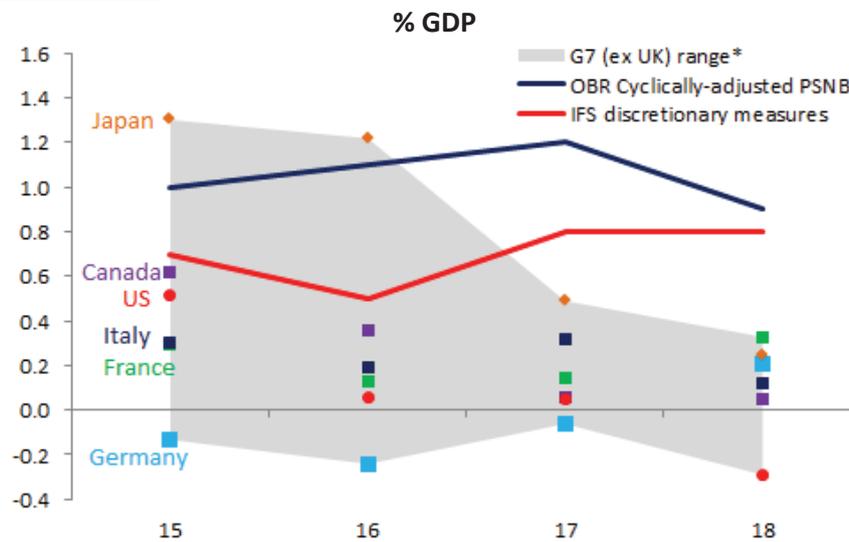
Measures of discretionary tightening



Measures of discretionary tightening



UK vs other G7 discretionary fiscal tightening



*Change in IMF structural fiscal deficit for non-UK G7.

Key messages

- 1) Q3 unrevised at 0.5%, Q4 nowcast still 0.6%
- 2) Little news in near-term GDP outlook
- 3) Small near-term fiscal stimulus in Autumn Statement

END



5: NMG Survey

Pre-MPC Special Topic: Results from the latest NMG survey

2 December 2015

Outline

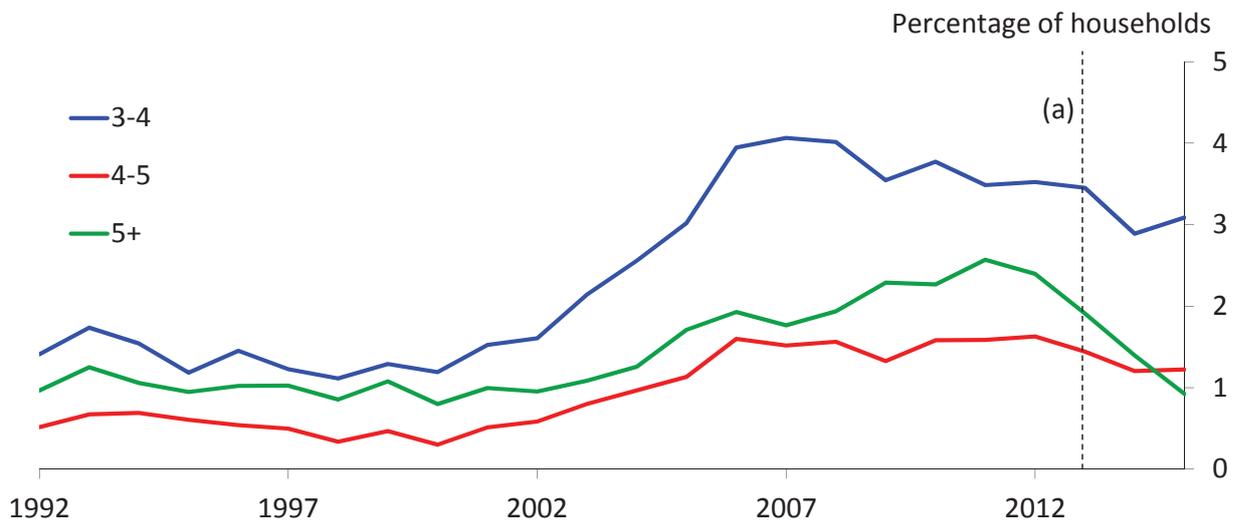
- Update on the distribution of households' balance sheets
- Impact of higher interest rates
- Implications of further fiscal consolidation

The NMG Survey

- The NMG survey is a household survey carried out by NMG Consulting on behalf the Bank
- The latest survey was carried out between 2 and 22 September 2015 and covered 6000 households
- See  for write-up of results

Distribution of balance sheets

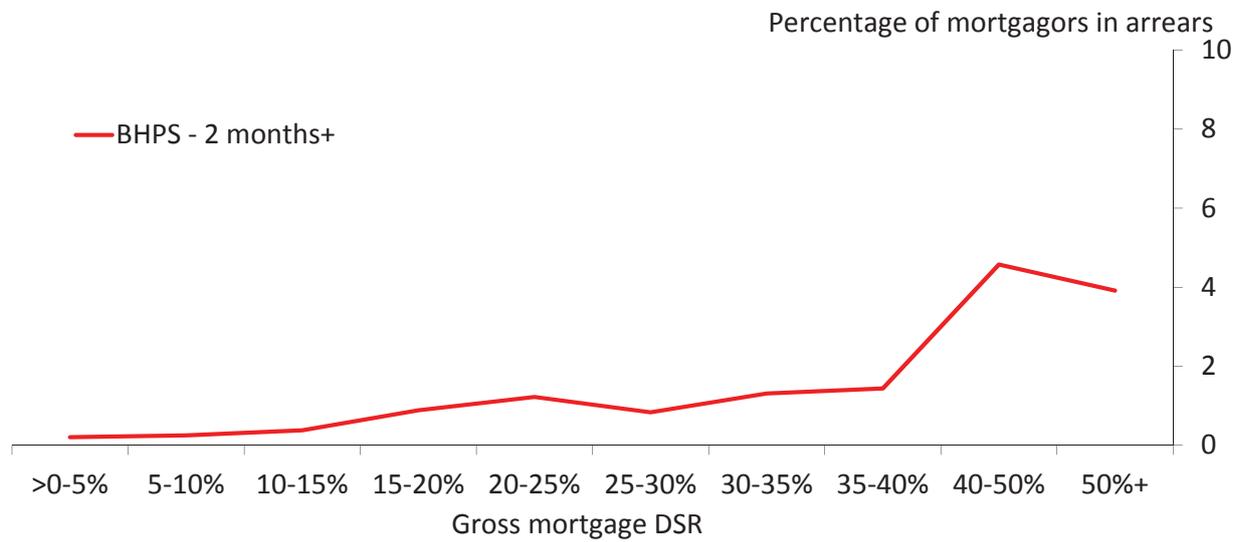
Distribution of mortgage debt to income ratios



(a) Data from NMG Survey spliced with Living Costs and Food Survey in 2013.

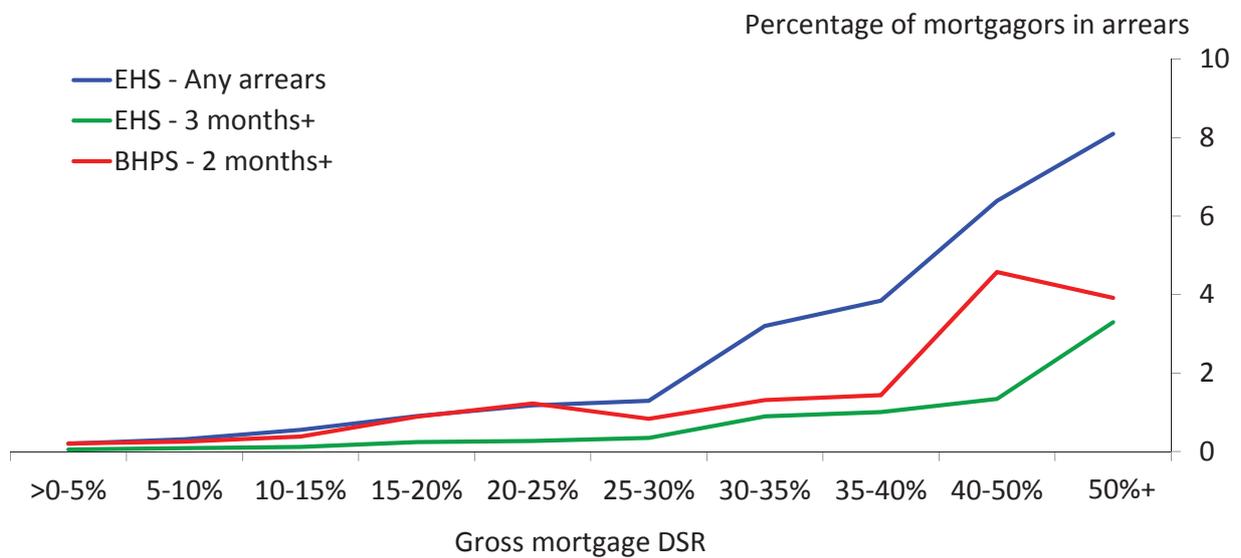
- Share of households with mortgage debt to income above 5 has fallen

Debt servicing ratios (DSRs) and mortgage arrears



- See [redacted] for analysis of relationship between DSRs and arrears 6

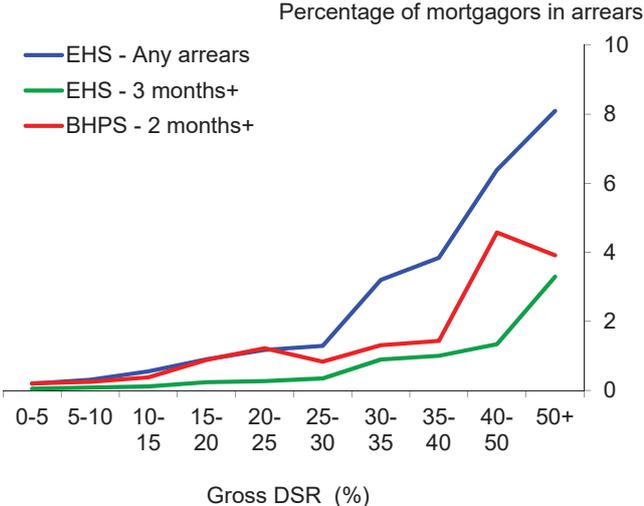
DSRs and mortgage arrears (2000-07)



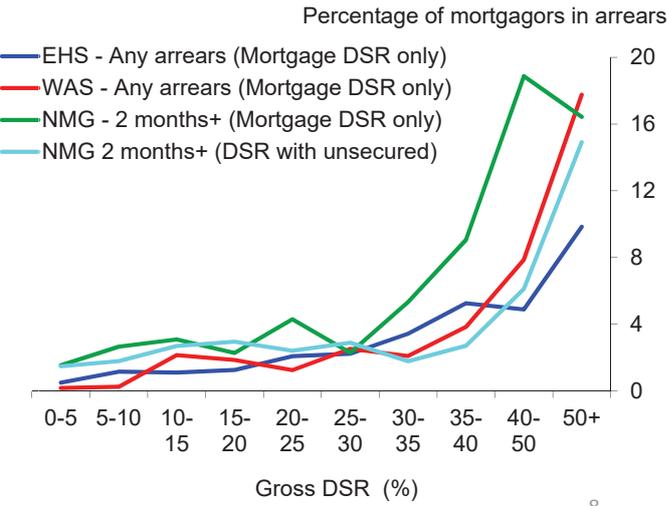
- See for analysis of relationship between DSRs and arrears 7

DSRs and mortgage arrears

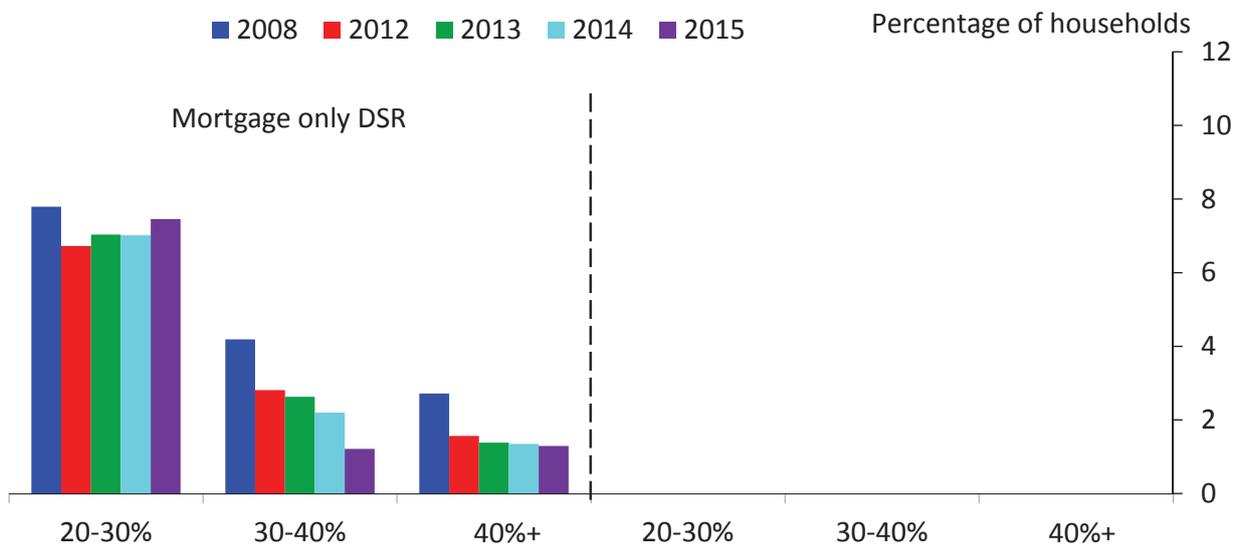
2000-2007



2009 onwards

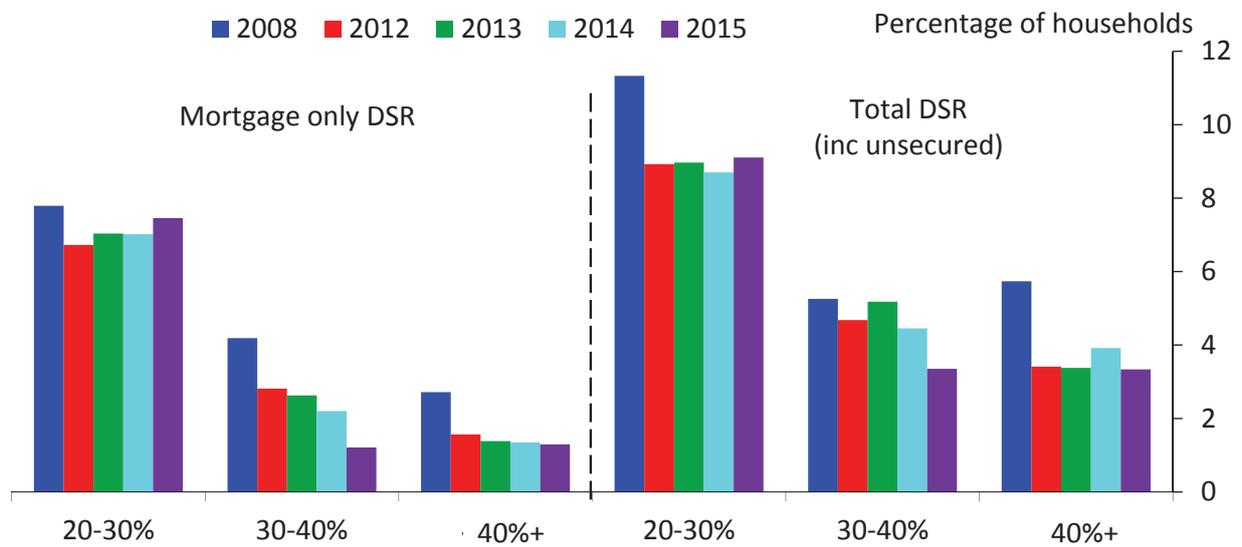


Distribution of DSRs for mortgagors



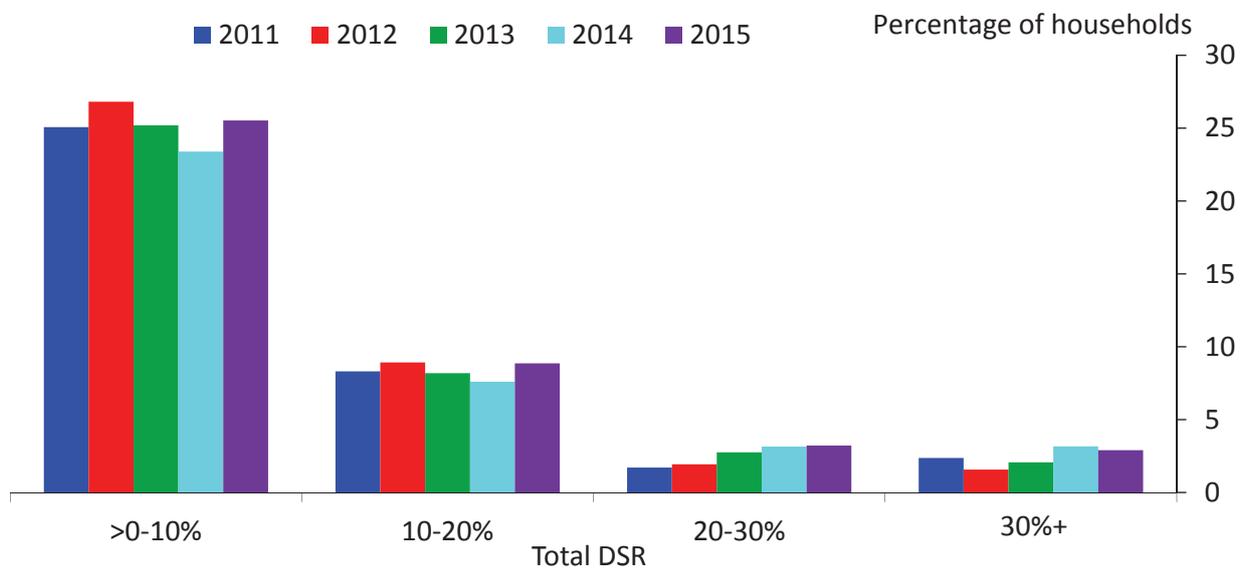
- Share with DSR>40% little changed, but less in 30-40% group

