Andrew Bailey

Inflation has been close to our 2% target for more than half a year now, and today we have been able to cut bank rates again by 0.25 percentage points to 4.75%. The best and most sustainable contribution that monetary policy can make to growth and prosperity is to ensure low and stable inflation. I'll start my remarks on recent developments and the near-term outlook for inflation, then turn to our medium-term forecast and its determinant drivers before concluding on today's monetary policy decision.

Chart one that’s just come up shows the evolution of 12-month consumer price inflation. That's the purple line over the past year. It's fallen a long way to an average of 2% over the past five months and 1.7% in the latest data, which were for September.

This is 0.4 percentage points below our August projection, which is shown in orange and around one and a half percentage points below our projection from a year ago, which is the blue line. So, the disinflationary progress process has progressed well and indeed faster than we expected.

Both oil and gas prices have been significantly lower than market pricing suggested a year ago. But the downside news to inflation over the year has also reflected lower than expected food core goods and services price inflation. Since August, services inflation has fallen quite sharply to 4.9% in September, 0.6 percentage points below the projection we made in August.

Looking further ahead to the next six months, which is shown in the shaded area of chart two, that has just come up, we expect consumer price inflation to rise somewhat as the drag from lower energy bills wanes. That's the orange bars and the contribution of services price inflation comes to dominate. That's the yellow bars. It's encouraging that we can now move forward from a lower starting point, but services price inflation remains elevated and recent downside news has tended to be driven by more volatile components such as airfares and accommodation. We still need to see services price inflation come down more broadly to keep headline consumer price inflation at the 2% target.

Monetary policy has been guided by the need to squeeze remaining inflationary pressures out of the economy, to achieve the 2% target sustainably. We have needed restrictive monetary policy to lean against domestic second round effects from those global inflationary shocks.

We now face the question of whether the remaining domestic inflationary pressure, for instance, manifest in services, price inflation and pay growth will dissipate naturally now that the global shocks initially driving up inflation have unwound, or whether achieving this disinflation will require a period of economic slack in the UK economy. Alternatively, are we experiencing sustained changes in the structure of the economy with longer lasting effects on inflationary pressures? These have become important cases in the MPC's deliberations.

As policymakers, we can think that all three cases are of relevance, albeit to different degrees. Now, the forecast that we publish in the monetary policy report today is based on the second case. In the projection, second round effects on domestic prices and wages are expected to take somewhat longer to unwind than they did to emerge. But a margin of slack emerging over the forecast period is sufficient to ensure that consumer price inflation falls back to the 2% target in the medium term. And this is shown in chart three.

The blue line is the projection for consumer price inflation, conditional on the 15-day average of the market implied path for interest rates to the 29th of October. That's our usual convention. Headline inflation increases to around 2.75% by the second half of next year, before falling back to around the 2% target over the medium term. Alongside the forecast, the committee has also considered the two alternative cases for how the persistence of inflationary pressures may evolve. In these cases, inflationary pressures may prove to be either less persistent or more persistent than in the projection. And this is set out in more detail in a box in the report.

I'm now going to add some reflections on the key judgments that we've made on the outlook for inflation. Our November projection is conditioned on government policies as announced in the Autumn budget.

Chart four shows public sector net borrowing and how it is projected to change relative to the previous March projection by the office for Budget Responsibility. In the Autumn budget, the path for public sector net borrowing is higher than it was in March, but the chart on the left also shows that the difference is more pronounced in the first than in the future years. Public sector net borrowing is still projected to fall significantly over the forecast period.

We provisionally expect the measures announced in the budget to boost the level of GDP by around three quarters of a percent at their peak in a year's time. This reflects the stronger and relatively frontloaded paths for government consumption and investment, more than offsetting the impact on growth of higher taxes. Overall, fiscal policy is still expected to tighten over the forecast.

But all else equal, the changes announced in the budget are expected to reduce the margin of spare capacity in the economy over the forecast period. The marginal effects on our inflation projections from the Autumn budget are shown in chart five, which has just come up.

Combined measures push up on inflation by just under half a percentage point at their peak. That's the white line. The extended freeze on fuel duty pushes down on inflation over the next fiscal year. That's the orange bars.

But as it is assumed to rise thereafter in line with announced government policy, fuel duty then pushes up on inflation from the second quarter of 2026. Other measures do directly push up on inflation over the first year. That's the purple bars.

Now, there are different ways in which the increase in employer national Insurance contributions could play out in the economy. It represents an increase in the cost of employment. There are at least four margins of adjustment.

Firms could pass on higher costs to consumer prices, or firms could absorb the increase through a lower margins or higher productivity. Firms could increase wages by less, or firms could respond by reducing employment.

Now let me be clear. Public policy measures of this kind serve other objectives, and it's not for us to opine one way or the other. What we must do is respond to any consequences for inflation in order to meet our 2% target over the medium term. Now we will get information on how the consequences for inflation evolve over time. A gradual approach to removing monetary policy restraint will help us to observe how this plays out, along with other risks to the inflation outlook.

Developments in the UK labour market continue to be very important for assessing developments in inflationary pressures. There are mixed signals from the data. Wage growth remains strong relative to our models, perhaps reflecting some continuing real wage catch up in a still relatively tight labor market. As chart six shows, annual growth in private sector regular pay. That's in blue on the left-hand side, has eased to 4.8% in the three months to August, down from a peak of just above 8% in mid-2023. And indeed, in line with our expectations in August, a normalisation in inflation expectations, an easing in labour market tightness have supported that moderation in pay growth.

