Inflation Report Press Conference

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Joel Hills, ITV News: Joel Hills from ITV news. Governor, the Bank of England assumes Brexit will be smooth, the markets are increasingly betting it will be anything but. Michael Gove assumes no-deal will happen, Boris Johnson says the chances of no-deal are 1 million to one. In the interests of transparency, Governor, and for the people of the UK, what is the committee's view? How likely is no-deal at the end of October?

Mark Carney: Well, first thing is government policy to pursue a deal, I think the Prime Minister has been absolutely clear about that. What Mr. Gove was referring to was the assumption of no-deal for the purpose of Brexit contingency planning. Absolutely necessary assumption of no-deal has the consequence of some of the announcements we've seen today of additional spending, or at least the provision of monies for additional spending, that period that would be necessary to prepare for no-deal. Look, the financial policy committee of The Bank of England has assumed the possibility of no-deal since the day after the referendum, which is why we've been preparing the financial sector to be ready for no-deal, and that the core of financial sector is ready for no-deal. That's different, preparing for a contingency, and the country has to be prepared for that contingency, financial sector is prepared for that contingency. A contingency is different than what's most likely and all I can do is quote the Prime Minister speaking earlier this week when he said, "We're not aiming for no-deal. We don't think that's where we'll end up" The decisions on whether or not there is a deal are decisions for government, in negotiations with their European partners.

Joumanna Bercetche, CNBC: I'm not going to ask what your view is. Joumanna Bercetche, from CNBC. It seems to me that you're still guiding towards rate hikes and indeed today you have your inflation CPI over the forecast horizon at 2.4%. Even under your stylised changes in asset prices, so that's box six, you've still got 2.1%, so you're still implying rate hikes. Now, what is the value of providing that forward guidance in an environment where the market is pricing in rates cuts in 2020 and placing a higher value on the political risk than you are? So, essentially you are guiding the markets towards an outcome that the markets don't necessarily believe in, the assumptions that you're relying on.

Mark Carney: Yes, well what the market is doing, as the market always will, is taking into account all possible outcomes. It's relatively unusual, it's not totally unusual but it's relatively unusual to be in a situation where you have quite binary outcomes, such as the country faces between the possibility of a deal and a smooth transition to some form of deep trading relationship with the European Union, to no-deal and an instant adjustment to a WTO trading relationship, which is a very different thing. Now, the market is, as you know, waiting to cross all those outcomes and increasingly has been putting greater weight on the latter, on the no-deal possibility. Not the majority weight, but greater weight on that. We look at what's most likely, we look at government policy, we also speak to the people in the country and there's two messages. There is a clean, clear message around in the event of moving towards a deal, we think that the way the economy will perform will be consistent with some modest adjustment upwards in interest rates, over that period of time, and it's important that households and businesses understand that. There's reporting in this report of something called the NMG survey, survey of thousands of people across the country, that's what they expect.

It is more complicated in the event of no-deal, and it's more complicated in the event of no-deal because it is not as simple as saying that, in the event of deal, there's just one path that monetary policy could take because no-deal would, very unusually for an economic shock, be an instantaneous shock, not just to demand which is what everybody is used to seeing, but a shock to supply. There will be supply capacity in this economy that will become uneconomic. Now, the degree to which that happens will partly be influenced by no-deal preparations, but not totally eliminated, as I just said, by those no-deal preparations because the fundamental economic trading relationship has changed and it will take some time for this economy, which is one of the most flexible economies in the world, even this economy will take some time for it to adjust its supply capacity, which was oriented, in export terms, largely towards Europe to be oriented in different directions. I know you didn't ask this directly, but it's not as simple as just saying rates go one way in the event of a deal and they go another way in the event of no-deal. That's why policy response is not automatic, so the value of giving the guidance on the still most likely scenario, it's become less dominant than previous, but the still most likely scenario is so households and businesses know where it's going, and quite frankly markets know where it's going. If you strip out their no-deal probability weighting, it's basically where they expect it to. Thanks.

Ed Conway, Sky News: Ed Conway, Sky News. Governor, it's your last set of major forecasts ahead of that October deadline and a lot of people will be looking towards you and towards the bank to try and get some sense of what to expect, how to prepare for a possible no-deal Brexit. So, what's your advice to the person on the streets? How do they prepare? What should they expect? What might this feel like, from your perspective?