Distribution of DSRs for mortgagors



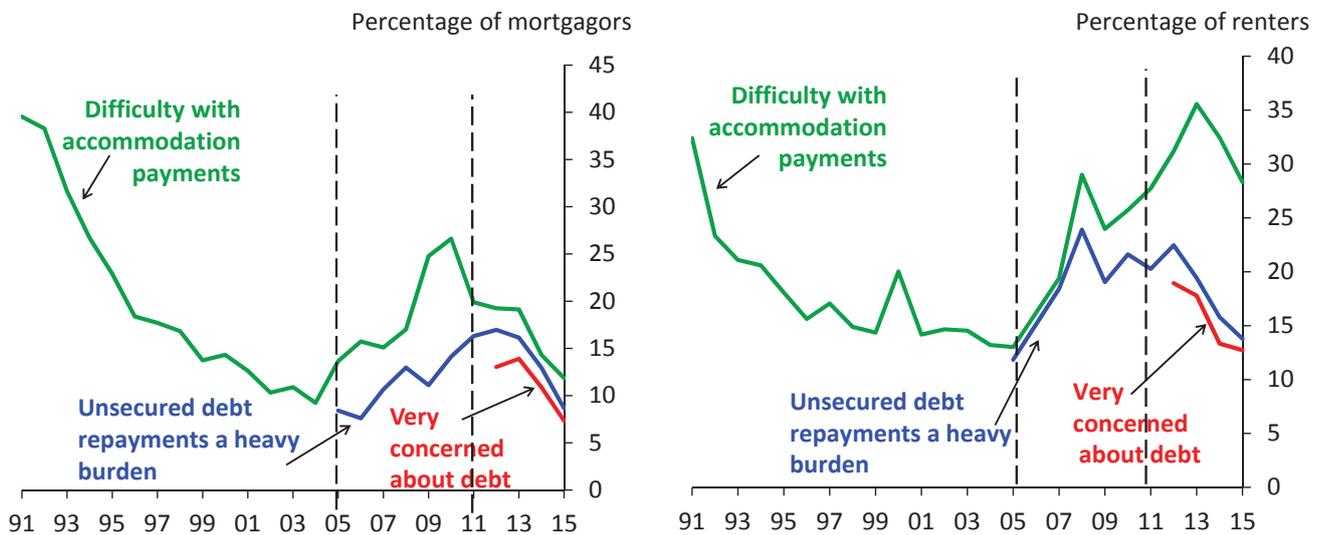
- More high DSR households once unsecured taken into account

Distribution of DSRs for non-mortgagors



- Not much change in DSR distribution for non-mortgagors

Measures of financial distress



Note: NMG online data spliced with face-to-face data in 2011 and BHPS in 2005.

- Concerns about debt and financial distress has fallen for all groups

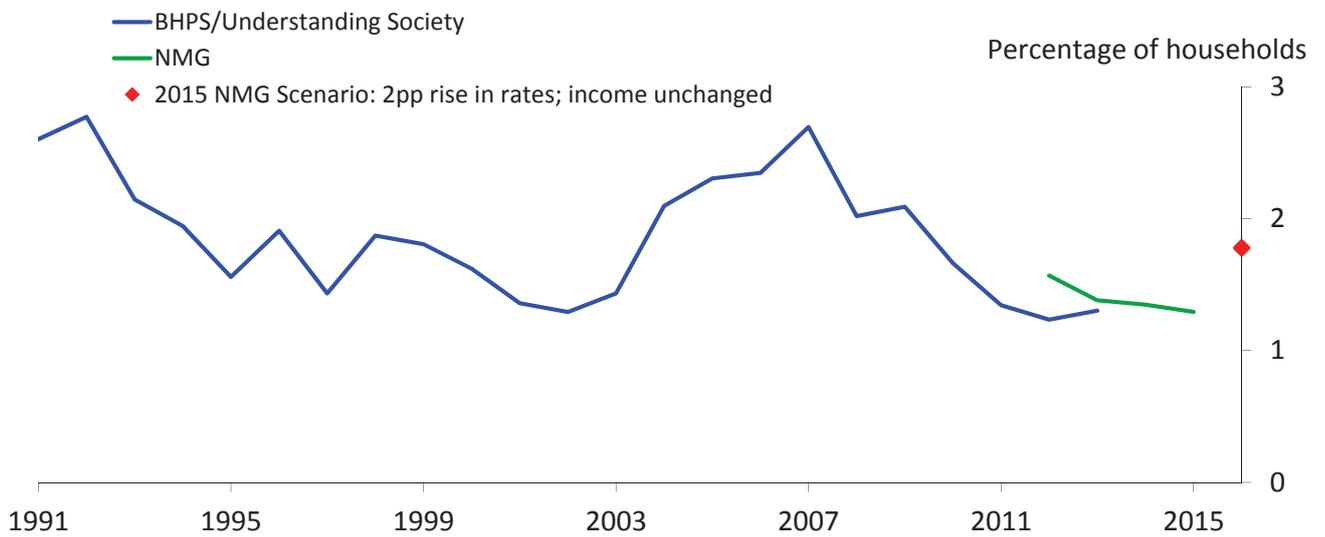
Higher Interest Rates

Impact of higher interest rates

3 approaches:

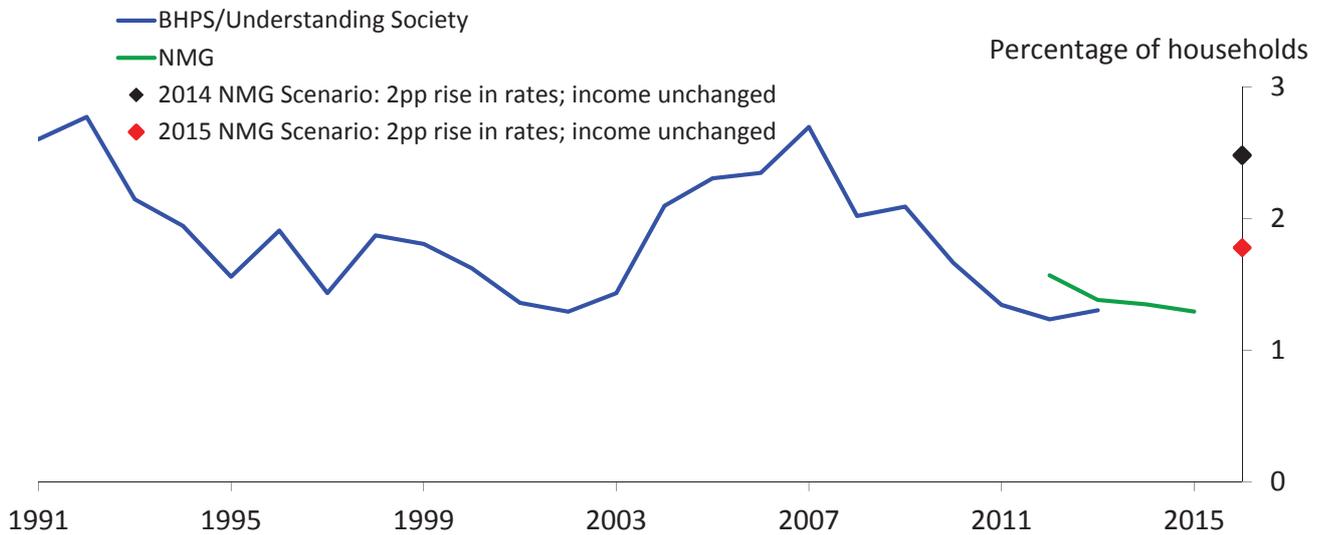
- Assessing how DSR distribution might change
- Asking households how much mortgage payments could go up before they would have to take action
- Asking households how they would change spending

Share of households with a mortgage DSR>40



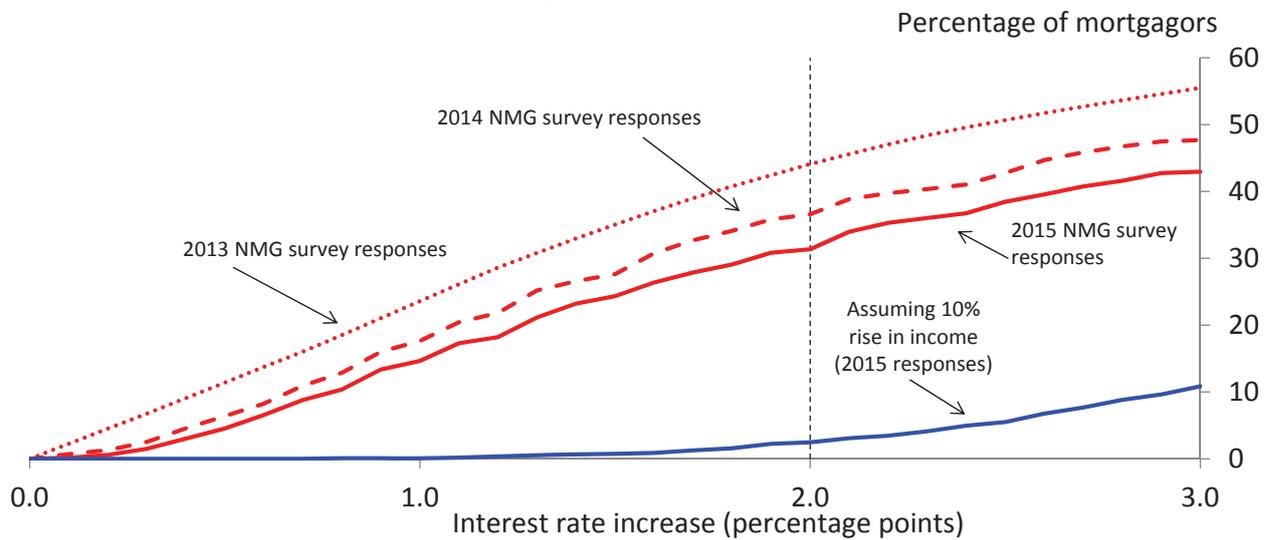
- Worst case, a 2pp rate rise only implies modest rise in number of high DSR households

Share of households with a mortgage DSR>40



- Rise in number of 40%+ DSR households likely to be less than a year ago

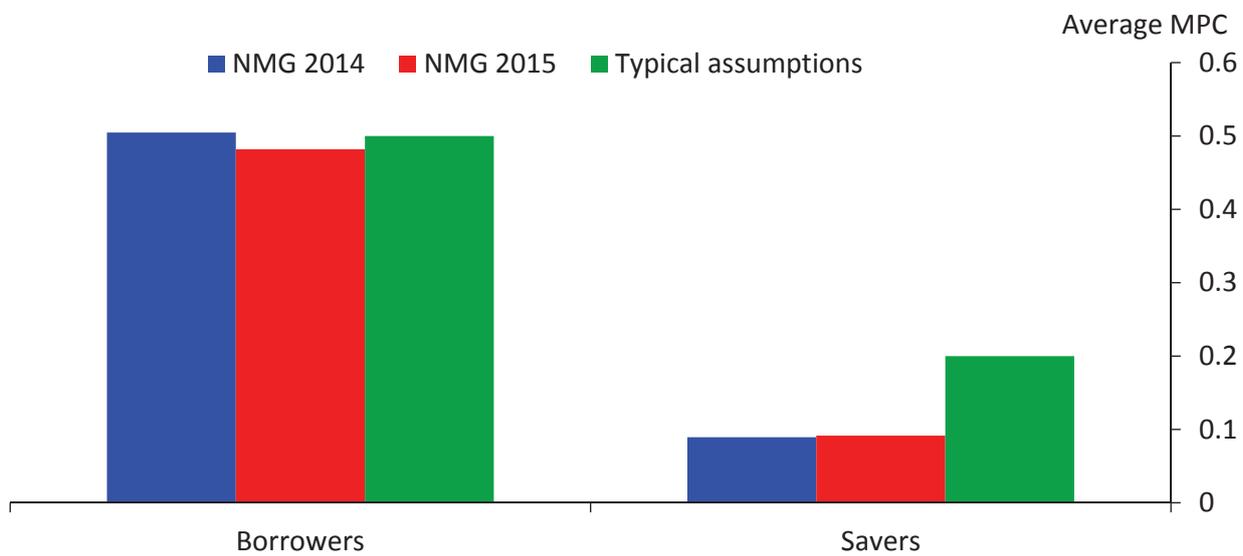
Mortgagors needing to respond to a rate rise



Question: 'About how much do you think your monthly mortgage payments could increase for a sustained period without you having to take some kind of action to find the extra money eg cut spending, work longer hours, or request a change to your mortgage?'

- Fewer households would now need to take action for a given rate rise

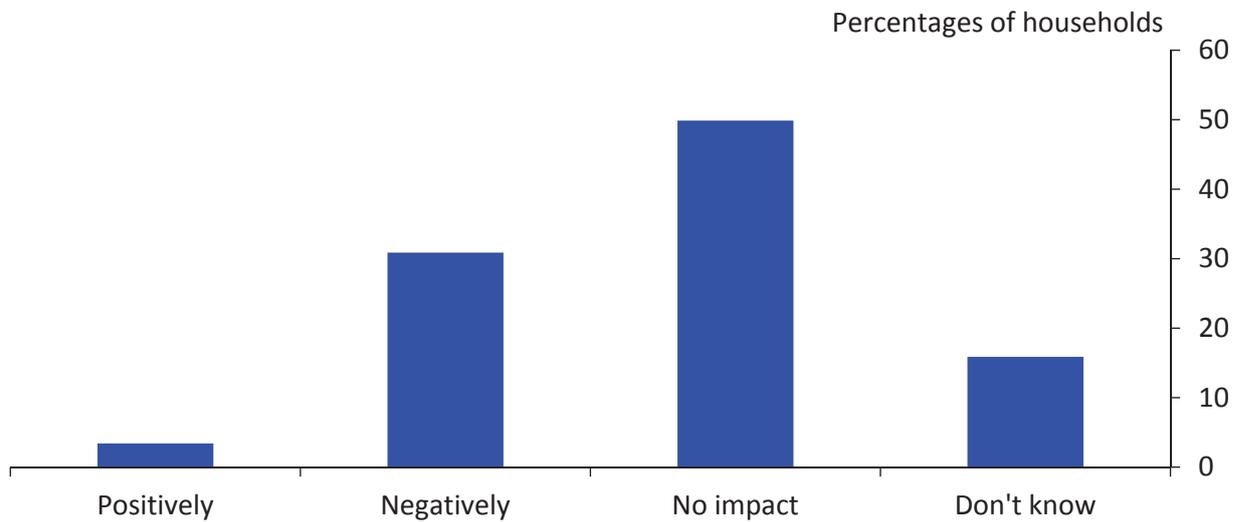
Marginal propensities to consume



- Estimated MPCs close to usual assumptions

Fiscal Consolidation

Effect of fiscal measures on households since 2010



Question: 'Since 2010, the government has announced a succession of measures in order to cut the country's budget deficit. How have these measures affected your household over the past 5 years?'