Consistent with the slowing in the official measure, a bank staff indicator model of underlying pay growth has also declined in recent quarters, pointing to underlying wage growth of around 4.8%. That's the orange line, along with some but not all, outside surveys and measures seen on the right. This points to a gradual but progressive move down in wage growth towards levels consistent with the 2% inflation target. The Bank's agents also suggest that wage settlements could continue to come down, perhaps to around 2 to 4% next year, compared with 6 to 6.5% in 2023. And I would add that this is the story that I've heard consistently when I have joined them recently on visits to businesses in different parts of the country.

But two further observations should give us cause to reflect. First, one year ahead expectations for wage growth of firms in the bank's Decision Maker Panel seem to have stabilised at a higher level of around 4% in recent months. Second, the evidence, such as it is, points to the quantity side of the labour market remaining relatively tight while showing some loosening. Both of these observations could point to lingering persistence in wage pressures beyond what we're assuming in the projection.

So let me conclude. There has been continued progress in disinflation, particularly as previous external shocks have abated. So, at this meeting, the committee voted to reduce bank rate to 4.75% based on the evolving evidence. A gradual approach to removing policy restraint remains appropriate. Monetary policy will need to continue to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium term have dissipated further. The committee continues to monitor closely the risks of inflation persistence and will decide the appropriate degree of monetary policy restrictiveness at each meeting. And with that, Clare, Dave and I will be happy to take your questions. Thank you.

Katie Martin

We'll start today with Larry for his last press conference, and then we'll go to Faisal.

Larry Elliot

Thank you. Governor. Is the message from this report that as a result of the budget, interest rates will stay high for longer than they otherwise would have done?

Andrew Bailey

Well, let me let me begin by echoing what Katie just said, if you don't mind, Larry, on a personal note, I know this is your last. I don't know how many of these you've done, but it must be a lot. Too many?! No, that can't be true. There's no such thing as too many of these.

But look, Larry, I think we all want to join in together and a thank you for all you've done for British economic journalism. And we wish you very all the best for the future. It's been a pleasure working with you. And you are, of course, the first person ever to get applause in this press conference!

Because we will never get any. So, all the best, Larry.

So, on the question about the budget that we've set out the picture, I would say, look, we've cut interest rates today. So, I mean, that of course, is actually obviously significant in the context of the news. You'll see that the view we've reached. So, the first thing I'll say, yes, there is there is some upward effect on inflation. But the path of inflation as we've set out, we think returns to the target, in the horizon that we look at. And that is what has given us, in a sense, support for cutting rates today.

But what I would say, and I'd just reemphasize what I said earlier, is that there is obviously a lot that we will learn about the effects of the budget, as they pass through. I think it's important that, you know, we have time to do that. We all have time to do that and so that underlines again, the message we've given today. We'll need to see how these effects pass through. I laid out quite carefully the channels through which the impact, for instance, on employment costs, can work.

They are obviously quite different channels actually we can have combinations of those. We no doubt will have combinations of those channels and will want to observe very closely how the how that works. Our agents are fully primed to go out and start asking about it. And, you know, we'll want to get that information.

Dave Ramsden

The market curve always moves around and as we flag in the minutes, I mean, in the run up to the budget, it was being pushed by, pushed up by US data developments, that's quite common. There have been movements since the budget, but we're seeing you know, we're seeing quite a lot of movement in the curve at the moment, given the events that are taking place either domestically or globally.

Clare Lombardelli

So, I could add a bit about the detail if you like, on the impact of the budget as we have seen it. You can see in our projections we've been quite clear. So obviously, you know, the fiscal loosening that the budget represents means we've got higher inflation by 0.3 percentage points at the end of next year, 0.4 the year after 0.3, the one after that.

That's quite similar to what the OBR have actually. They've got a slightly different profile because we, you know, have slightly different views on their on their multipliers. They're slightly more front loaded. But you know, you can see there the impact of the, of the budget on inflation.

And that is of course, set in a much wider context of what we've seen on inflation in terms of actually the numbers coming down and coming down by more than we expected recently, but also on the inflationary pressures that we see in those also coming down, which explains basically the decision today.

Katie Martin

Can we go to Faisal? Yeah.

Faisal Islam

Faisal Islam, BBC news.

Just to reiterate that that point, should people at home, should households expect mortgage rates, for example, to be higher than they otherwise would be even a bit as a result of the budget? And are you happy that the market response post-budget has been orderly?

Andrew Bailey

Well, I think on mortgage rates, we've actually, you know, we've seen some reduction in mortgage rates since the August report. Obviously, we've cut rates today, so we'll see how that feeds through, but obviously how it feeds through for most mortgages now is it depends on how the curve moves. Because most mortgages obviously are priced off the swap curve because they're mostly fixed rate mortgages. So, I don't think that it's sensible to conclude that the path of interest rates will be particularly different in that respect and of course, we don't set out an expected path ourselves because we respond to the news as we see it and form our views as we see it.

So, I would, you know, I would emphasize the points I made that the profile that we have of inflation starts lower and does go up. But let's be clear when we talk about going up, I mean, these are, you know, a different order of magnitude of numbers compared to what we've been talking about in press conferences here for the for recent years. And it's an altogether better magnitude in that sense. But then the key point is that it comes back down to target you know, we think sustainably within the forecast period.

Dave Ramsden Just to reinforce Andrew's point. I mean, the curve, what we've seen, you know, the two-year rate for a 75% LTV mortgage has come down by 78 basis points since May. So that's in chart 2.7. That shows you what's happened to all the all the savings and borrowing, all the key savings and borrowing products. And as Andrew was saying, that's been you know, the reference rate for mortgages is the OIS rate, which has also come down over that period.

Andrew Bailey

Just on the second part of your question, Faisal, and just looking at market movements over the last, last week or two. I mean, to start with, I think if you go back to the beginning of last week, I think the market was positioned long at the sort of shorter end of the sterling curve, so it was positioned for lower interest rates. I think what you saw in the later part, latter part of last week was, you know, some adjustment.