Mark Carney: Well, let me reiterate that, again, we obviously don't speak for the government, but we listen to the government in terms of their stated policies and it's still the stated aim of the government to have a deal, first point. In terms of preparations, it is important to reinforce to people on the street, hopefully to people who also have homes to go to, but people on the street that the financial system is ready for it. We have been preparing for this for years, both in terms of what we can do, but also the institutions themselves, but a no-deal situation, broad brush, is one in which sterling is likely to be lower, in which inflation is likely to be higher for a period of time and the economy is likely to slow. Now, the degrees to which all of those happen vary on many factors including, by the way, what no-deal actually means because one of the uncertainties in all of this is different people mean different things when they talk about no-deal. When we do our contingency planning at The Bank of England, no-deal means no-deal. No-deal means there's no side arrangements. No-deal means that the trading relationship instantly goes to WTO tariffs and product standards, and that it has the associated economic effects. In terms of households and businesses, look, I would say broadly this, which is that UK households, and I said it a moment ago, are acting prudently, they're not borrowing a lot, they're spending out of their real income. They do have a very strong labor market going into this, unemployment at a 44-year low. Real wages are growing the fastest since before the crisis, since 2008, and inflation's bang on target, so real incomes are growing, but households are not becoming overextended then that's probably the right approach to take.

Faisal Islam, BBC: Just to clarify some of your answers to the previous questions, if there are people in Downing Street who think that if there's a no-deal Brexit, this institution will deploy a massive monetary stimulus, are they wrong?

Mark Carney: It depends. It absolutely depends on the impact. First, what does no-deal actually mean? Is it, as I just described to Ed, absolute overnight jump to WTO with no mitigating actors? That's the first question. Secondly, it depends on the impact, the degree of preparedness of border infrastructure, other infrastructure in the country, in this country and in Europe obviously, because it's all inter-connected. We could have a good day of imports into this country and putting stuff on ships and ferries to go across the Channel, but if they don't come back or they get held up there, then it will have a knock-on effect. So, it depends on the preparations, depends on the nature and it also depends on how quickly the supply capacity of the economy adjusts. There is trade disruption in no-deal, problems at ports and then there is supply destruction and that is activities that used to be economic as part of the single market that no longer are economic and then those resources needs to be re-deployed. We will have to take a judgement in that event about whether, on balance, the inflationary pressures, and there will be inflationary pressures in no-deal, because of the exchange rate, because of some of the tariffs that come in, because of some loss of supply. Whether those inflationary pressures whether we can look through those, extend the horizon and provide support for the economy as it adjusts. Now, what we have said, and I have reiterated in my opening remarks is we will do what we can in those circumstances to support jobs and activity, but there are limits to what we can do.

Ultimately, this is about our best contribution is returning inflation sustainably to that 2% target and it is an unusual circumstance to have a major supply shock and that was not the case after the referendum. It was only a perspective supply shock, not an actual one. In no-deal, it will be an actual one.

Phil Aldrick, The Times: Phil Aldrick at The Times. Gary Cohn has been on the radio this morning saying that he believed that no-deal would be preferable economically to prolonged uncertainty because economies are more resilient than we tend to think they are. It was an interview with the BBC.

Mark Carney: Who was it, sorry?

Phil Aldrick, The Times: Gary Cohn.

Mark Carney: Never heard of him.

Phil Aldrick, The Times: Is he right? Is he right?

Mark Carney: Can you pass that on to Gary, that I've never heard of him.

Phil Aldrick, The Times: Is he right? Is Gary Cohn right that a no-deal is preferable to endless, prolonged uncertainty?

Mark Carney: No, he's wrong. The no-deal as a crystallisation of a bad economic outcome is not preferable to the possibility of a better economic outcome. As we have said, since immediately following the referendum that whatever outcome the country chooses, it is always preferable to have a transition to it and I think, again, that is consistent with the preferences, the aims of this government and consistent certainly with the aims of businesses up and down the country. You know, again, the country is, if not the most flexible, one of the most flexible economies in the world and it's supported by one of the strongest financial sectors in the world, but it is very difficult to change things over night and it's highly preferable, whatever choice is made that there is some transition to it.

Helia Ebrahimi, Channel 4 News: Helia Ebrahimi, Channel 4 News. Governor, you have given a stark warning about a no-deal Brexit, pound falling, inflation rising, growth slowing. Will the measures outlined by the new chancellor cancel out these risks?

Mark Carney: Well, obviously we don't speak for the Chancellor and there have been some indications of a variety of measures that the government intends to take, there is also a signalling that there will likely be some form of fiscal event in the cause of the fall. It's obviously for the treasury, for the Chancellor to specify that fiscal event and to specify the measures. Certainly, the possibility, whatever the economic outcome path that the country is on, that fiscal policy will adjust, it could provide some support to the economy. As the Bank of England, we will take that into account, we will adjust our forecasts accordingly, but, you know, there has not been a new budget, there have not been specific measures put into place yet, so we adjust once those actually happen.