- 30% of households negatively affected by fiscal measures since 2010

Effect of fiscal measures on households

Percentages of households	Past measures	
	2012	2015
Affected	48	34
Loss of income benefits	14	11
Loss of job	6	3
Cut back on services	17	14
Lower pre-tax income	6	5
Higher taxes	22	7

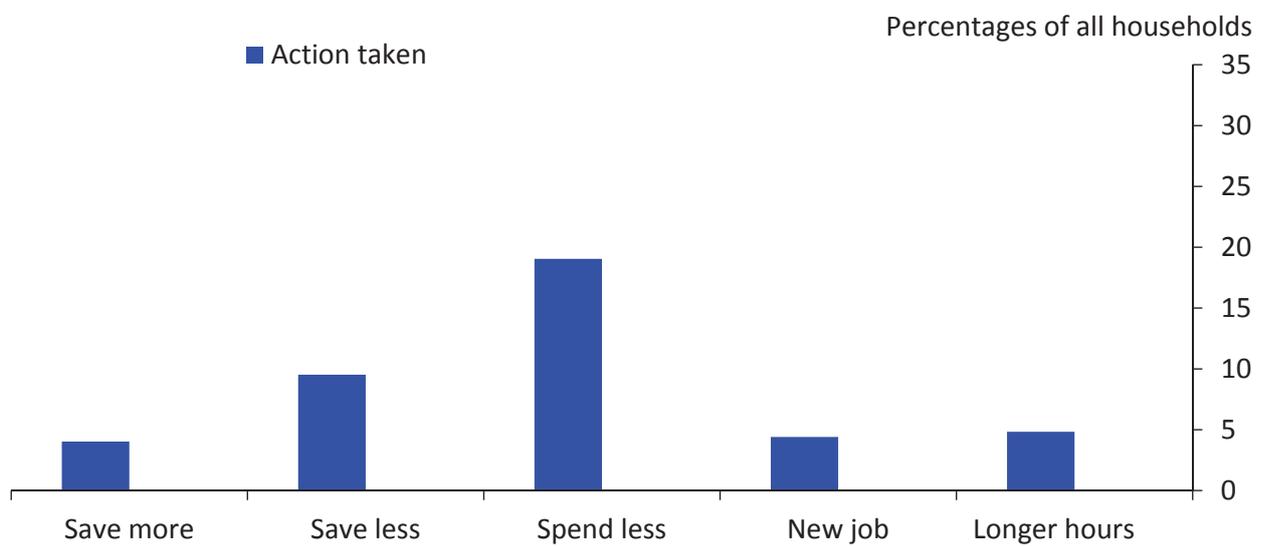
- Cuts in services and lower benefits most common ways households affected

Effect of fiscal measures on households

Percentages of households	Past measures		Future measures	
	2012	2015	2012	2015
Affected	48	34	70	67
Loss of income benefits	14	11	21	17
Loss of job	6	3	22	18
Cut back on services	17	14	27	30
Lower pre-tax income	6	5	9	7
Higher taxes	22	7	40	33

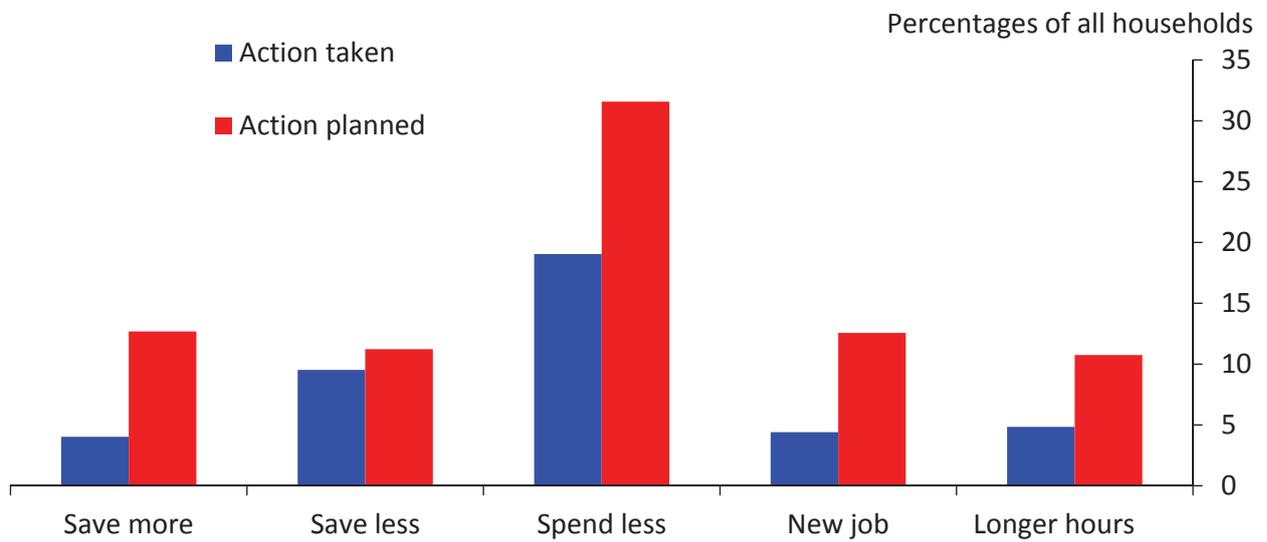
- Cuts in services and higher taxes main ways people expect to be affected in future

Actions taken in response to the fiscal consolidation



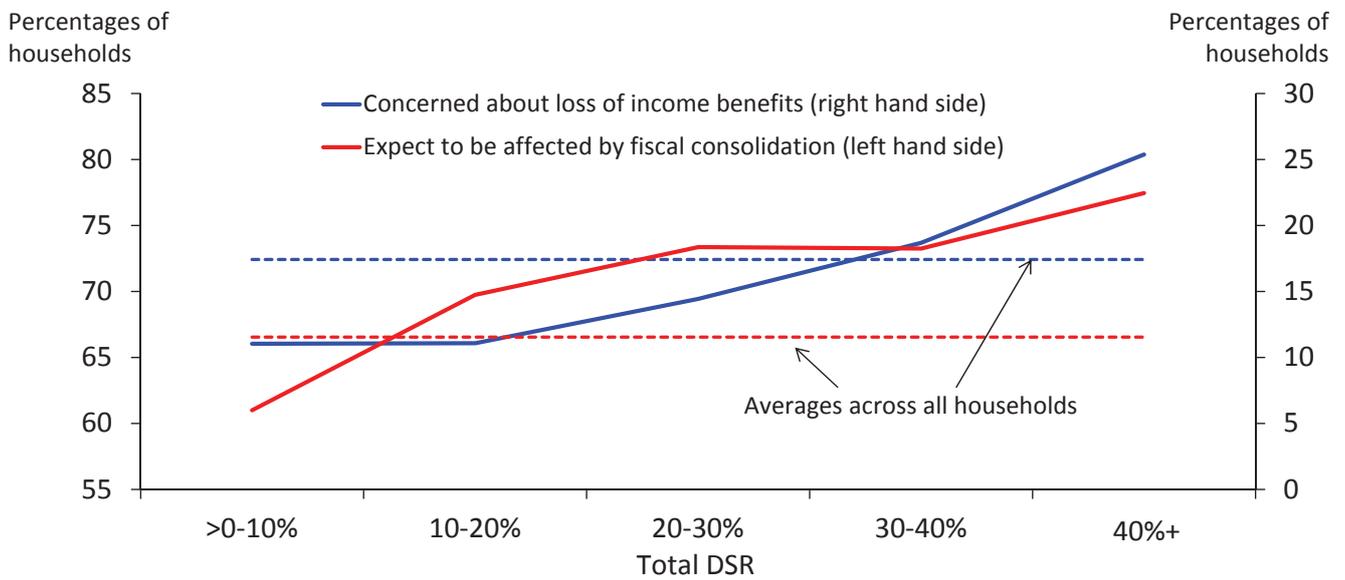
- Spending less was most popular response to fiscal consolidation

Actions taken in response to the fiscal consolidation



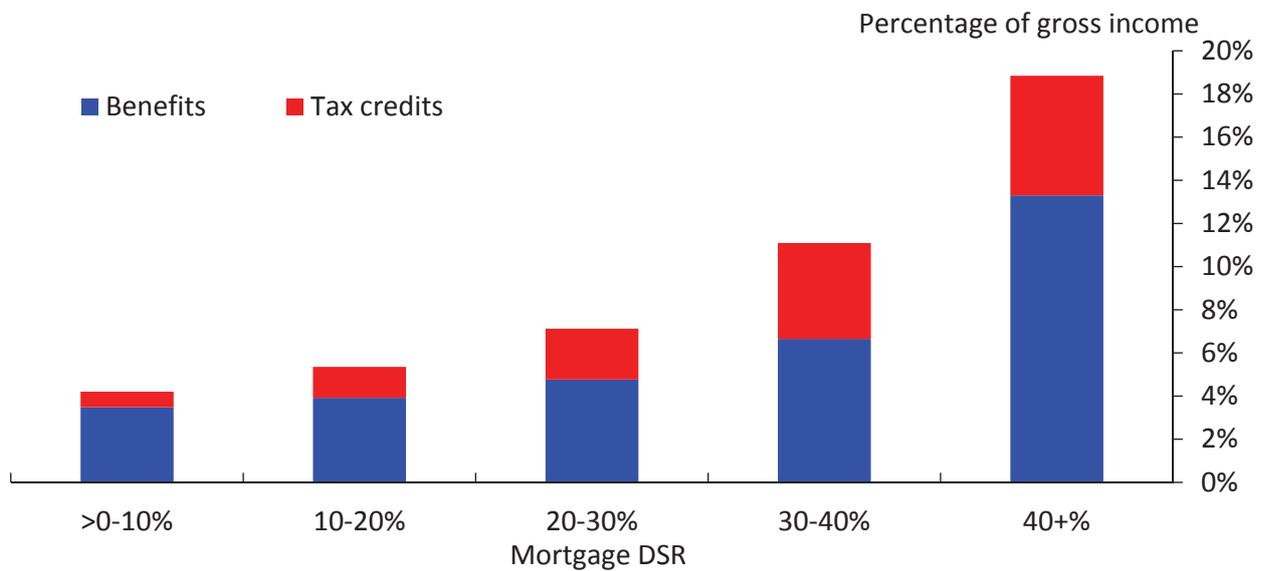
- Spending less was most popular response to fiscal consolidation

Effect of future fiscal measures on mortgagors



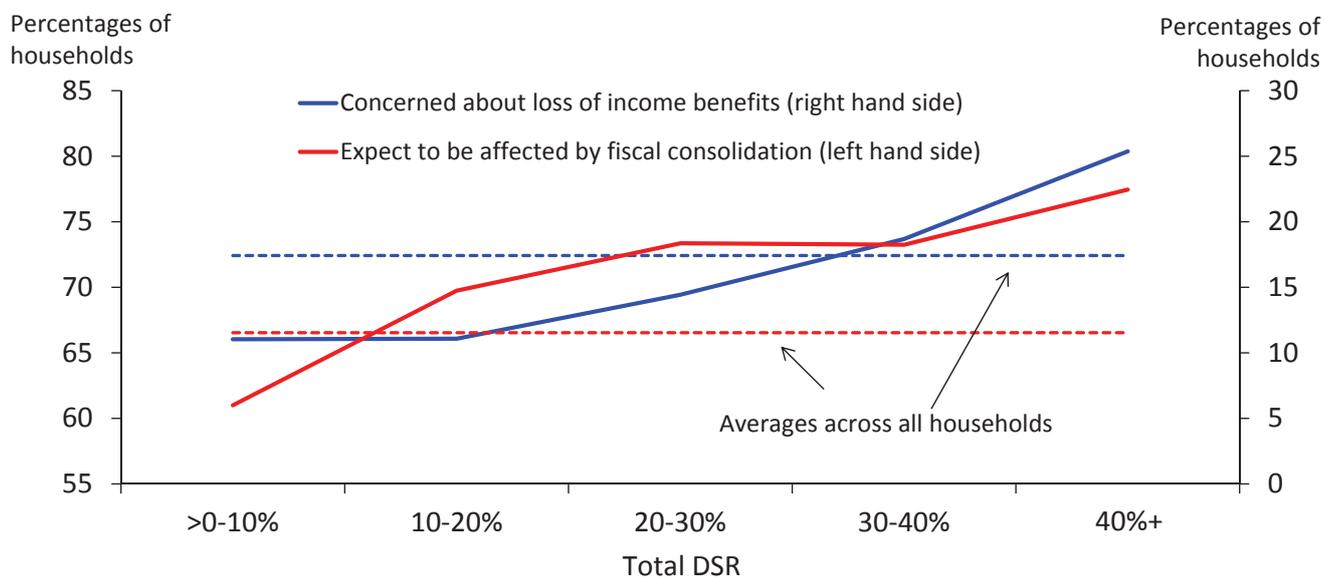
- Higher DSR households expect to be more affected by future consolidation

Benefits as a share of income (2012 FRS data)



- Among mortgagors, higher DSR households more likely to claim benefits

Effect of future fiscal measures on mortgagors



- Higher DSR households expect to be more affected by future consolidation

Summary

- Households now a little better placed to cope with higher rates than a year ago as balance sheet positions have improved
- Higher rates not expected to have unusually large impact on spending via cashflow effect
- Households expect fiscal consolidation to continue to hold back their spending
- Small group of households could be disproportionately affected by both tighter monetary and fiscal policy

End



6: Agents' Special Topic – Corporate Pricing



Agents' Corporate Pricing Survey

2 December 2015



Agency for the North East
Inflation Report & Agency Intelligence Division



Questions asked

For UK prices:

- Movements in prices over last 12 months
- Expectations for price movements in next 12 months
- Factors influencing price changes in past and next year
- Frequency of price revisions

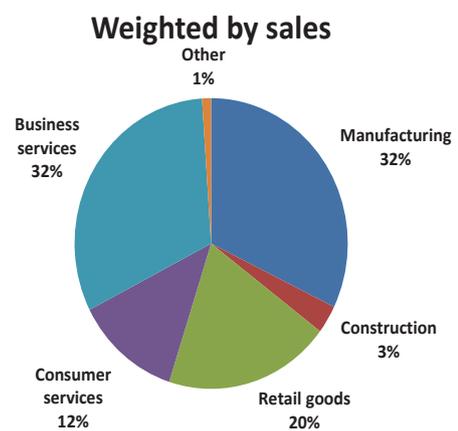
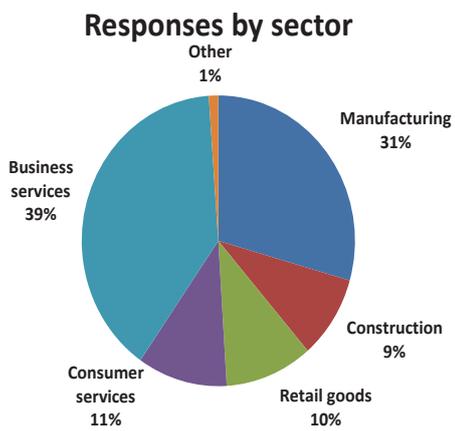


Main messages

- Prices are expected to continue to fall, but by less than over last 12 months
- Construction expecting higher prices. Retailers expect low inflation
- Labour costs will continue to put upwards pressure on prices; productivity expected to increase downwards pressure
- Energy and oil-related input costs expected to have a very significant downwards pressure, although a bit less so than over past 12 months



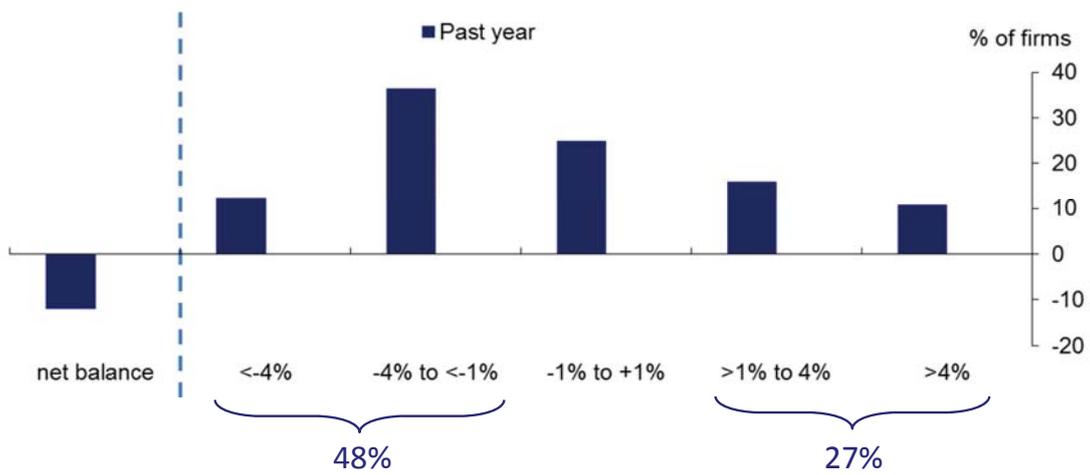
Sample



- 353 companies; combined turnover around £71 billion
- Results double weighted by turnover and sectoral GVA to better represent economy
- Sectors not CPI weighted