There were there were some closing of those positions as, as the curve moved up. Not surprising because, you know, those positions have stop loss orders on them typically and those stop loss orders can be quite highly correlated.

So we've had that process, but then of course, what happened was and this was really from Friday afternoon onwards, that the dominating, if you like, event was the US election not anything going on in this country and the curve obviously has been moving around quite a lot over recent days. But I mean, it's quite clear that that's been the more dominant factor.

And I think what we were picking up from market intelligence was that there was quite a reluctance in the market to take positions while the outcome of the US election wasn't, wasn't known.

So, you did get, I think, these two things coinciding. I think there were some closing out of positions in sterling into a market which was increasingly from certainly from Friday afternoon onwards, not really wanting to take positions given the uncertainty of the outcome of the US election. So, I think that's the context.

But I think now, look, you know, you look at the market today, it's a lot more, you know, it's pretty subtle today.

Dave Ramsden

And throughout the period because obviously you'd expect us to, you know, keep a very close eye on monitoring. You know we've been seeing orderly market conditions.

Katie Martin

Great. Let's go to Helia and then Sam, please.

Helia Ebrahimi

Helia Ebrahimi, Channel 4 news.

Governor, what's your message to households today? You seem to be saying that you're cutting interest rates because inflation is coming down. In fact, it's coming down faster than you expected.

But you're also saying that inflation isn't returning to target now until the middle of 2027 compared to the middle of 2026, which you thought before the budget. On balance, has the budget made your job harder?

Andrew Bailey

Let's take two parts to the message. The first part is you said quite rightly, is look, we've got good news. The disinflation process, as I showed in the first chart, you know, not only continues but actually has been faster than we expected and not just faster over the last year, faster since we were last here in August. And that's good. And it's encouraging. There is greater uncertainty out there.

Now I would point to two things. I mean, first of all, there is greater global uncertainty, without doubt. The second thing to say is that there are, of course, there are domestic uncertainties, I pointed to two of them in my remarks. One was just to say, we need to obviously see how the budget measures pass through in terms of their economic effects. And then I pointed again, as I have done in the past, obviously, to the labour market and how the adjustment of the labour market continues. And those things are obviously related as well.

So, it's a point about uncertainty and that's why, as you'll have observed, the word gradual once again appears in our language.

Sam Fleming

Sam Fleming from the Financial Times.

You talk about unexplained strength in import prices in the report and its importance for inflation in that light. Could I ask you about the result of the US election and the potential for higher protectionism and trade barriers, Tit for tat retaliation around the world.

How do you think about that? In terms of upside and downside risk.

Andrew Bailey

Yeah. I mean, I'm sure Clare will want to come in, but let me make two points to start with.

First of all, the point we were making or are making on import prices is not really about it's not at all about the US election.

It's really based on, an observation in the data that the relationship between world export prices and sterling and UK sterling import prices has not moved as we expected. In a sense, they've not really moved together.

We've seen some divergence with stronger UK import prices than we would have expected based on world export prices, and frankly, we've adjusted our assumption to reflect the fact that we don't see any evidence of that really sort of coming to coming to a conclusion.

On the second point, about the US election, I can I just make this point. First of all, you know, we always respond to announced Policies - that's true in the world it's true in the UK- not to, stories about what they might be. So, we're not going to respond to anything.

The second thing I'll say, just to be very clear on this, you know, we work with all US administrations more obviously on the financial stability side than the monetary policy side, because that's the nature of financial stability versus monetary policy. But we work with all administrations we will look forward to working with the new US administration.

We worked with the previous Trump administration. We worked with the current administration, and that's our job. I mean, that's what we do. We do it without any, uh, if you like, sort of, you know, presumptions and we will do that constructively.

Clare Lombardelli

It's not much to add on the, on the the import box and the global export process up to sort of reiterate your point that what we've done here has made a sort of change in our judgments, reflecting what we're seeing in the data, particularly, um, and, you know, the effect is, is not sort of insignificant on inflation further out.

Katie Martin

Can we go to Szu and then Joel, please?

Szu Chan

Hi, Szu Chan from the Telegraph.

Just following on from Sam's question, I wouldn't dare ask you a question about policy, but just about the structure of the UK economy. How exposed is the UK economy to a potential global trade war? And given the UK exports more services as opposed to goods to countries like the US, are we more immune?

Andrew Bailey

Well, I mean, the UK is an open economy. That's one of the things we always say about the UK economy. And it's true, it's an open economy of course many, many economies are open.

So, we're not we're not unusual in that respect. So, look, I think we will have to watch this very, very closely as we will. As I said, I'm not going to make any, you know, any presumptions about what will happen, because I don't think that's either (A) consistent with our policy remit or (B) wise, frankly, I think let's see what happens.

And you know, there will, I'm sure, be a very open dialogue between both our government and the US administration and I say where appropriate, just to reiterate the point, you know, we work very closely with the US administrations because it's obviously the right thing to do.

And, you know, we will no doubt, over time, be able to get a better sense of what the policies are and then be able to answer your question, how they might affect the UK economy. And of course we'll do that.

But I'm just not going to, I don't think it's useful or wise to enter into sort of speculation at the moment of what they might be, because we just don't know.

Joel Hills

Joel Hills, ITV news. I have a couple of questions.

We have had a significant rise in UK interest rate expectations in the last few weeks. How much of that do you assess is down to domestic UK factors, and how much of that is down to international factors? Please.