Larry Elliott, The Guardian: Larry Elliott of The Guardian. The MPC says that the interest rates in the event of a no-deal Brexit would not be automatic, thy could go up as well as down, what you’re not saying there is that the risks are symmetrical, are you?

Mark Carney: No.

Larry Elliott, The Guardian: I just wonder whether you think that the risks are weighted towards a cut in interest rates in the event of a no-deal or in favour of an increase in interest rates when the markets certainly think there is more chance of a cut rather than a high. I just wondered what you thought.

Mark Carney: Yes. It’s an important question, I will say two things. First, that we have said that we will do what we can to support jobs and activity, subject to achieving the inflation target in a sustainable manner, that’s what the committee has said. Individual members of the committee, myself included, have given their personal views on this in terms of the balance of risk and the balance of policy, but today, Dave, Ben and myself are here speaking on behalf of the committee and the committee has not given a collective view on that. So, it wouldn’t be appropriate for me, I just refer you back to my previous testimonies and other comments from my own personal view, but that’s not a committee view, if you follow, thanks.

Jason Douglas, Wall Street Journal: Hi, Jason Douglas from The Wall Street Journal. Nice to see Belfast on the cover of the inflation report, by the way. My question is could you give a sense of what you think no-deal Brexit would mean for the global economy? Is it likely to be a bit of local difficulty relatively contained in Europe or is it the kind of thing that could cause what could be quite a severe shock to a global economy that does look quite fragile?

Mark Carney: It would be an unwelcome development for a global economy. I know that as the perceived probability of this event shift around, my incoming calls from fellow policymakers and interested observers certainly go up and the intensity of discussions that are had increase. There is obviously a lot of focus in terms of the inter-connections within the financial sectors itself through financial markets. I think there’s an understanding, there’s an appreciation of both the fact that in our judgement, the judgement of European authorities, that the core of the system is ready, but also this distinction between being ready and resilient doesn’t mean that markets don’t move and they don’t move potentially quite sharply. Of course, when you get risk events, quite often correlations shift fairly substantially in ways that aren’t anticipated and have knock on effects. That’s the first few points. Then, the last one, just to reinforce, I think we all recognise that multilateralism is under some strain. The global trade system is being buffeted by a series of actions, threatened actions, and this would be part of that, at least part of that narrative. It’s just not a narrative, it’s a reality. A reality that businesses are dealing with and is creeping into the way businesses are thinking about how they organise themselves, particularly how they organise their supply chains.

So, it has effects, it would have effects beyond just my judgement and I believe in the revealed preferences of fellow policymakers beyond the GDP weighting, if you will, of the UK economy, which is considerable, but it's not the largest economy in the world.

Francine Lacqua, Bloomberg TV: Francine Lacqua, Bloomberg TV. Governor, how much of the slowdown in UK growth can actually be reversed by a smooth Brexit and by resolution, in the US-China trade deal?

Mark Carney: So, reversed, both of those would have a material impact on the outlook for the UK economy. There is a substantial, and it's detailed in the report graphically, it's graphically in both senses of the world, the investment shortfall that has developed in the UK both relative to historic trends and relative to the major advanced economies. Some of that will not come back, the opportunity has been lost, but there is substantial dry powder, there is substantial opportunities, the financial sector is very strong, as I've been saying. So, we would expect a sharper acceleration with not just a deal, but a clarity about the nature of that future relationship. One of the things we've been picking up in the short term has been that this uncertainty about the future has become somewhat more entrenched in companies so the expectation, they're looking for clarity about that future relationship, not just a preservation of the current openness and trade deals do take a long time to actually negotiate. We have to get from the no-deal to deal, but then turning a deal into actual may take some time. US-China, hugely important for the global economy, without question, not just because the two largest economies, but also because the nature of those negotiations have broadened not just to issues around a bilateral imbalance, but if I can put it colloquially, the rules of the road for trade in technology trade and service.

Openness to foreign direct investment, so depending, obviously everybody hopes for a resolution, hopes for a deal, but the nature of the deal and the depth and breadth of that deal if and when it comes will send a big signal about the future of global trading relationship. Therefore, for the UK would make a material difference to the outlook, which is one of the reasons why we've mentioned it.

Delphine Strauss, Financial Times: Delphine Strauss, FT. Coming back to domestic policy, number ten says that the policies it's planning to set out are aimed at putting rocket boosters under the economy. Do you think a big boost to demand is what's needed right now?