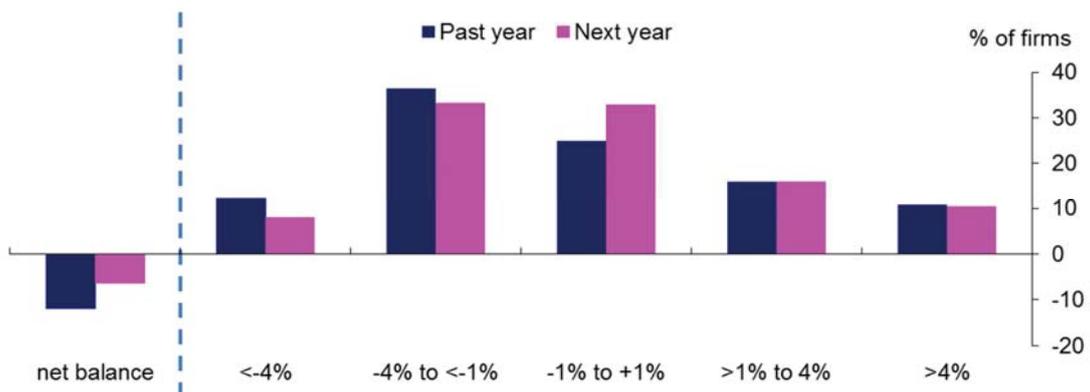


Changes in prices: last and next year





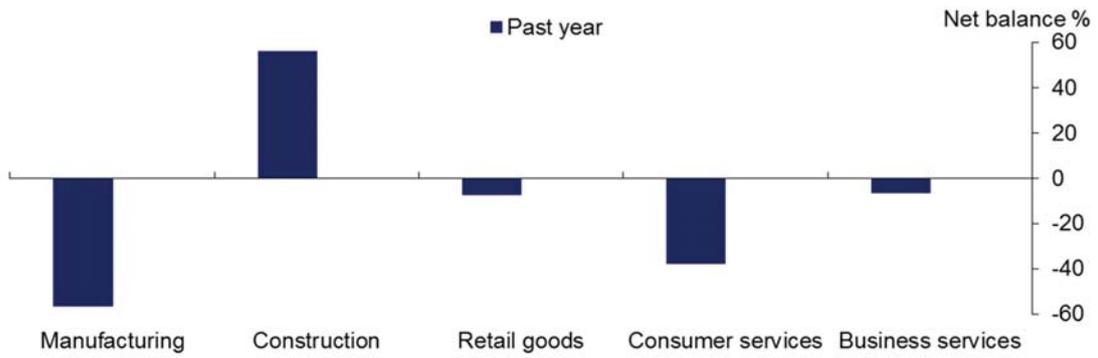
Changes in prices: last and next year



Net balance of price changes negative for next year, but half of last year

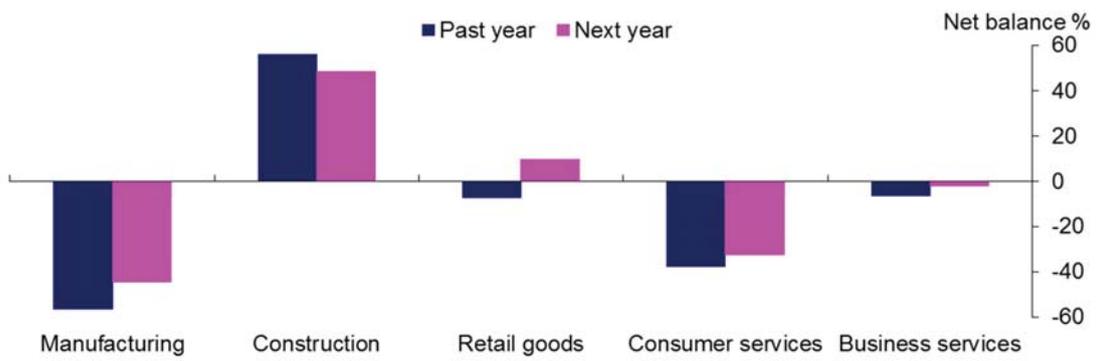


Net balance of price changes by sector



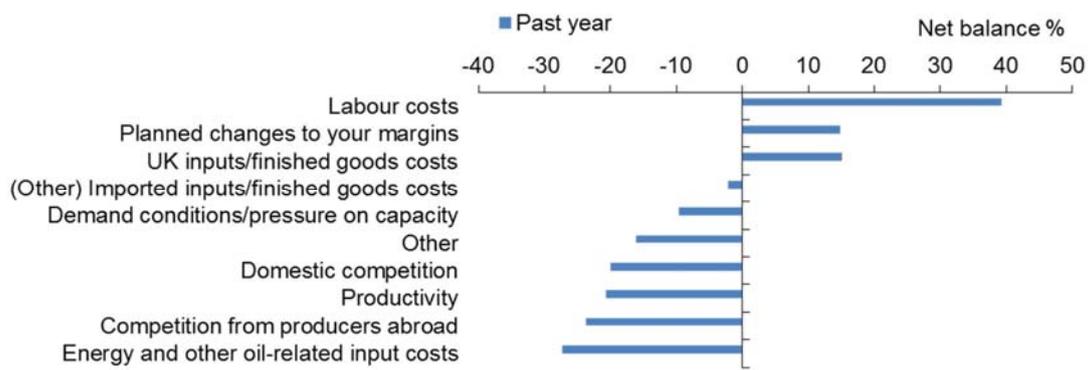


Net balance of price changes by sector



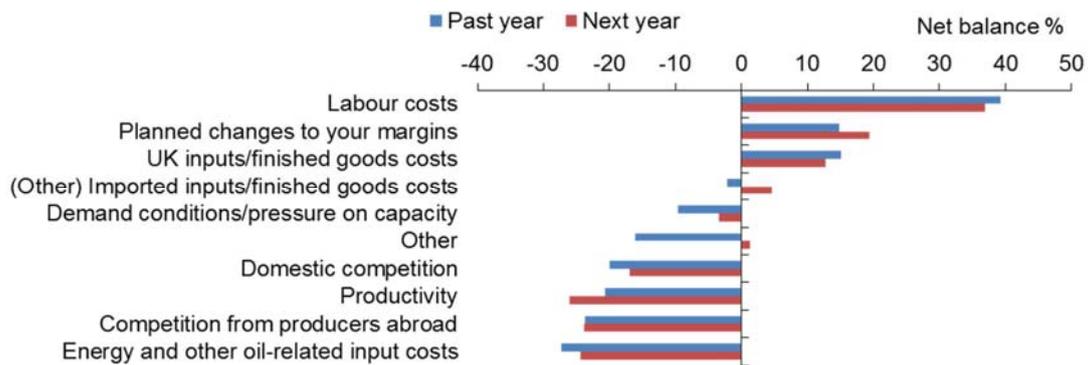


Factors influencing changes in prices





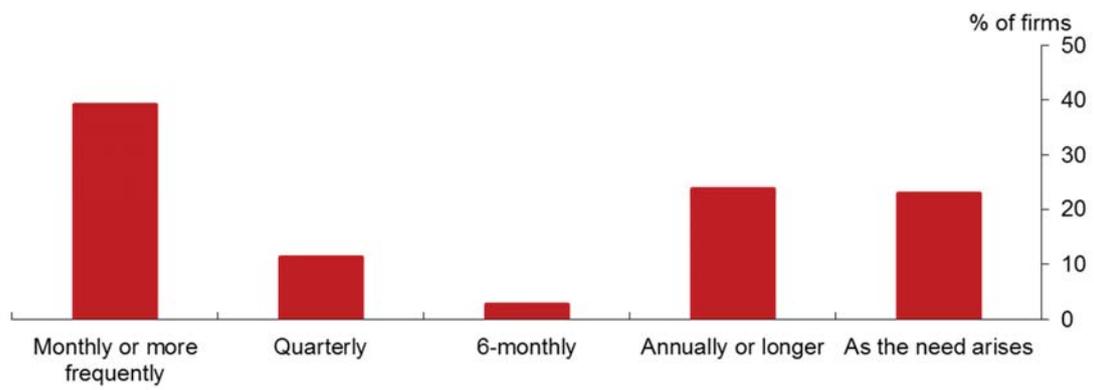
Factors influencing changes in prices



- For next year, main factors up and down broadly unchanged on last year
- Negative pull from productivity expected to increase

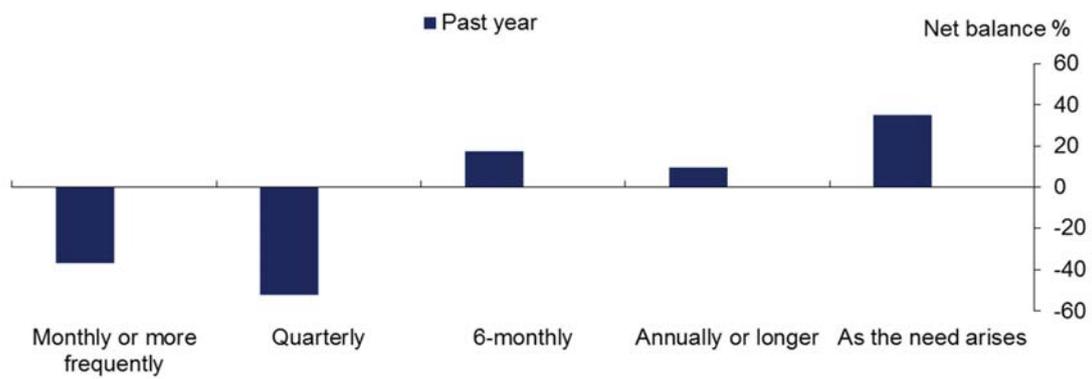


Frequency of price changes



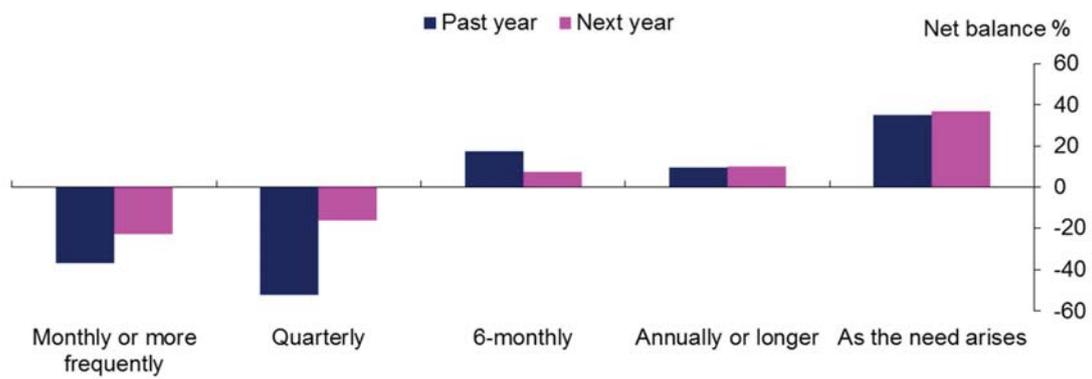


Net price changes by frequency of change





Net price changes by frequency of change





Summary

- Prices are expected to continue to fall, but by less than over last 12 months
- Construction expecting higher prices. Retailers expecting very low inflation
- Labour costs will continue to put upwards pressure on prices; productivity expected to increase downwards pressure
- Energy and oil-related input costs expected to have a very significant downwards pressure, although a bit less so than over past 12 months



7: Costs and Prices



Costs & Prices

2nd December 2015

Structural Economic Analysis Division

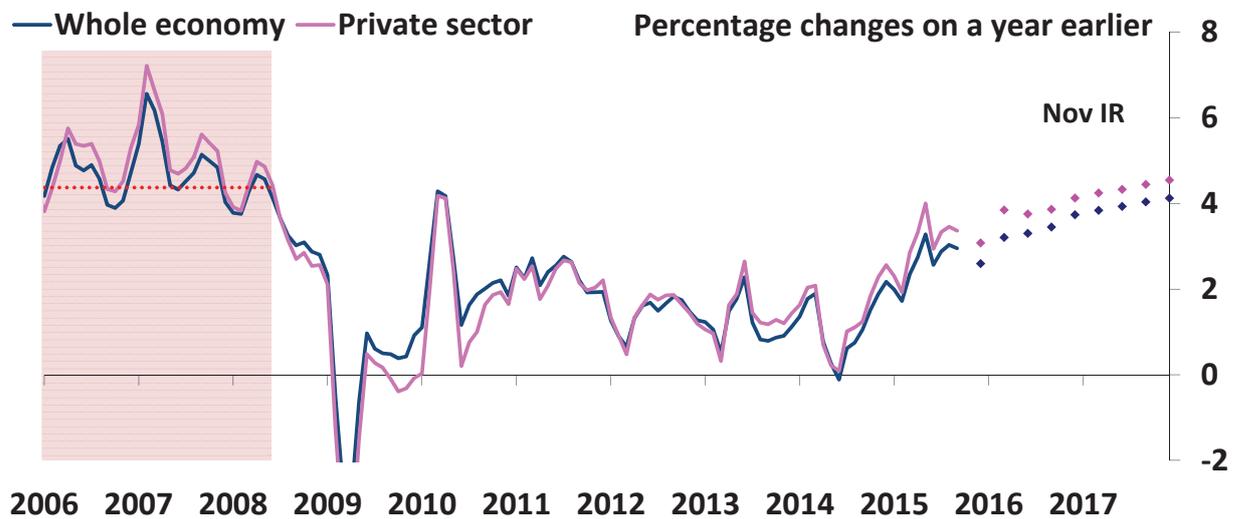


Agenda

- **Is wage growth running out of steam?**
 - **Latest pay trends**
 - **Drivers of pay growth**



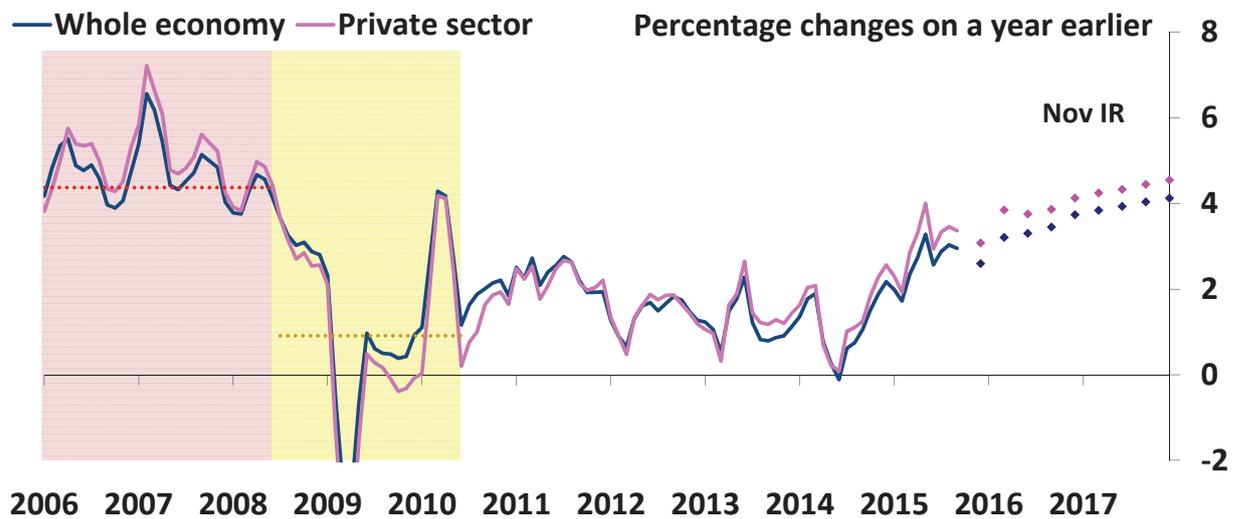
Total pay growth



- Pay growth before the crisis averaged 4¼%, reflecting steady productivity growth and stable inflation.



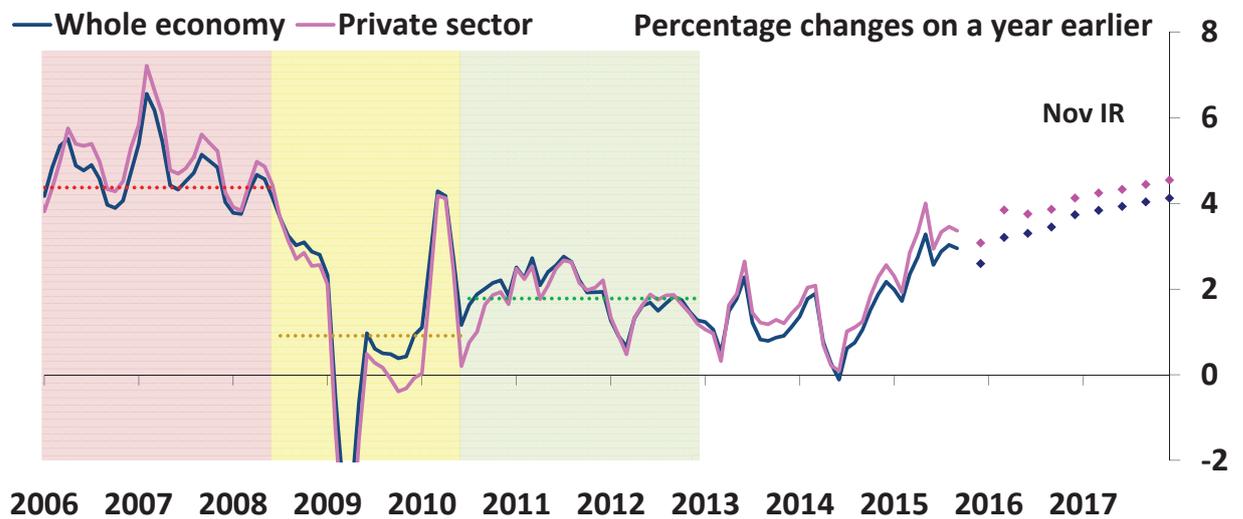
Total pay growth



- During the crisis, pay growth fell sharply as unemployment rose and productivity fell.



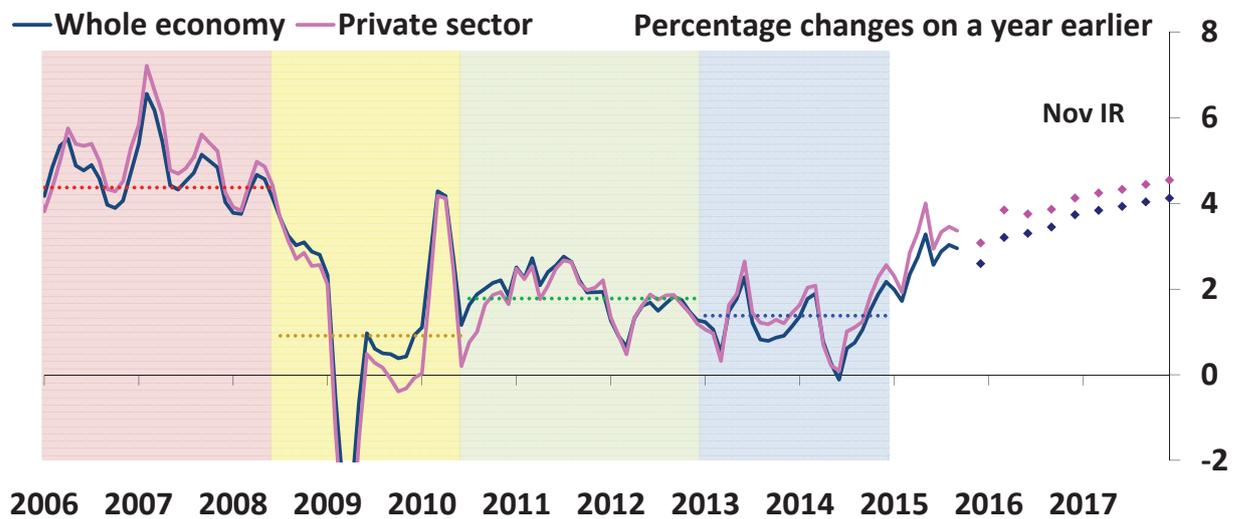
Total pay growth



- From mid-2010 through 2011 and 2012, pay growth averaged around 2%, consistent with weak productivity growth and high unemployment.