And you have just cut to 4.75% level you say is restrictive. You'll get a round of applause if you do answer this one. You are talking about gradually removing policy restraint. At what level of interest rates would policy no longer be restrictive, please? Because you must have that in mind when you make those statements.

Andrew Bailey

Well, that's of course, the Ben Broadbent memorial question. Yeah, but you're not you're probably safe from getting the Ben Broadbent memorial answer where he'll talk about John Williams, the Welsh economist!

Um, we'll save you that one.

Look, to start with the interest rate point. Look, let me give you one, I think quite interesting fact. And actually, I'll go back to take it back to sort of a couple of days ago. If you look at movements along the interest rate curve from the beginning of October to a couple of days ago, and when you compared the US curve with the UK curve that basically moved by about the same amount.

You know, particularly if you go out sort of a bit along the curve. So, you know, what I would say from that is there's clearly quite a lot of international, you know, input going on to that and certainly when our staff do their decompositions of contributions to curve movements, which they do for us every time we meet, there's quite a substantial international element in that. On the neat way you try to get to the R star question, we don't, very deliberately we do not have a level of, of the equilibrium interest rate or the neutral interest rate R star, call it what you like, uh, in mind, because it will be very dependent on factors.

And, you know, there is a long run, you know, there's a long run, you know, concept which is much more related to sort of structural things in the economy. And then there's a shorter run concept which is more cyclical and more immediately relevant, which, you know will be influenced by a lot of things, some of which we've already talked about.

So, you know, I'm always very careful in saying I don't expect interest rates to go back to the very low levels that they were at prior to prior to the obviously increasing rates, unless there were some completely unknown shock of the nature of the sort that caused them to go down in the first place, you know, back in the financial crisis and Covid.

So, but that obviously leaves quite a bit of territory in between for us to, you know, for that rate to settle in.

Joel Hills

I asked repeatedly. Because it's hard to make sense of the statement that policy is restrictive. If you won't, then there after say what you think, restrictive is not a good answer.

Clare Lombardelli

I mean, I, I hear you saying, look, we've cut rates today. We cut them in August, but clearly it is still restrictive. We do a lot of analysis on the impact of restrictive policy on the economy and as part of that, we have to think about and look at actually how restrictive is policy now. So, it's not that we don't think this is an important concept. We do, we think about it a lot, we think very hard about the impacts.

I mean, it wouldn't really be sensible for us to try, I mean, look, it's an unobservable variable, it's an incredibly uncertain variable that changes over time. The things that drive R star, obviously, you know, all quite in themselves, quite difficult to measure the relative weights you put on those things, difficult to measure. They're all changing over time. I think it is more useful for us to give a bit of a sense of actually, what do we think? We think it's currently restrictive, we don't think we'll go back to the sorts of levels of neutral rates that we saw after the global financial crisis to give a sort of an overly confident answer on this, I think, would be, frankly, suggesting that we know something that isn't knowable.

Dave Ramsden

And I would just add to both those points. I mean, as Andrew was flagging on and it's always the case that you, sterling markets are moved around a lot by US markets. And you know, we saw in the run up to the September meeting, um, you know, that, um, what appeared to be more weakness in the UK economy relative to the earlier in the summer was pushing down our rates, as I highlighted earlier then in the, you know, in the run up to the budget last week, stronger data out of the of the US was pushing up our rates.

And as Andrew just said, once you got through to last Friday, you saw non-farm payrolls and then you've seen, um, you know, the position of markets taking risk out in advance of the US election having effects again.

So, the key points here I think are these more qualitative points rather than a very specific quantitative point. And just on I mean, we're very clear that the very significant tightening in policy that took place from, we have to now look back in time to that, but that took place starting from three years ago, at the end of 2021, had a very significant effect in terms of bringing a positive output gap down to the output, you know, output gap where it is now broadly in balance. So, that's clear evidence of a restrictive policy. And as, as Clare has just set out very clearly that it remains, you know, the policy setting remains restrictive.

Andrew Bailey If I could just give Joel one practical illustration, which I think is helpful. I mean, the degree of uncertainty around UK labour force participation, obviously feeds through into what we think the neutral interest rate is, because that obviously affects, you know, where neutrality is and where these various gaps are. And as Clare said, they're not only unobservable at the best of times, there's quite a lot of uncertainty around some of them at the moment.

Katie Martin

Phil and then Bob.

Phil Aldridge

Hi, I'm Phil Aldridge at Bloomberg.

The market path that you used is almost half a percentage point lower than the current market path. Now that might be incorporating some manner of risk premium post the sort of extra debt, from the budget or even some Trump premium globally. I'm not sure. But that would imply that inflation is going to bear down on inflation more than in your forecast. So, inflation falls further below 2%.

Does that then mean that you have to respond by cutting rates faster?

Andrew Bailey

Well, it's something that we did reflect on, you know, quite considerably in the committee. And the question is, you know, the relationship between the forecast and the policy decision is not mechanical, but the forecast, obviously, is a very important guide and we take it very seriously and constructing it.

But as you said, and we've been discussing already in several of the questions, the curve has moved around quite a lot and has been moving around quite a lot in the period in which we've been finishing, putting together and finishing off the forecast.

So, the question was, well, should we change our standard convention and use something more contemporary, more short run? And we didn't do that.

And one reason we didn't do that is precisely I mean, you made the point yourself. One reason is, look, curves moving around a lot. There's a lot of event risk in this curve at the moment. We don't know where it will frankly settle. We'll come back to it at our December meeting. And for that reason we concluded, and I strongly support this, that actually sticking to the convention.

And the reason we have this convention is because 15 working days is a way of getting an average over a sort of period of time, which is sufficiently contemporary not to be out to out of date, but it does do a certain amount of smoothing. And we decided, honestly, that's probably that's the best thing to stick with.