Mark Carney: Well, a margin of excess supply is opening up in the economy. In our forecast, it quickly is used up in the event of progress towards a deal. That's partly because monetary policy and overall financial conditions in our judgement are highly accommodative. So, once some of that uncertainty starts to dissipate, there's an acceleration of the economy and mood. Now, again, the government speaks for itself, but there are multiple reasons why there might be greater spending. It can be for social services and protection, it can be to boost productivity through infrastructure and other spending. It can be for no-deal planning, as was announced today. It can also be for contingencies in the event that the economy is weaker because of the nature of the negotiations or the adjustment to the EU relationship. In that last event, or in any of those events, what we do, obviously, Delphine, is take into account what the government decides and then we can be pretty nimble and quick and adjust policy in either direction accordingly.

Tim Wallace, The Telegraph: Tim Wallace at The Telegraph. Governor, not quite everything is about Brexit, you've mentioned the global economy slowing down and the effect that's having on the UK. We've seen the Fed ease policy, the ECB opened the door to more easing, were you tempted to join them? Did you consider joining them to form a, sort of, united front in supporting the global economy?

Mark Carney: Look, the situations are quite different between ourselves. I mean, the UK and Europe, there has been a fair bit of job growth in Europe, but the growth in wages and the growth in unit labour cost has been much stronger in the United Kingdom. The headline figures, whether it's from unemployment, unemployment relative to where we see the natural rate, participation rate, private sector wage growth, all of those are stronger here. Core inflation is just below target here, it's around 1% in Europe, so there are pretty substantial differences in the position that the ECB is facing and what we're facing here. Then, with respect to the United States, I'll state the obvious, but sometimes it's good to state the obvious, the Fed was on a long hiking cycle. They had tightened policy, and they are adjusting from that, and I'll just refer to the comments that they released yesterday in Chair Powell's press conference to situate the rationale for that, but they're from a position where they had tightened policy, again, where they're operating with a very tight labour market. So, we're in between the two. On top of that, as we've said in the report, we have an economy that could face, or that could travel down multiple paths, quite different paths depending obviously most importantly on the relationship with the EU. At this point in time, inflation's bang on target, labour market's tight, domestic inflationary pressures are firming, and again, and I'll stop with this, you know, the intention of the government, the expressed preference of the government is to pursue a deal, and in that world, there would be some eventual limited gradual tightening of policy. The judgement of the committee, and I very much shared that, was that easing policy or tightening policy didn't make sense, keeping policy where it was did.

David Goodman, Bloomberg News: Thank you. David Goodman, Bloomberg News. Governor, given the next inflation report comes after the Brexit deadline, the first time we hear your detailed forecast for a no-deal could be after that scenario has come to pass. Does the bank have a responsibility to the UK people to act sooner than this, and would you consider updating your forecast before November if government policy changes?

Mark Carney: First and foremost, our responsibility is to make sure the system is ready for no-deal, we've done that, and we'll continue to do that. It's not we're done and we're not looking at it, but we'll continue to monitor and take additional steps as necessary. We have been asked to update our worst case scenario, disorderly Brexit scenario which the FPC has used to capitalise banks and assess the readiness of the system, and so we will deliver an updated version of that, obviously, in response to the request of the TSC for when they reconvene in September, I guess. Look, we will respond to the circumstances as they change. Ultimately, what matters is that we are deploying monetary policy in a way that's consistent with achieving the inflation target, returning inflation to target if it moves away in a sustainable fashion, and in doing so, supporting the economy while we do, and we don't need a full forecast in order to make those decisions. Thank you.

Anna Isaac, Wall Street Journal: Anna Isaac, Wall Street Journal. Could I ask the Governor, he's made a very important point to the population of the UK that the financial system is set so that it won't amplify, ideally not amplify the shock of a no-deal Brexit. Could I ask what contingency plans are in place to support the pound in the event that there's a market disruption as a result of a very sharp decline in its value?