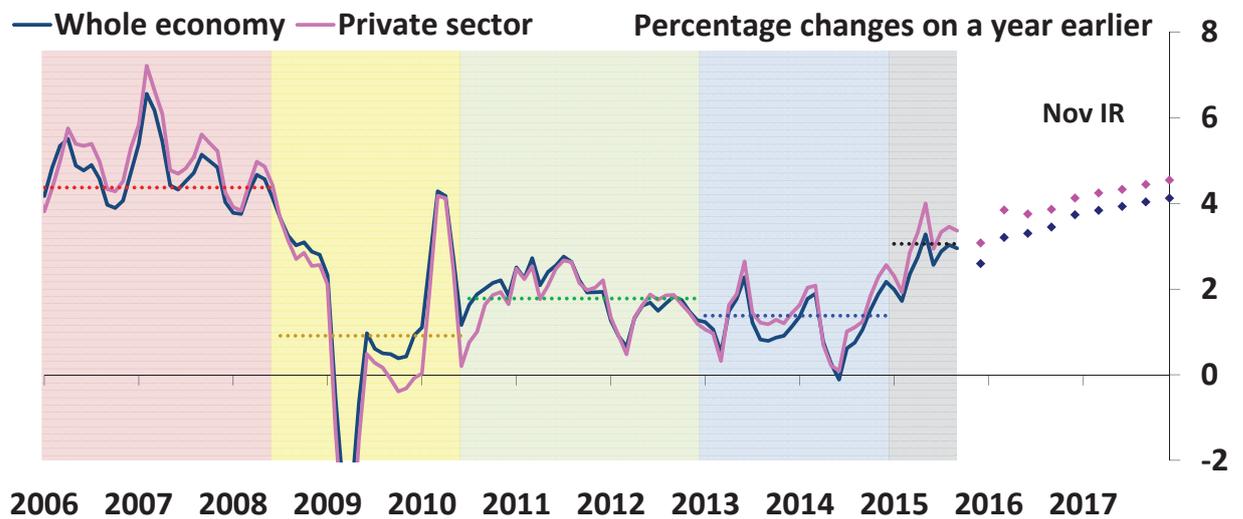
Total pay growth



- In 2013 and 2014, the average was around 1%, despite unemployment starting to fall.



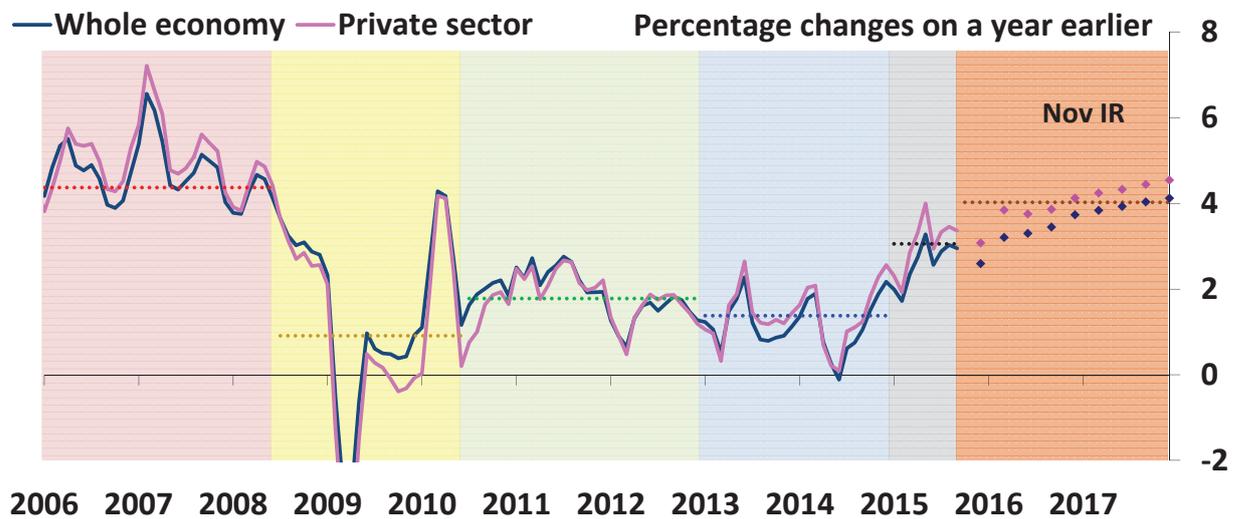
Total pay growth



- Pay growth began to recover in late 2014, with whole economy total pay growth of 3% in the latest data.



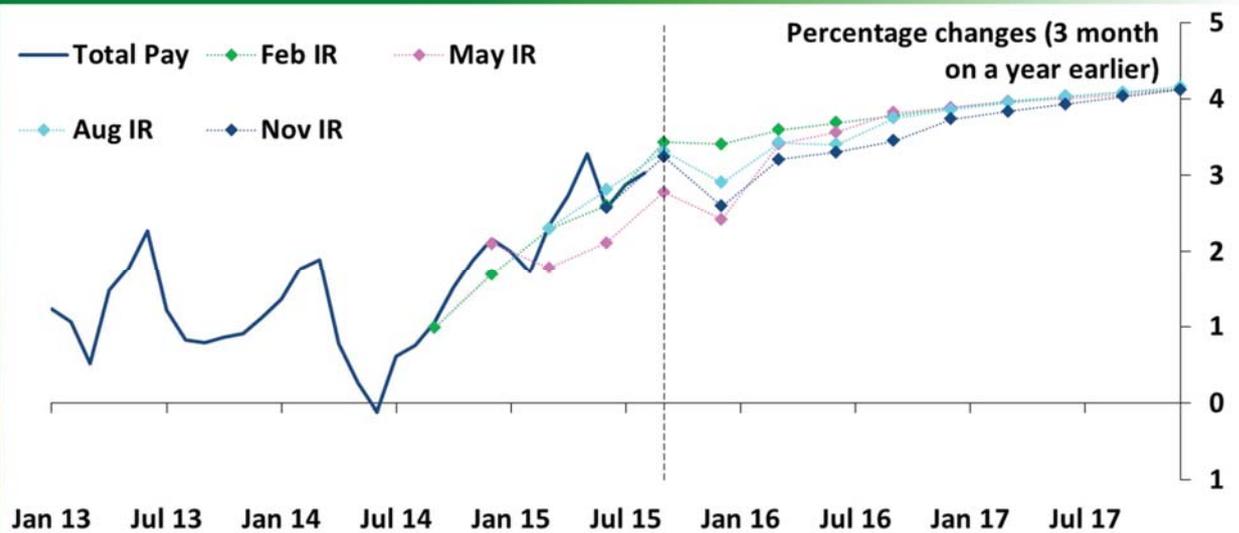
Total pay growth



- The November IR assumes a continuing pickup in pay growth, to above 4% by late 2017.



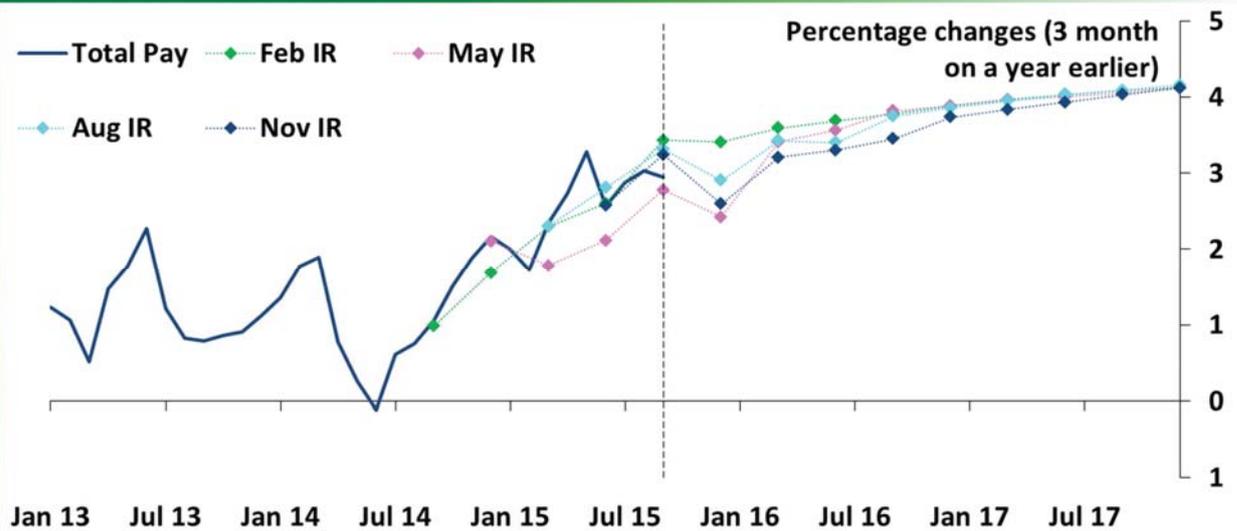
Whole economy pay and IR projections



- IR forecasts in 2015 have all assumed a continuing rise in pay growth.



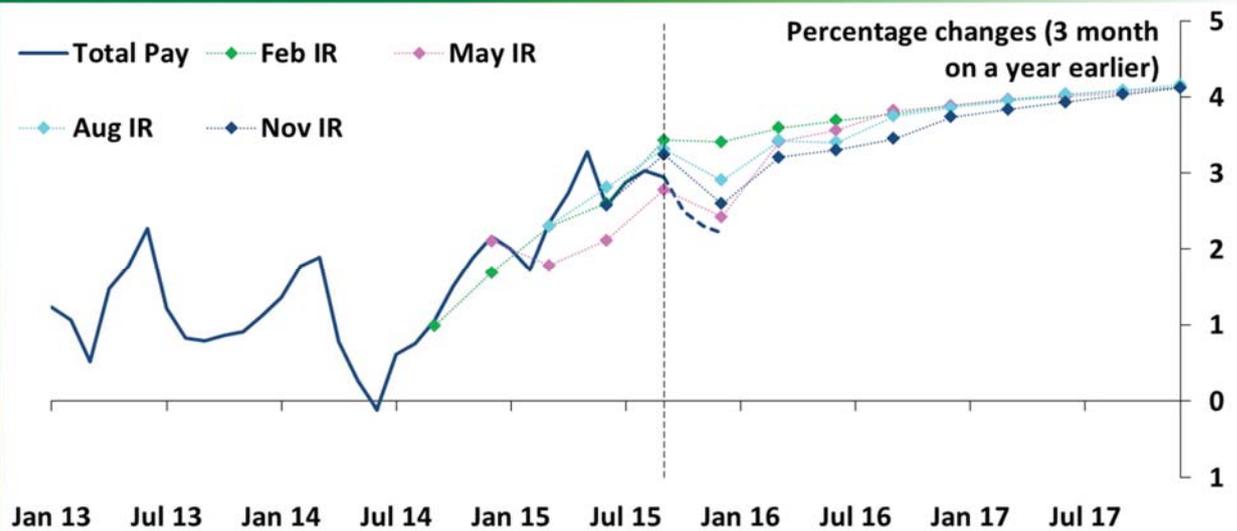
Whole economy pay and IR projections



- Pay growth in the 3 months to September was 3.0%, weaker than the 3.2% expected in the November IR.



Whole economy pay and IR projections



- Falls in pay in August and September mean whole economy pay growth is now expected to be 2.2% in Q4.



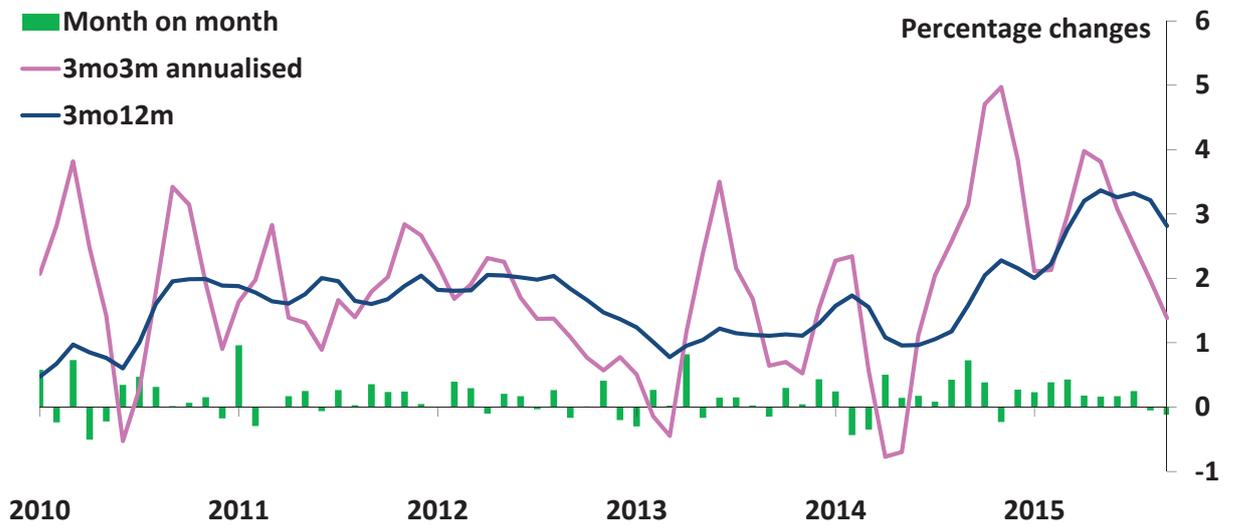
Assessment of pay growth

Is wage growth running out of steam?

Data	Yes	No
Latest trends in AWE		
ULCs		
Other pay indicators		



Private sector regular pay growth



- The last time short term indicators were this weak was early 2014.



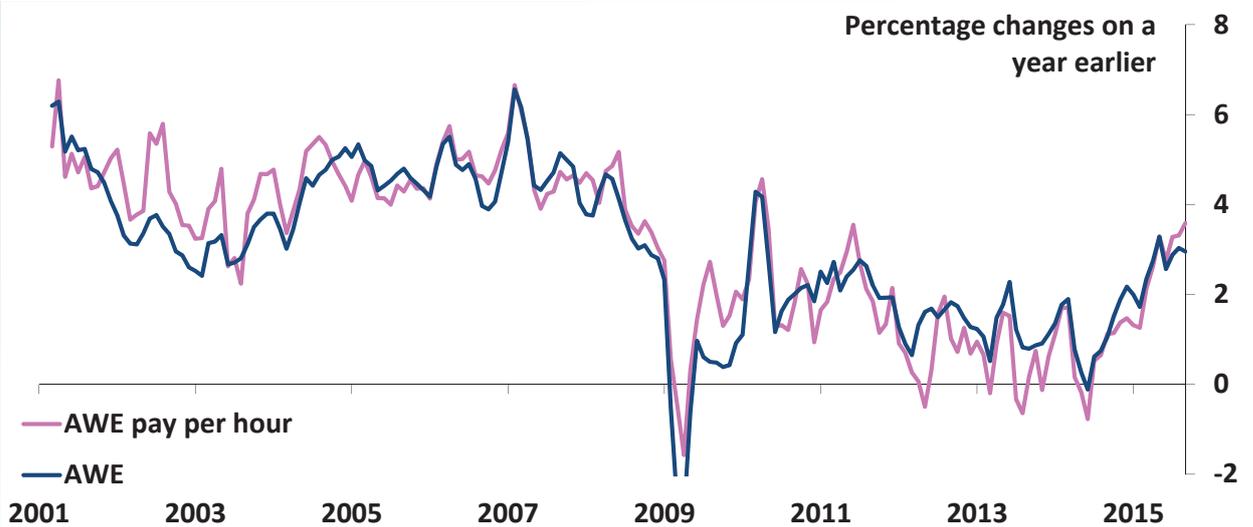
Average hours



- Average hours have fallen ½ % over the past year, which will have affected the AWE measure of pay.