Yes, you're right. The curve is, you know, is in a different place today. But we'll see where it is by the time we get to our December meeting and judge accordingly. And I think that's the best approach to adopt at the moment.

Dearbail Jordan

Dearbail Jordan, BBC news. Donald Trump has said that tariff is the most beautiful word in the dictionary. Do you agree that it's a beautiful word?

Andrew Bailey Sorry do I agree with?

Dearbail Jordan

Agree with whether tariff is the most beautiful word in the dictionary?

As Donald Trump has said, and in general terms, what did tariffs mean for a country in terms of economic growth and inflation?

Andrew Bailey

Well, there are many words in dictionaries. So, I'm not I've got to say honestly, I don't either have a favorite word or a most beautiful word in the dictionary. I mean, there are many, many words in the dictionary, so I'm not sure I'm going to join in that debate.

I mean, as I said, look, let's wait and see, um, where things get to. I'm not going to, as I say, prejudge what might happen, what might not happen, where policy goes to. I, you know, I do think we have to we do have to watch very carefully the fragmentation of the world economy. I mean, I will say that, it's important.

So we have to consider those consequences. It matters for us both in our monetary policy and our financial stability, context and objectives. So we do spend a lot of time looking at that. Uh, And frankly, there are a lot of risks attached to the fragmentation of the world economy. But I think let's just let's see what happens. It's too early to judge.

Katie Martin

Ashley and then Jack. Yes.

Ashley Armstrong

Thank you. Ashley Armstrong from the sun.

Um, I just wanted to ask a little bit about the services inflation, which has clearly been a big driver for the rest of the year. We know that actually, those companies in the services industry are going to be the hardest hit from the budgets, uh, employers, NICs.

We had Sainsbury's this morning saying that it was facing £140 million of costs, and the boss directly saying this would be inflationary. We've had Weatherspoon's saying that that's £60 million of costs that will also be inflation. Given that services has been so vocal to the driver of inflation, and these companies are being very explicit in saying that it will lead to higher prices for not having other kind of margin absorption. Do you think that you're being slightly overoptimistic that inflation won't rise as much, and particularly on that point on food inflation, because your number's quite low and this is the UK's second biggest supermarket?

Andrew Bailey

Well, I'll just start off I think Clare would want to come in.

I laid out in my opening remarks it's a very good question. I laid out in my opening remarks the sort of the channels through which the effects could come through, because you're right. I mean, it clearly raises the cost of cost of employment. And those channels would have quite different effects and they're not mutually exclusive, by the way.

You can have all sorts of combinations of those channels, not only at any one point in time, but actually the mix of channels could well change over time. And broadly, the channels obviously work, as you said, they work through prices, but they work through wages, they work through employment, and they could work through productivity as well.

Um, Clare, did you want to?

Clare Lombardelli

Yeah, sure. I'm happy to, to talk a bit more about this. I mean, there is a lot of uncertainty about how the how firms will respond to the, to the NICs measures. Obviously, it depends an awful lot on the wider economy and sort of product market labour market dynamics.

As Andrew says, we could see a mix of, we're likely to see, if you like, a range of responses. With all of these margins changing, what we have done for our projections is to assume a mix, as others have. So we do have a small upward increase in prices in our numbers. We do have a change in wages.

We do also have a change in margins that is exactly the same treatment or very similar treatment to the OBR in the sense that it's a mix of those. It's a mix of those margins. We also think it will change over time, and also that it will affect different firms and different sectors differently. But I would just underline it is very uncertain and this is an area where, you know, we will want to observe this.

We will be, you know, using our Agents network who'll be out talking to businesses about precisely how they're responding to this, how they expect to respond to this over time, and it will change. And that's, you know, that's how we'll consider it at the moment what we've done is it's very preliminary. There's a lot to sort of learn in this space there's a lot of uncertainty about it. I don't really think anyone knows for certain how this is going to going to play through.

Andrew Bailey

Just to add one of the things that we've picked up from the agents, um, is that over the last year or so, firms have found it harder to pass cost increases on into prices and that you can see that reflected. I mean, the data on margins on profit margins are yeah, they're very aggregated, so, you know, there's a certain amount of sort of have to make assumptions about how you get from one to the other, but you can see that broadly in the, in the data.

So the question then becomes, I mean, to what Clare was saying is, well, you know, in the current context, how then is that that cost effect going to be passed through in a world where firms are telling us it's harder to pass these things through into prices, and we'll see, because as I say, there are other channels of adjustment, clearly.

Dave Ramsden

And this is this is actually where our, I mean, both Clare and Andrew have emphasized our Agents network, but they do an annual survey for us of what they're planning in terms of settlements for the next year. They'll track that through the year, but they by following up with their contacts, but this annual survey of contacts will give much more of a, I mean, it will still be a survey, so it won't tell you about every firm in the country, but it will go across all the different sectors we have, you know, that's an annual survey. We'll have that in time for February, but then a really important point that Clare was making is that it then comes back to what's actually happening in the economy.

So, depending on, you know, where demand has got to other, other, other conditions of the economy, you know, because the survey is one thing, but actually what they do in terms of which of the different margins of adjustment Andrew and Clare have talked about, you know, we'll have to see through next year and beyond.

Jack Barnett

Hi, Jack Barnett from The Times.

In your main modelling scenario, the second scenario which you've outlined in the forecast, um, you said that the economy is quite close to capacity. That seems to suggest that we're fairly exposed to another demand shock in the future. Like, for instance, something like a cut in taxes or an increase in borrowing like we've seen at the budget previously. Are you essentially saying that if we do get a further increase in borrowing and further increase in government stimulus, that would impact our inflation outlook and your interest rate decisions?