Mark Carney: Well, first, it is highly, highly unlikely, that's the first thing to recognise. There will be volatility in asset prices as the probabilities around a deal or no-deal shift, without question. We saw probably the most extreme version of this type of shock with the referendum when the market was heavily positioned in one direction. The betting odds for all the utility were a 10% or 15% probability at ten o'clock at night after the polls had closed, which gives you a sense of how much, you know, positioning was and to the extent to which one should take with a certain grain of salt, these indicators of probabilities. Heavy volumes, big moves in sterling, but the market's functioned well. Now, you would expect us to take appropriate measures or be ready to take appropriate measures to ensure that that is the case, but it's highly, highly unlikely, and what one wants when you have a big economic shock, and we've learned this and we are firm believers in it, is that markets adjust. Part of the shock absorbing function here would be a change in the value of sterling, market interest rates and equities, and it's that belief in markets, that belief in the values and the institutional structure that's here, including, and this is a key point which goes back to the policy response in the event of no-deal, including a commitment to the inflation target, sustainable return to the inflation target, that also helps limit the scale of these moves. Thanks.

Faisal Islam, BBC: Governor, how will the sharp fall in sterling fees through into inflation is the quantum big enough to, for example, lead to real wages falling again?

Mark Carney: Well, maybe, why don't I ask Ben to say a word or two about-, particularly, one of the issues, of course, and it goes to Ed's question earlier, about how can it affect households, and so first question really is, how does it layer into-, which prices move when the exchange rate moves and then beyond? So, Ben, do you want to?

Ben Broadbent: Yes. So, just to begin with on the rough scale, about 30% of what we consume is imported, either directly or indirectly, so that will give you some idea of the overall level of the effect. That takes quite a while to come through, several years in fact, but there are some areas where you can notice the effects quite quickly, most obviously with things sensitive to the price of oils, so petrol, for example, and also food prices tend to react relatively quickly. We are, of course, starting from a base where real wages are growing pretty strongly, so it would take a pretty big move to turn that around into negative territory. You can see some of the sensitivities of overall inflation in the box at the end of the report.

Helia Ebrahimi, Channel 4 News: Can I just clarify my last question? Rather than the broader fiscal response, what do you think of the new Chancellor's specific money for increasing preparedness for a no-deal Brexit? Does that cancel out the risk that you have outlined today?

Mark Carney: That?

Helia Ebrahimi, Channel 4 News: That you have outlined today in terms of a no-deal Brexit?

Mark Carney: First is, there's an acknowledgement by the government that further steps need to be taken for the country to be prepared, including in ports' infrastructure, other aspects, border officers, others. I think there's a recognition, we referenced this in the report, that a number of our exporters, particularly small, medium-sized businesses, are not yet set up to export to a third country if Europe becomes a third country as of November 1st for the purposes of trade, URI numbers, other basic-,

Helia Ebrahimi, Channel 4 News: (Inaudible)

Mark Carney: Well, these are questions for the government. Questions of financial sector preparedness, any day, you know, you can ask us any question. That which we oversee along with the FCA and work with the treasury, total line of sight into it. Do we know exactly how many border people they need, the progress? We track these things, or we try to track them, but this is fundamentally roles for the government. I think the announcement today is a recognition by the government that more needs to be done, provision of money for those, but in terms of tracking the day-to-day progress, I just direct over you to them.

Ed Conway, Sky News: What do you say, Governor, to those who look at the bank's forecasts, cutting the GDP forecast, one in three chance of a contraction, and say, 'You're just a load of gloomsters. You're talking the economy down'? What's your response to that?

Mark Carney: I mean, we're recognising-, first thing, we're being very clear that performance in the economy, some of the volatility in the economy is a consequence of Brexit preparations, so these are temporary factors. For example, the second quarter, likely to be a flat quarter, could be a little higher, could be a little lower, but a substantial component of the deceleration of the economy from a 0.5 in Q1 to, let's say, flat is because of the unwind of a stock-building effect. That doesn't mean run down of stock, but an unwind of that, and the fact that a number of auto manufacturers took their downtime, shut their plants literally in April instead of August because they felt that no-deal preparations were not fully there and that they were going to have downtime if there had been no-deal in April. Okay? So, that's just, you know, when we say we think there's going to be a flat Q2, it's based on analysis of things and then we show that.

We give our best view of where we expect the economy to go. It's absolutely clear, I think it's extremely difficult to dispute, that the level of uncertainty that's affecting businesses has continued to increase, it's also clear that there has been a substantial shortfall in investment as a consequence of that. It's beginning to become clear that the trade response to lower sterling has begun to fade, in part because of weaker world but in part also potentially because of the capacity constraints that are a consequence of a few years of not investing in increased capacity because you don't know whether you have the export market. So, these consequences are there. We're setting policy in a way that can provide the support for the economy that it needs, we've provided a lot of support post-referendum. Fast forward to today, inflation's at 2%, unemployment's at a 44-year low. We're not saying we delivered all of the latter, but we certainly didn't get in the way of it in the face of some pretty severe headwinds. Thanks.