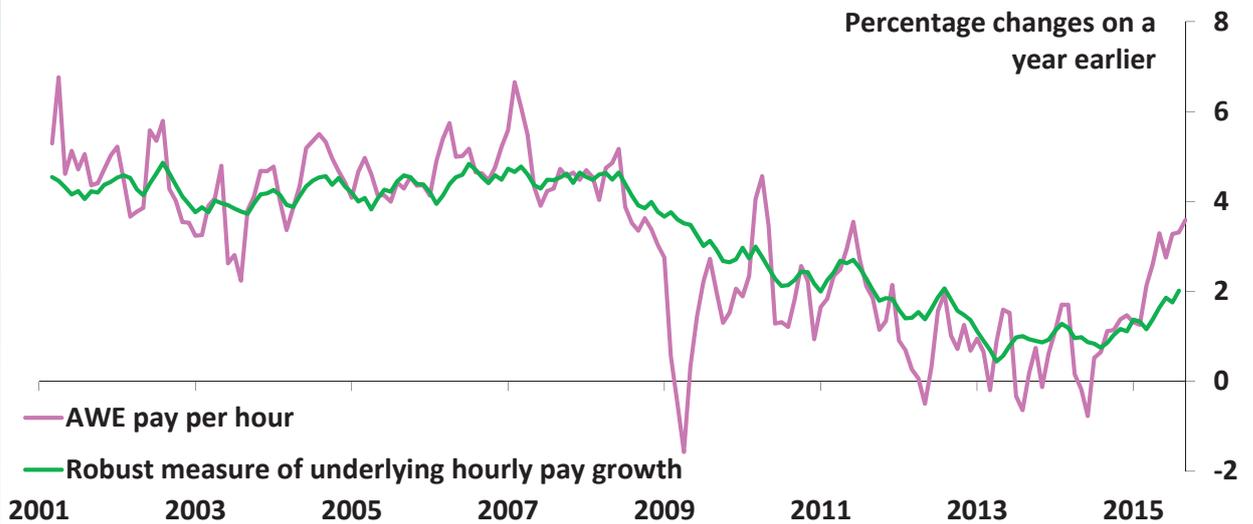
Whole economy total pay growth



- On an hourly basis, pay growth has continued to rise.



Whole economy total pay growth



- Stripping away volatile movements in bonuses and average hours, hourly pay growth is rising less sharply.



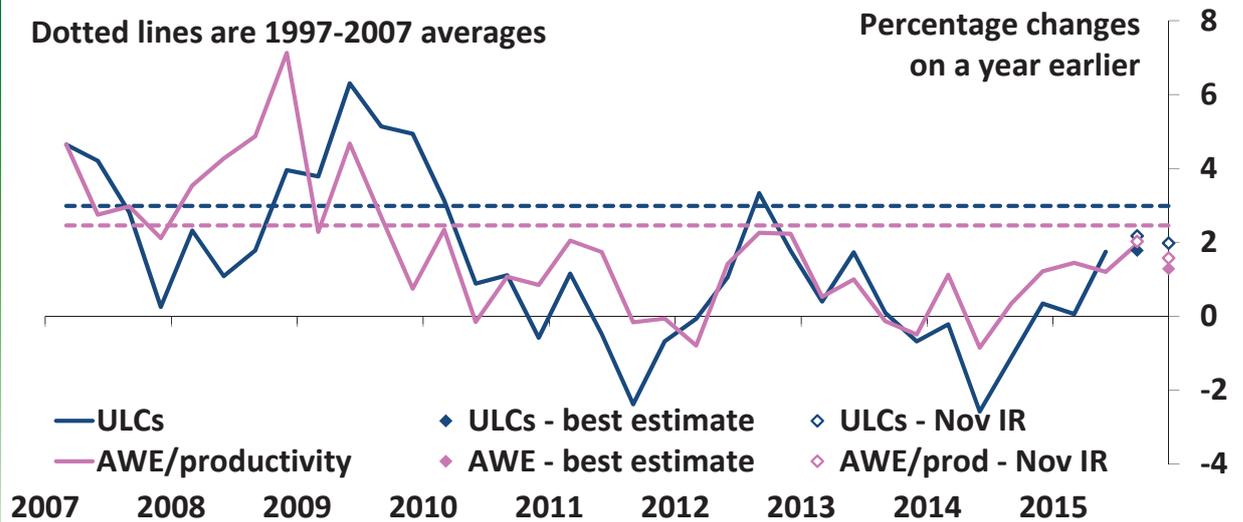
Assessment of pay growth

Is wage growth running out of steam?

Data	Yes	No
Latest trends in AWE	Private sector regular pay has fallen two months in a row...	...but this partly reflects falling average hours. Pay per hour is still growing.
ULCs		
Other pay indicators		



Unit labour costs



- AWE divided by productivity, which abstracts from average hours changes, grew 2.0% in Q3 but growth is expected to slow to 1.3% in Q4.



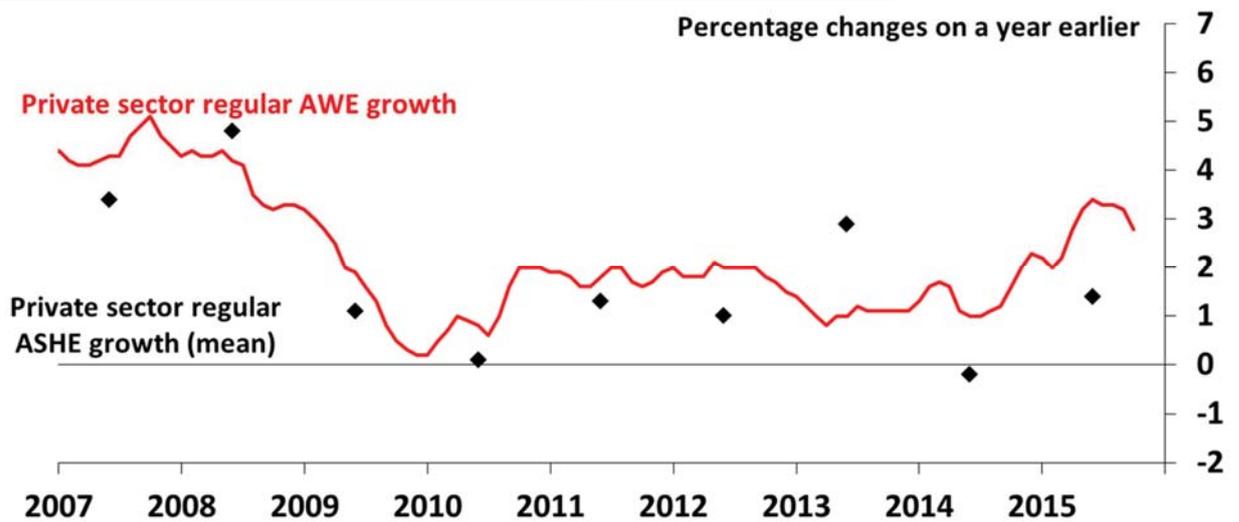
Assessment of pay growth

Is wage growth running out of steam?

Data	Yes	No
Latest trends in AWE	Private sector regular pay has fallen two months in a row...	...but this partly reflects falling average hours. Pay per hour is still growing.
ULCs	AWE relative to productivity expected to grow 1.3% in the year to Q4...	...but growth in ULCs increased 1.8% in the year to Q3.
Other pay indicators		



Pay swathe

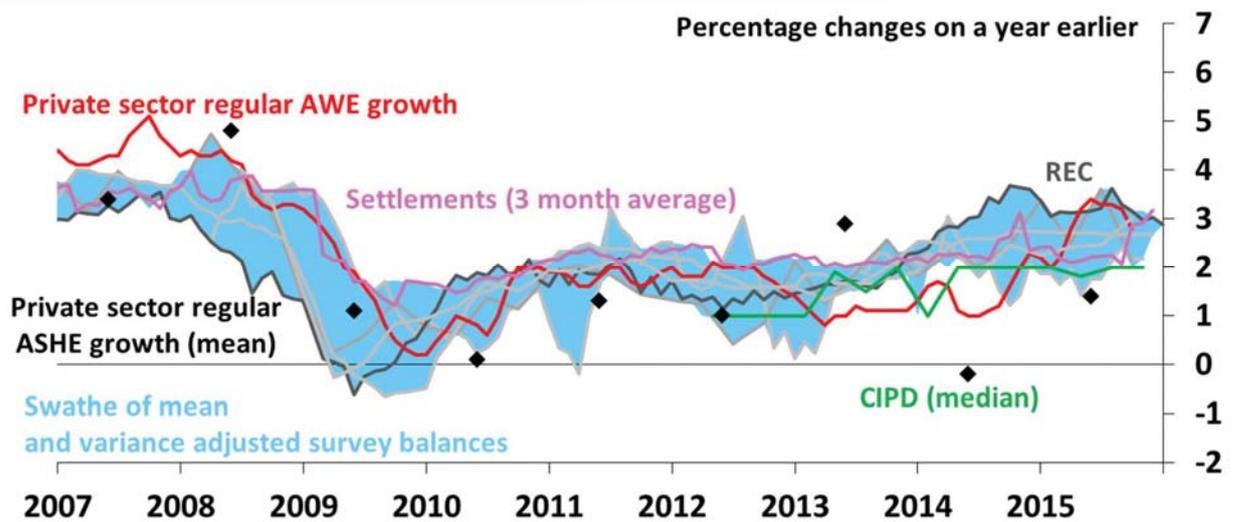


- The latest ASHE data point to a rise in pay growth between 2014 and 2015.

- [Redacted]



Pay swathe



- Survey measures of pay growth are little changed on the month, pointing to growth of 2-3%.



Assessment of pay growth

Is wage growth running out of steam?

Data	Yes	No
Latest trends in AWE	Private sector regular pay has fallen two months in a row...	...but this partly reflects falling average hours. Pay per hour is still growing.
ULCs	AWE relative to productivity expected to grow 1.3% in the year to Q4...	...but growth in ULCs increased 1.8% in the year to Q3.
Other pay indicators	Some measures (eg REC) drifting down, and most are weaker than AWE...	... but, including an award by a large employer, settlements have been picking up.



Is wage growth running out of steam?

- AWE growth is losing steam, but some of that may reflect lower average hours.
- Recent weak pay data mean annual growth in AWE divided by productivity growth is expected to be 1.3% in Q4.

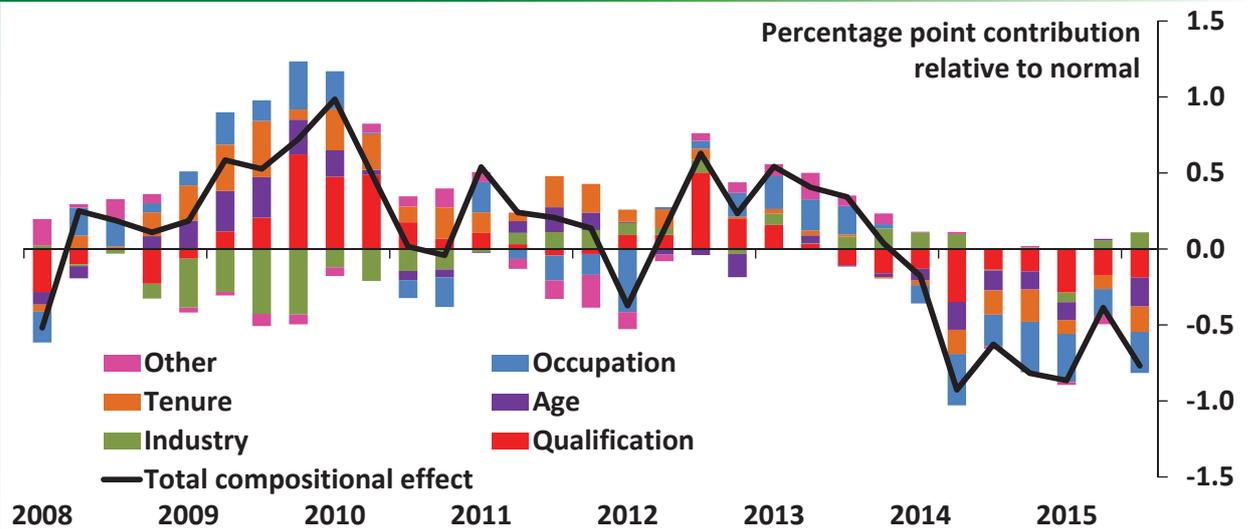


Pay growth stories

Driver	Current impact	Outlook
Compositional effects		
Productivity		
Inflation/inflation expectations		
Labour market slack		
Churn		
Migration		
Public sector pay restraint		



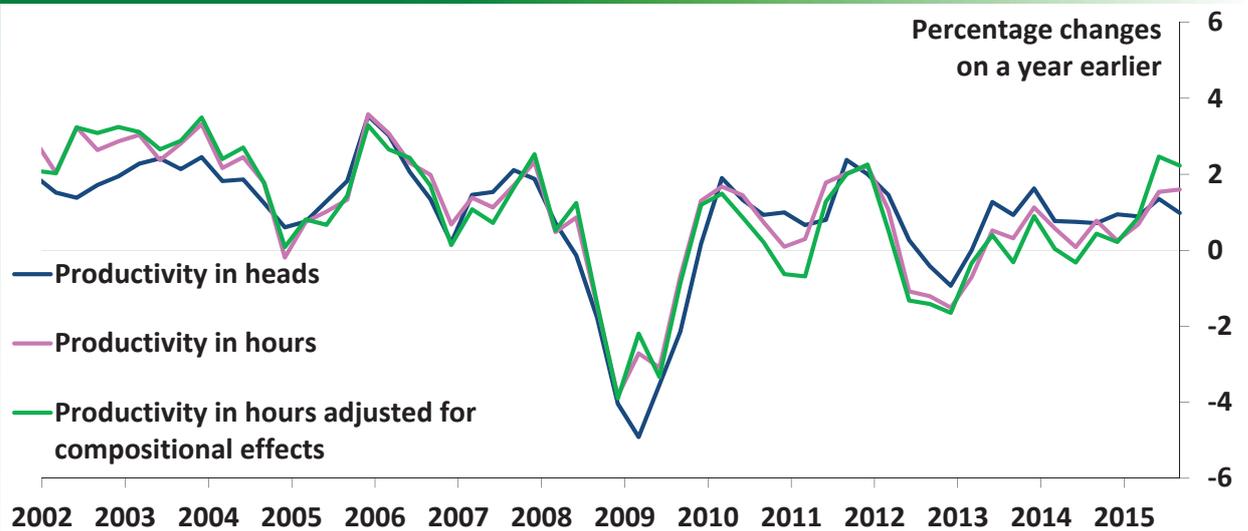
Compositional effects



- The drag from compositional effects looked to be easing, but increased again in the latest data.



Whole economy productivity



- Productivity growth per worker fell back to 1.0% in Q3, consistent with slower pay growth.

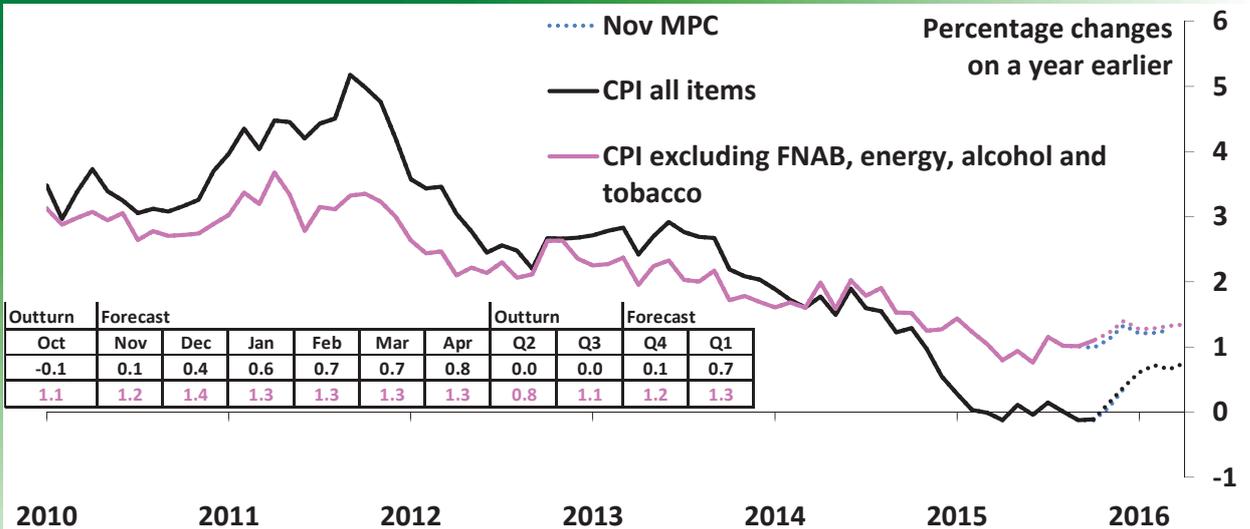


Pay growth stories

Driver	Current impact	Outlook
Compositional effects	Drag on annual pay and productivity growth increased to -0.8pp in Q3	Expected to unwind gradually over the next year
Productivity	Productivity growth per worker slowed in Q3	Pickup in productivity growth over the forecast
Inflation/inflation expectations		
Labour market slack		
Churn		
Migration		
Public sector pay restraint		



Short-term inflation forecast



- Inflation is expected to rise from next month due to a combination of base effects in energy and food, and a rise in core inflation.