Andrew Bailey

Sure. I think Clare might want to come in on this. I mean.

Clare Lombardelli

Look, any change in demand or supply affects inflation. And we consider, if we were to see some future thing, we would consider that in the appropriate way we'd factor it. We'd factor in what we actually have in our…we broadly think at the moment that the economy is in balance. I mean, I would say estimates of the output gap are notoriously uncertain. You know, we have one view, other forecasters, have other views. And you can never you can never quiet, know. But, we think lots of evidence when you bring it together suggests the economy is broadly in balance.

Looking across labor markets, prices, all of those sorts of things we actually have over our forecast then in in the projections that you mentioned. We have actually the output gap opening up a bit. That's driven by a number of factors. You know, actually in the latter stage of the forecast fiscal policy, which, you know, don't forget, is still actually consolidating later.

We also have the impact of monetary policy still in the forecast. As Dave said, big restrictions in the past, some of that is still is still feeding through. So actually, you know, what we've done is we've set out there one path, one projection. I would reiterate Andrew's point that the projections are only part of the policy making decisions that we take.

But obviously, if we see further changes in the economy, as we will do, we'll factor them in and respond to them as is appropriate.

Katie Martin

Let's go to Eshe and then Chris, please.

Eshe Nelson

Thanks. Eshe Nelson from The New York Times.

I'm going to drag you back to the US election. I just wanted to get your updated reflections. I mean, these results are coming in as you were meeting yesterday, and I don't want to ask necessarily about what you think of proposed policies. We don't know, as you say, but the initial market reaction was very strong. We saw the dollar strengthen against all major currencies. We saw long dated Treasury yields go up quite substantially. You've noted how much sterling markets are kind of very connected to U.S. markets at the moment. So, if those moves do continue to persist or grow in time, just how do you feel that that will affect the UK economy and your outlook for inflation?

Andrew Bailey

Well, it's interesting, I'm going to slightly contradict what I've now said, but bear with me. So, if you go back to last Friday, um, we also had the non-farm payroll number, which was interpreted initially as being weak, although I think, you know, there were 1 or 2 special factors in there with hurricanes. But the market actually the curve actually moved up in the US quite substantially, and our curve sort of moved in the same direction. I only say that because actually yesterday the US curve moved up, but our curve didn't really follow it. So, they don't always they don't always move together in that sense. And I think that may be a reflection also that the point I was making earlier about the unwinding of the sort of position, uh, taking off of positions that we had last week is probably finished now. So, um, those two things weren't sort of interacting particularly, I suspect, yesterday.

So much so look, I think I think going forwards, um, we'll have to see. I'll just come back to the point I make that I think it's important that we, you know, we obviously, you know, see what the policies the new Trump administration decides to announce are. And we're not we're not at that point yet. And we don't know when that will happen.

So, we'll wait and see. But, you know, just to reiterate the point, you know, we're an open economy. So, we obviously watch international markets very carefully. They do have an effect, certainly, as we were saying earlier on the UK curve.

So, we do obviously have a lot of interest in what goes on, you know, internationally and particularly in the US. So, we'll be watching it very carefully.

Chris Giles

Chris Giles from the Financial Times.

If we leave aside where the market curve is now and just look at your forecasts and decision, is there a broadly reasonable interpretation of what you're saying, that if we had another four interest rate, quarter point interest rate cuts over the next year, in line with what you conditioned your forecasts on, the outlook for inflation is broadly consistent with your 2% target. And if that's not a reasonable interpretation, can you improve it?

Andrew Bailey

That's a very nice. I think that's a very nice way of asking. Does gradualism mean cutting every other meeting, which gets us to four. But that's just sort of putting a reflection on it.

Look, I mean, the market curve is obviously what it is. You've seen the forecast that we've published conditioned on that market curve where it takes inflation to our, you know, our view on that in terms of, you know, is that consistent with our remit and the target? But I'm not going to go beyond that in terms of what gradual means. I mean, I emphasize the word gradual. It's not new. Of course we've used it for some time now.

But I think it is, you know, it is important to emphasize it at this point because there is a lot of uncertainty out there at the moment.

Dave Ramsden

Yeah. And I think that would be the only point I would add, or reinforce from Andrew as he set out in his opening remarks, which is, you know, a gradual approach does allow you to, both acknowledge the uncertainties, but also then update your position as things become clearer. And, you know, we've stressed about the impact of the budget. We've also stressed that there are a lot of events going on in the world. So and we'll also then have, you know, as we go through time, we'll learn more about these key issues that we keep emphasizing around persistence of inflationary pressures and whether those are, you know, following the path that we've, you know, that set out in the in the second case, which is what all the numbers we've published today are based on. Or whether there's a more benign path or indeed a path that's less benign because structural factors are creating more frictions, more problems with those second round effects in wages and prices unwinding.

Andrew Bailey

Yeah. I mean, just to add, I think, you know, I set out at the beginning quite deliberately the point that, you know, it's good news, but inflation is, you know, well below where we thought it would be now a year ago. Now why is that.

Well, you know, Dave, Dave's right in his assessment. But another reason is that the conditioning assumptions have changed quite a lot, including energy prices, for instance, and obviously how this uncertainty in the world economy passes through to those conditioning assumptions will be important, and we will react to it.

I mean, you know, I'd just say again, I mean, one of the things that, you know, I readily stick my hand up and say, I would, you know, I would have got wrong, you know, some months or over a year ago now, as sadly, as of course, as sadly, in a sense, the events is what the events in the Middle East would have done to the oil price. But, you know, it's been a different story to the one I would have expected.

Katie Martin

Francine and then, um. Paul.

Francine Lacqua

Francine from Bloomberg, uh, Governor and everyone, thank you so much for the press conference.