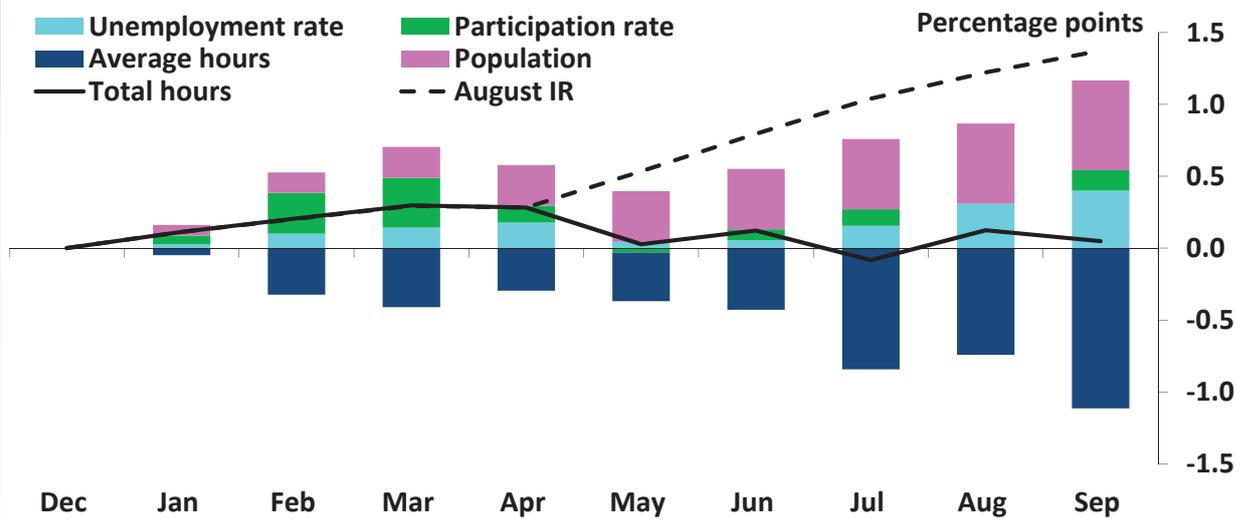


Pay growth stories

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Compositional effects	Drag on annual pay and productivity growth increased to -0.8pp in Q3	Expected to unwind gradually over the next year
Productivity	Productivity growth per worker slowed in Q3	Pickup in productivity growth over the forecast
Inflation/inflation expectations	Agents report low inflation effect on settlements	Weak in the near term, picking up over the forecast
Labour market slack		
Churn		
Migration		
Public sector pay restraint		



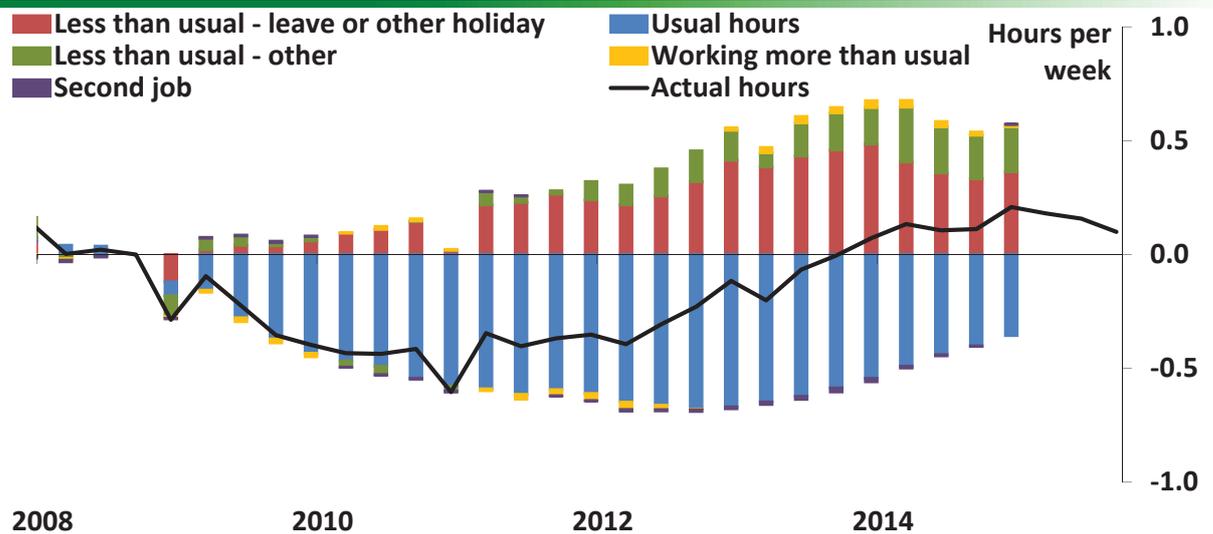
Total hours



- Total hours have been broadly flat since the start of the year, largely due to weaker average hours worked.



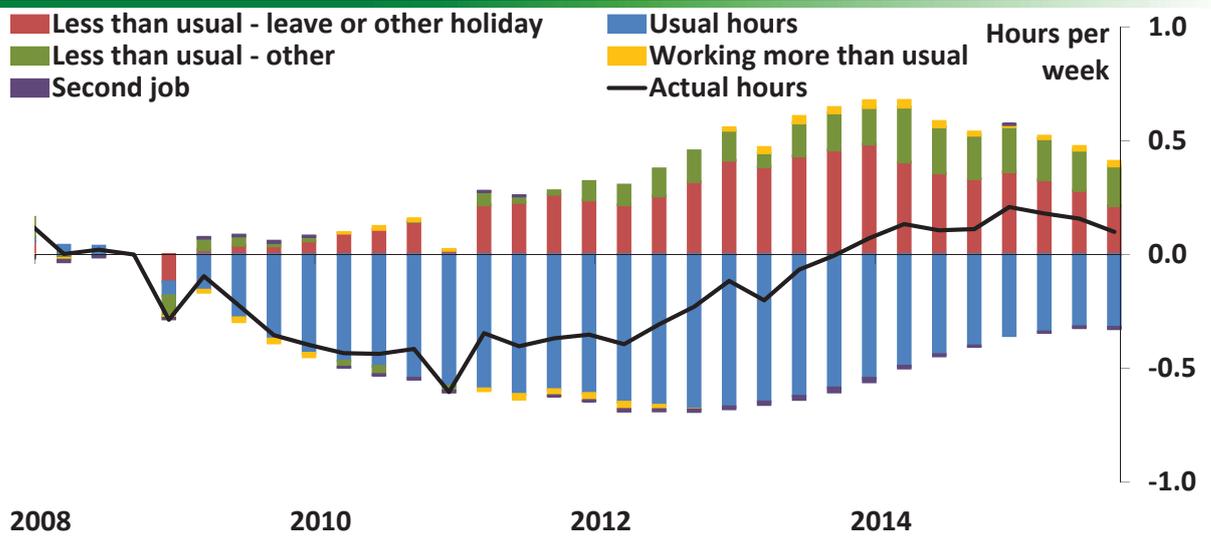
Contributions to changes in average hours since 2008Q3



- In last May's supply stocktake, average hours had been boosted by workers taking less holiday than usual...



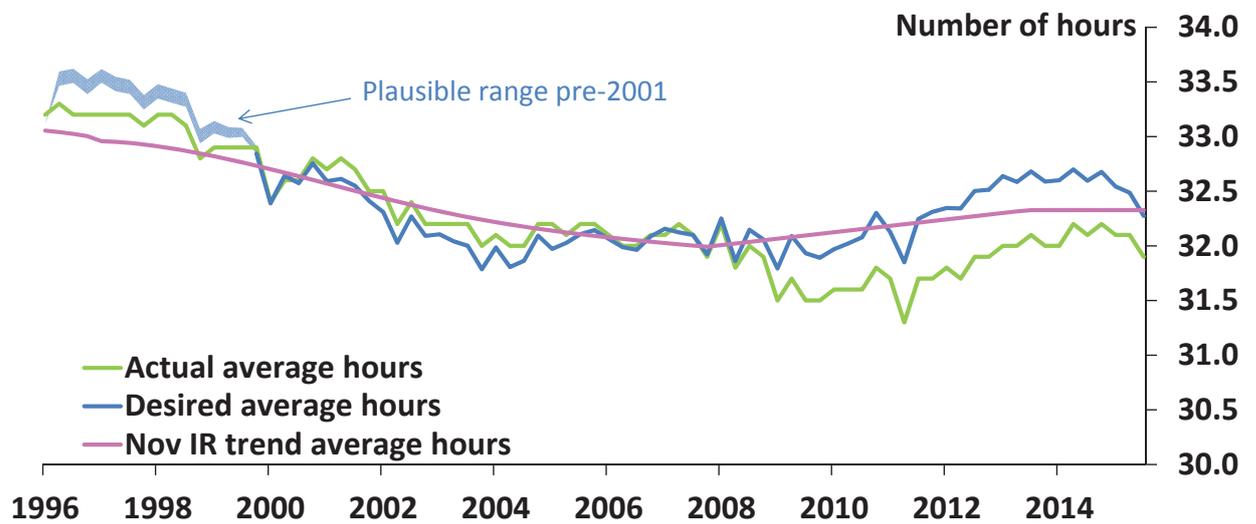
Contributions to changes in average hours since 2008Q3



- ...but this effect has waned in recent months.



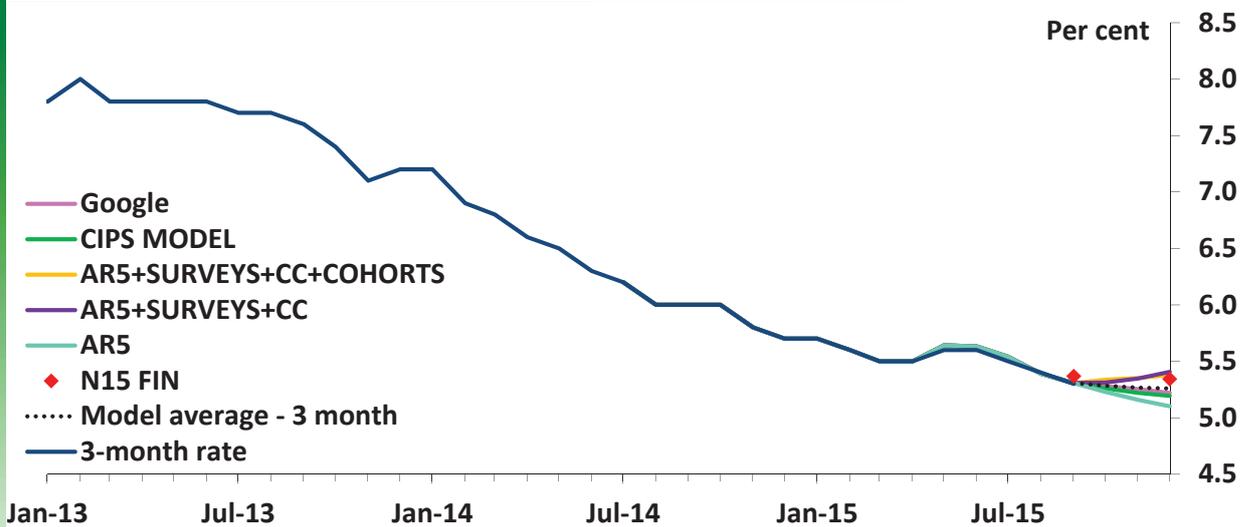
Actual and desired average hours



- Actual and desired hours have fallen back, suggesting our trend estimate is too high.



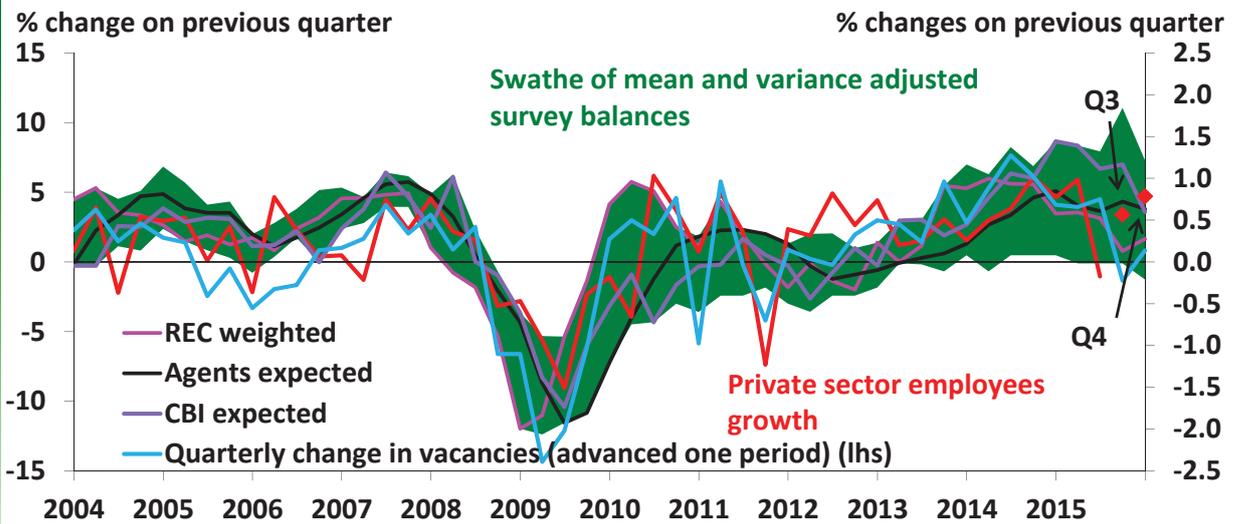
Short term unemployment forecast



- Unemployment fell to 5.3% in Q3, slightly lower than expected.



Employment swathe



- Surveys of employment intentions indicate continued growth in employment.

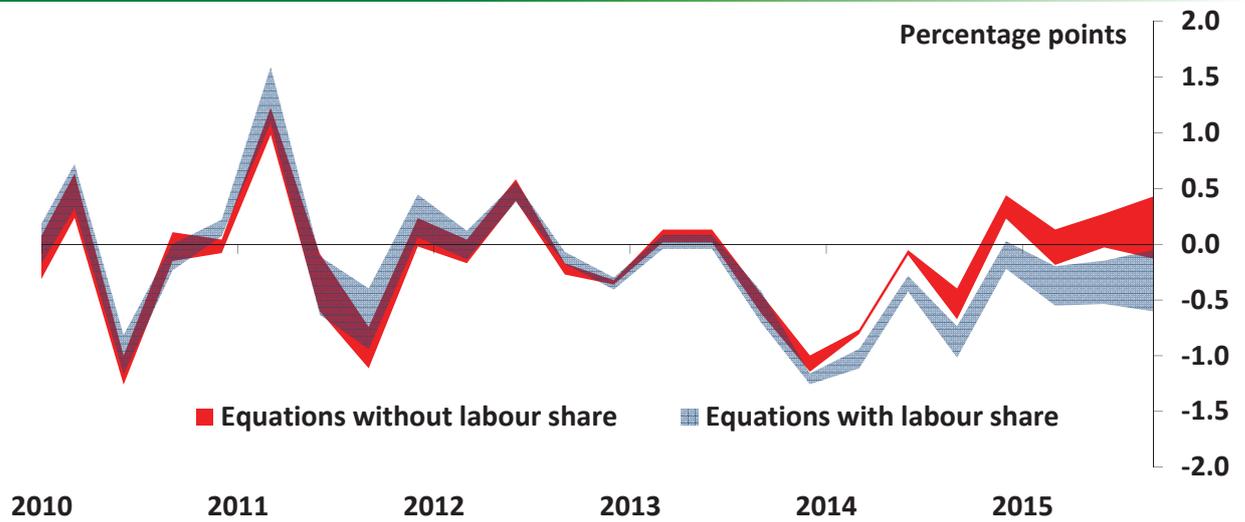


Pay growth stories

Driver	Current impact	Outlook
Compositional effects	Drag on annual pay and productivity growth increased to -0.8pp in Q3	Expected to unwind gradually over the next year
Productivity	Productivity growth per worker slowed in Q3	Pickup in productivity growth over the forecast
Inflation/inflation expectations	Agents report low inflation effect on settlements	Weak in the near term, picking up over the forecast
Labour market slack	Slack not obviously diminishing	Diminishing over the forecast
Churn		
Migration		
Public sector pay restraint		



Wage equation residuals



- Simple wage Phillips Curves have zero residuals in the latest few quarters.