What complicates your life more? Is it a budget, an inflationary budget, or is it the prospect of tariffs? And I know you don't want to talk about tariffs and trade, but when do you start modeling them into what they do to forecasts?

Andrew Bailey

Well, I'm not going to get into the subject of tariffs.

But what I would say and I think, I draw on the sort of, first half of my term as Governor. I mean, the external shocks have been the big ones in that sense. So I think, we are still in a world where there are very big global geopolitical shocks going on, and there are very big uncertainties in the world economy.

So, I think based on recent experience, you know, we obviously have to watch those very carefully as to what might, what might develop. And we don't know is the answer in some of these cases.

So, we're going to watch the UK - don't get me wrong -we're going to watch obviously the impact of the UK budget very carefully. But I would say based on, you know, the last four years or so, I mean we've had very big external shocks going on.

Dave Ramsden

And we can say although we're going to see what is announced in terms of future policies, just as the same convention we have for the UK will have for other countries, you know, particularly the countries that are major trading partners of ours. But we have a, you know, we, we frame our forecasts for the, for the UK economy, which is what we focus on with an assessment of the global economy.

So as policies are announced, whatever those are, we can update our assessment of the global economy and then that will frame. So, it's not that we're not going to do it, we will respond to what we see. We just, we haven't got any announcements as yet.

Katie Martin

And Paul just here. Yeah.

Paul Kelso

Thank you Paul Kelso Sky News. Two, if I may briefly. You were in Washington a couple of weeks ago- The Chancellor was there- She announced the changes to the debt rule, clearly an attempt to prepare people at home and abroad for this budget, given the market response. Did she do a good enough job?

And in the US, aside from specific policies, your counterpart who we'll hear from later today, has already been told effectively by the new president he won't extend his term. Do you expect, at the very least, a more volatile and less predictable US administration to have to deal with?

Andrew Bailey

Well, I'll take those in reverse. I'm really not going to comment on what we would expect from the next US administration, because I think we need to wait and see.

You know, I think that's the right thing to do.

It's, as I say, it's not for us to, you know, comment on or judge, you know, what might or might not happen. It is for us to work constructively with all US administrations. And we'll do that and we will, you know, respond as appropriate when we, you know, have information on. Yes, I mean, the Chancellor and I were in Washington together. The Chancellor said at the Treasury Select Committee that she and I obviously do talk quite often, and we did talk through, you know, the market response last week to the budget. We did talk about fiscal rules. I said before, and I'll say again, I don't think it's for me to say what fiscal rules should be. However, I very strongly agree that it's important to have fiscal rules. And I think, you know, it's important that the Chancellor has addressed head on the question of what the appropriate fiscal rules are in the current situation.

Katie Martin

Good. We'll go to Tim.

Tim Wallace

Tim Wallace at the Daily Telegraph. And governor, you mentioned. Before the that you're keeping an eye on the risks around global fragmentation in the global economy. Instead of asking about future policy, can I ask about past episodes of global fragmentation? What do they mean for the UK economy and how did we feel them? Was it growth? Is it through inflation? What kind of lessons can we learn from the past?

Andrew Bailey

Well, it's interesting just going back to a few things I was saying. I mean, first of all, look, the UK as I said, as I said, the UK is an open economy, highly open economy. So obviously and Dave was making this point, um, you know, we have to be very, you know, very aware of and follow very closely and pay a lot of attention to developments in the world economy and as to how they would affect us.

And as I said, we've had we've had some very big developments in the world, in the world at large, in my time as governor.

I mean, if you take Covid, Ukraine, of course, being the other very big one.

I mean, I'll just reiterate the point. I made a couple of minutes over that. You can't predict these things with any great certainty in terms of their effects. I just reiterate the point I was making that I think look, let me say, first of all, that events in the Middle East are tragic and terrible.

Their economic effects so far have been actually quite a lot less than you would have predicted, actually, when this process started. So, you have to be, you know, quite careful in picking your way through these, these global events and global shocks in terms of what effect they have. And we will continue to do that to the best of our, best of our ability.

Suban Abdulla

Thank you. Hi, governor.

Just after the budget and with the outlook for the global tariffs, can you now see a scenario where you might need to move more aggressively on rate cuts, as you suggested last month?

Can you hear me?

So just after the budget and with the outlook for global tariffs, can you now see a scenario where you might need to move more aggressively on rate cuts, as you suggested last month in your Guardian interview.

And just on the gilt market. What would you make of the movements in the gilt market at the moment, and is there a comparison between how it's moving now, and in September 2022?

Andrew Bailey

Well, can I just say I mean, probably like a lot of central bankers, I, you know, my statements are usually conditional. And that's important because we are making policy conditioned on, you know, the world around us, as it were. And to put that into context, in terms of things I've said. There is a world in which we will, you know, move gradually. And, you know, we have emphasized that today because I think there is there is considerable uncertainty out there in the world. But I'll just come back to the very important point that I made at the beginning of my remarks - and I'll reiterate. We have made more progress on disinflation than we expected to, and that is very good news. It's the predominant reason why we've cut today. And of course, if that progress continues, then we will respond to it. That's how we, (A) must react and (B), will react.

Dave Ramsden

And if I can just add on the gilt market. I mean as with all markets, but since this is a core market, we do track very carefully what's happening. And, consistent with what I was saying earlier, we've seen, uh, really orderly developments in the, in the gilt market in recent weeks before and after the budget.

As the Chancellor and Treasury officials emphasized yesterday at the Treasury Committee, there was an auction on Tuesday that was well covered, of 3.75 billion. So, you know that we're tracking the gilt market.

We work closely with the DMO, but we're not seeing anything unusual at all at the moment.