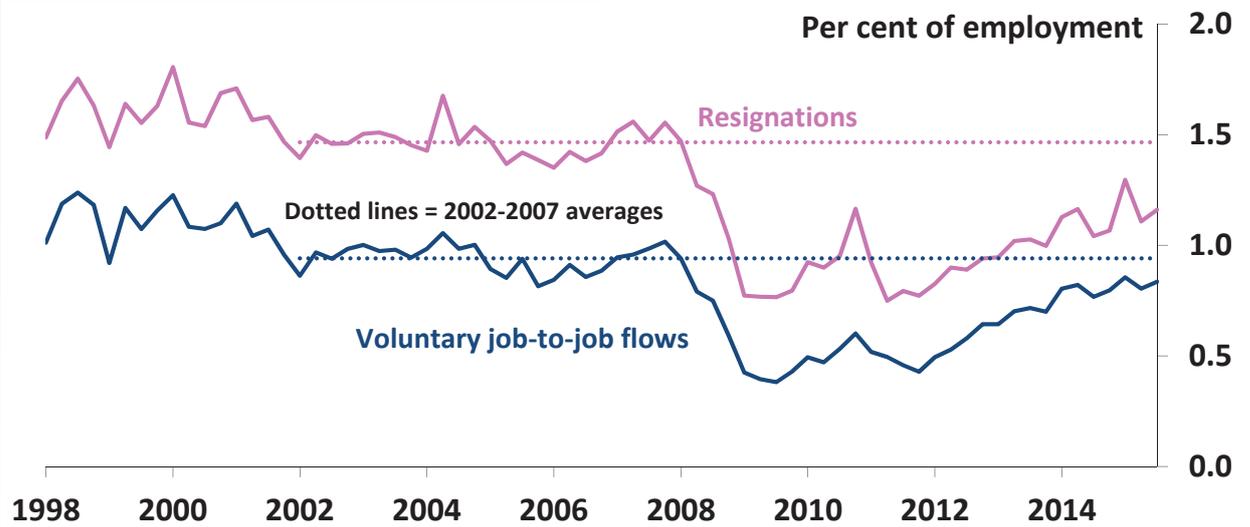


Pay growth stories

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Migration		
Public sector pay restraint		



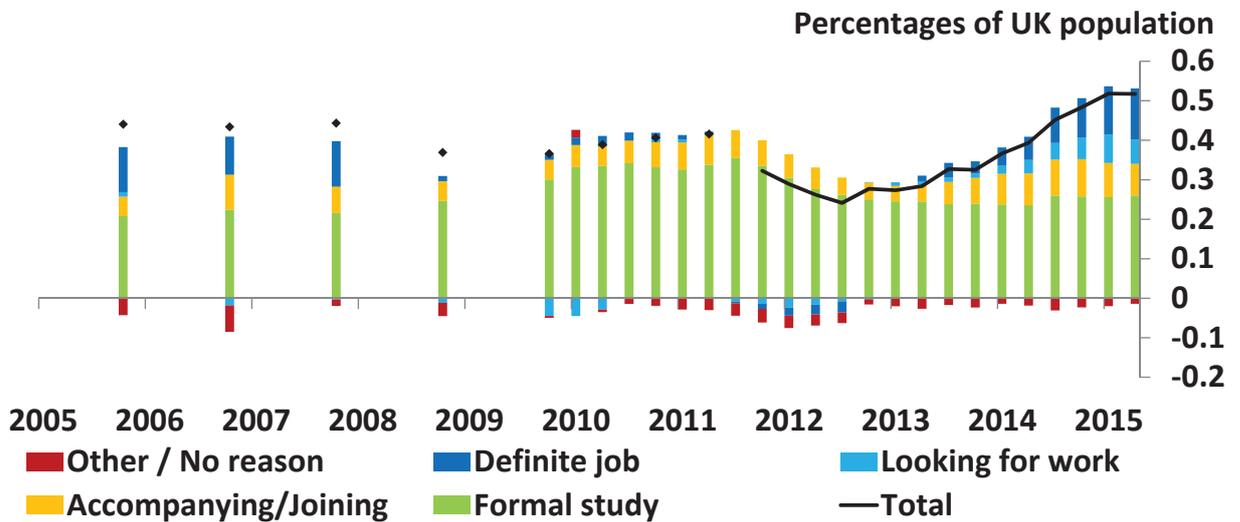
Job to job flows



- Resignations have been rising, but remain low relative to pre-crisis averages.



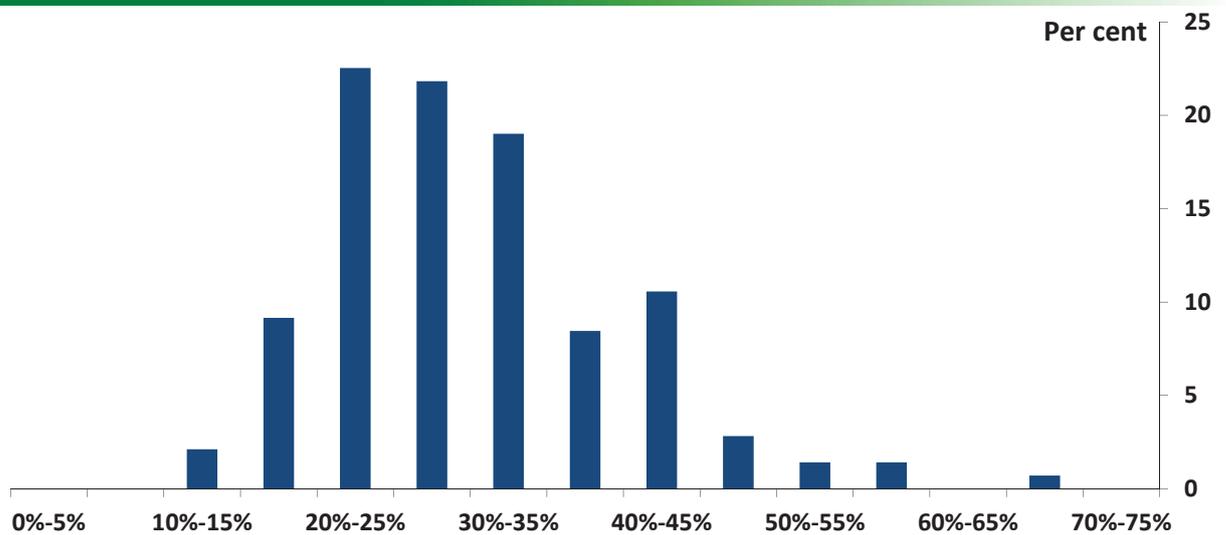
Net migration by reason



- Net migration increased by 336,000 in the year to mid-2015.



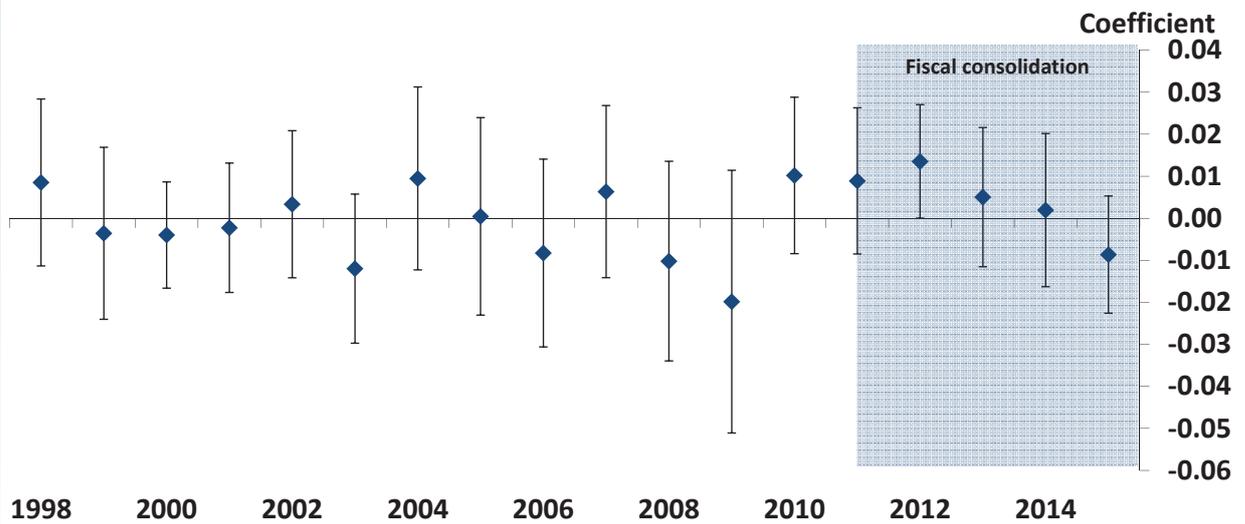
Distribution of public sector concentration



- The variation in public sector employment across regions was exploited to test whether public sector cuts are impacting private sector pay growth.



Beta coefficients over time



- There is little evidence of any significant drag to date. The negative estimate in 2015, though insignificant, might indicate a drag to come.



NLW, auto-enrolment and apprentice levy

	In forecast	Effect on level of pay
<ul style="list-style-type: none">Further rises in minimum employer contribution rates to auto-enrolment pensions 2% and 3% delayed to April 2018 and 2019 respectively.	Yes	½% by 2020 (our estimate)
<ul style="list-style-type: none">Introduction of the 0.5% apprentice levy on the largest firms from April 2017.	No	0.3% by 2021 (OBR estimate)
<ul style="list-style-type: none">And the National Living Wage will come into force in April next year.	Yes	0.4% by 2020 (our estimate, Agents note upside risk from second round effects)



Pay growth stories

Driver	Current impact	Outlook
Compositional effects	Drag on annual pay and productivity growth increased to -0.8pp in Q3	Expected to unwind gradually over the next year
Productivity	Productivity growth per worker slowed in Q3	Pickup in productivity growth over the forecast
Inflation/inflation expectations	Agents report low inflation effect on settlements	Weak in the near term, picking up over the forecast
Labour market slack	Slack not obviously diminishing	Diminishing over the forecast
Churn	Resignations increasing but below pre-crisis levels, little evidence of drag on pay growth	Retention problems diminish in line with slack over the forecast
Migration	Net migration continues to grow, little evidence of drag on pay growth	Net migration falling gradually in ONS estimates
Public sector pay restraint	There is little evidence of a current impact on private sector pay growth to date, some evidence of a drag in the near term.	Public sector pay restraint to continue until 2019



Is wage growth running out of steam?

- AWE growth is losing steam, but some of that may reflect lower average hours.
- Recent weak pay data mean annual growth in AWE divided by productivity growth is expected to be 1.3% in Q4.
- The news in compositional effects, productivity and slack means the slowing in pay growth is explicable ex-post.
- Low inflation may have played a role and may delay the pickup in pay growth until further into 2016.



END



8: Agents' Update



Agents' Update

2 December 2015

Agency for Northern Ireland
Inflation Report & Agency Intelligence Division

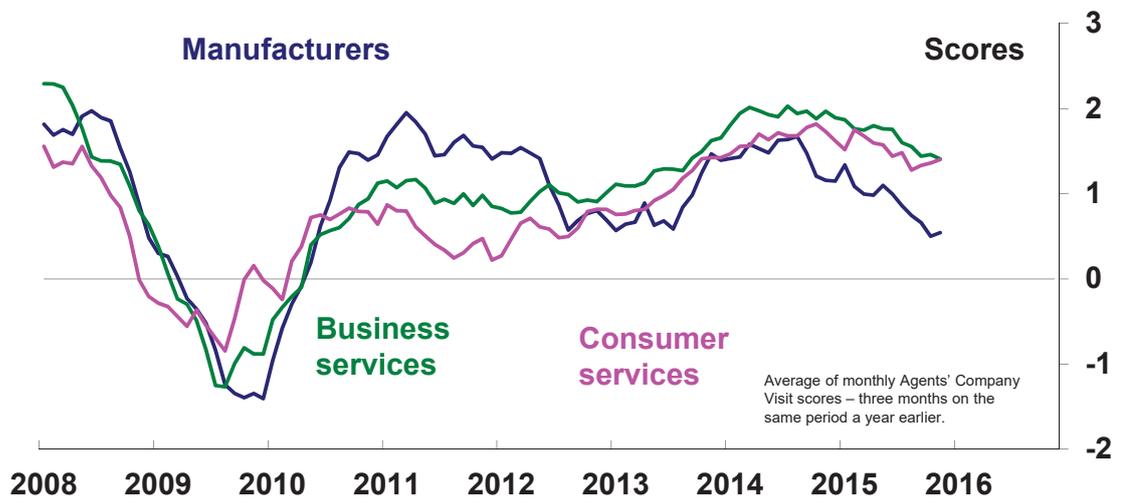


Topics

- **Growth Expectations**
- **Investment Intentions**
- **Employment Intentions**
- **Black Friday**

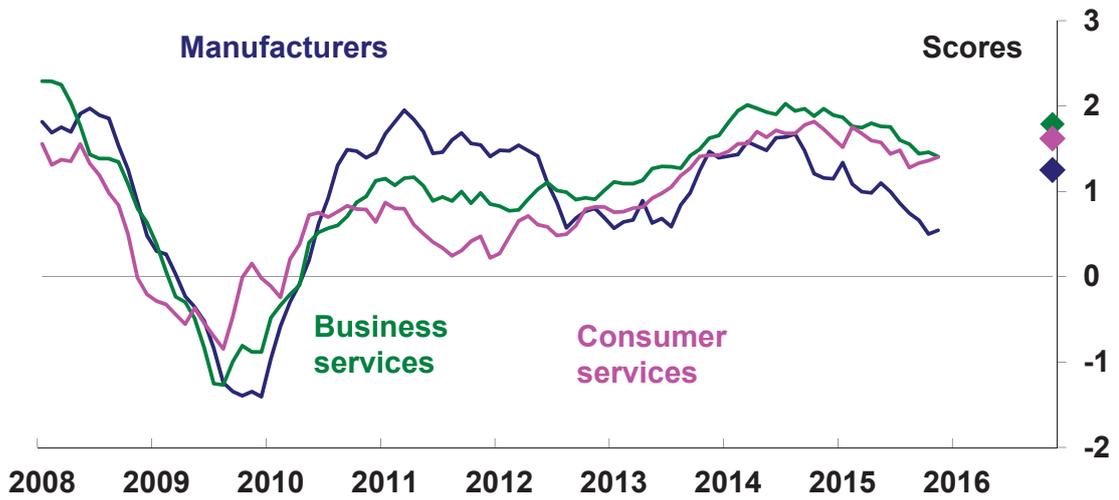


Firm level scores of actual growth



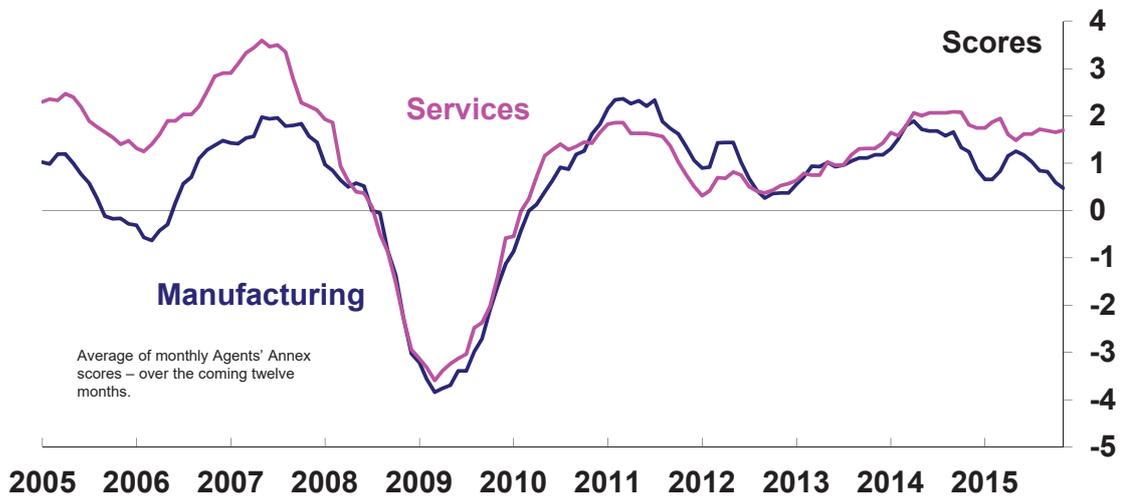


Firm level scores of actual and expected growth



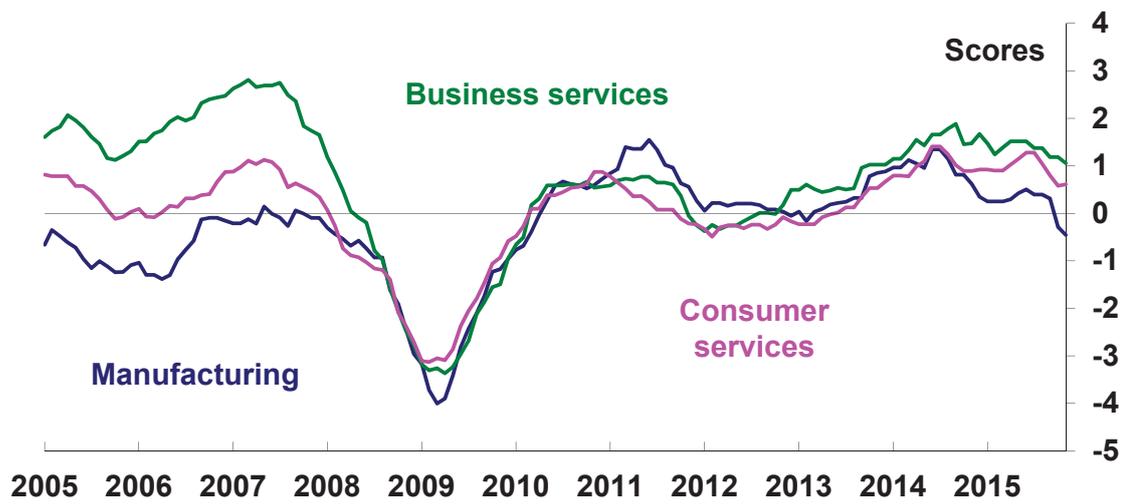


Agents' Scores: Investment Intentions





Agents' Scores: Employment Intentions





Investment & Employment Intentions

- Investment and employment intentions overall remain positive, but exporters, and their suppliers, are cautious
- Employment intentions have softened more than investment intentions
- Productivity improving
 - past recruitment and investment
- Renewed focus on productivity/some substitution of capital for labour
 - tighter labour market
 - NLW



Black Friday

- More retailers expected to participate than last year, greater focus on e-commerce
- The event was spread over a longer time period, targeted fewer products and discounting overall was thought to have been less deep
- Bigger impact than last year, but largely displacement from autumn, Christmas and New Year sales
- Retailers' expectations for the Christmas period overall are positive



Summary

- Firms expect a modest pickup in nominal demand, but to sub-trend levels of growth.
- Investment and employment intentions are softening, more so for manufacturers than services firms. Exporters, and their suppliers, cautious.
- Employment intentions are weaker than investment intentions suggesting some shift towards substitution of capital for labour as the labour market tightens
- Renewed focus on productivity across all sectors
- Black Friday expected to have a bigger impact than last year, but largely displacement