Katie Martin

Good. Okay. Delphine and Jean-Paul.

Delphine Strauss

Thanks. Delphine Strauss from the FT.

You've underlined a few times this very big uncertainty around the labour market data. With that backdrop, does it become a particularly unpredictable venture to make a big increase in employment taxes? The centerpiece of the budget?

Andrew Bailey

Well, I think you have to sort of separate those two things. I think it's important that obviously fiscal policy has to be made, as it were, and has to be tackled. What I also, you know, you're right, obviously, that I think it's important that the ONS are working very hard on this, that we tackle the, the issue around the labour force survey. I don't think you can put fiscal policy on hold. We can't put monetary policy on hold until we sort of tackle the issues in the labor market data. It is harder, I think, to I mean, look, it's harder for us to set policy when we are more uncertain about the, the quantity side of the labor market. By the way, just for clarity, you know, obviously, as you know, this does not affect the wage and pay side of the different survey, but the situation with the labor force survey complicates that judgment. And to reiterate something I said a little earlier, which is that it particularly complicates this judgment around participation, because the UK has a I mean, on the face of it, the UK has an unusual story on participation relative to other countries.

Many countries had a fall in participation during Covid. That's not particularly surprising. I think we can tell that story. But many other countries have seen a recovery. And if you take the UK data at face value, we don't have the same picture in the UK. Now, the question is of course then is that a true read or is it a product of the problem with the labour force survey.

And the problem is, and I showed you I think, a number of charts where and said we're using our staff are very, very clever at bringing up sort of alternative indicators which you can do for things like unemployment, you can do on the wage side. There really isn't any other indicator on participation. It's really not easy to get at without having an LFS in which you have confidence.

Katie Matin Thanks, John.

John Paul Ford

John Paul Ford from the Daily Mail, you mentioned that you discussed the market reaction to the budget with the Chancellor.

Can you give us a bit of a flavour of those discussions, and is it customary for you to, um, to discuss such an impact with the Chancellor, or is that an indication that you were at you and the Chancellor were concerned about that market impact, as the yield on ten years had gone from 3.75 mid-September to 4.6 yesterday.

And secondly, what do you say to those who suggest that bond vigilantes are stirring, not just because of the budget, because everything else that's going on in the world economy.

Andrew Bailey

Well, I'll take the first one. I mean, look, first of all, I mean, I think I'm now on the sixth chancellor since I was appointed and the fifth since I started the job.

So, I can speak with sort of quite a bit of experience of different Chancellors. Frankly, I talked to all Chancellors regularly, and I talked to all Chancellors about markets because of what Dave said earlier. You know, the Bank, you know, invests a lot of resource and time and effort in, in market intelligence market following markets as we must, as all central banks do. And, you know, one of our responsibilities is to share that with the Treasury and the Chancellor, because that's, that's where we have a sort of an expertise. And so I'm always, you know, very open with Chancellors and say, look, you know, we will talk regularly, we'll talk regularly about this, and I will give you my assessment of the state of markets, and I do it regularly, so you shouldn't read anything into that at all. It's a very regular thing to do. I think it's an important piece of, if you like, coordination amongst the authorities. And it happens very naturally. I gave the Chancellor my assessment of what's been going on.

As Dave said, of course, the Debt Management Office will actually do the same thing because they've got to, you know, they've got a view of markets, a window, particularly of the gilt market as well. We have a rather broader obviously view because we're covering many markets, both domestic and international. Um, And I'm, you know, more than willing to do that. And you shouldn't read anything into it in terms of some, you know, some unusual practice.

Dave Ramsden

And to give you an example, and, you know, when I was, um, at the Treasury as the chief economist, I would speak regularly to the head of markets here, um, as well as to, you know, my predecessor as the deputy governor. When Clare was At the Treasury. I would speak to Clare when I was in this role. So, you know, this is we you know, we have the along with the DMO who are focused on the gilt market, as you would expect.

You know, we like other central banks, particularly in global financial centres, have a have a, you know, significant market intelligence capacity because we need to be able to advise whether it's the Monetary Policy Committee or the Financial Policy Committee about what's going on.

Just to just to pick up on your point. We've had your second point. We have a regular dialogue, with both the buy side, the asset managers and the sell side, you know, the investment banks and the like, about what they're seeing and what they're expecting. And it's certainly the case that through this year and in recent months. The feedback we've been getting is that we should, you know, there's likely to be more borrowing, more debt created in the world economy. And not surprisingly, you would expect the prices of debt to adjust to that, yields have been going up.

But the point I've been trying to stress Andrew's been stressing is that in terms of what we're seeing in wholesale markets and in gilt markets, these price adjustments are happening in a very orderly way at the moment.

Andrew Bailey

I mean, just I'd just reemphasize a point I made earlier just to illustrate. I mean, I made the point earlier that we could see the positioning of the markets as a whole or broadly, quite a lot of it.

Now that's quite unusual. I mean, most participants and most outside observers can't see that positioning in real time. We're fortunate we can see it, a lot of it through so-called trade repository data. So, we're able to say, you know, and I'm able to say to the Chancellor, look, I think this is where the market's positioned. So, we should expect this process to happen, we should expect, I think you know there was going to be a triggering of stop loss positions. That's natural, you know markets take positions, those positions get adjusted.

The thing we have to watch very carefully is, are we then seeing – essentially - the natural repositioning of the market with what goes with that and there will be price movements or are we seeing something else now. My assessment last week was no, that we're seeing the natural process working its way through. There will be some quite sharp movements in prices as there were, but it's a natural process taking place.

Katie Martin

Great. That's all we have time for. Thanks very.

Andrew Bailey

Much. Thank you very much. And Larry, best wishes again. Yeah.