Bank of England

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 31 January 2024

1 February 2024

These are the minutes of the Monetary Policy Committee meeting ending on 31 January 2024.

They are available at **https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2024/february-2024**.

The Bank of England Act 1998 gives the Bank of England operational responsibility for setting monetary policy to meet the Government's inflation target. Operational decisions are taken by the Bank's Monetary Policy Committee. The minutes of the Committee meeting ending on 20 March will be published on 21 March 2024.

Monetary Policy Summary, February 2024

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 31 January 2024, the MPC voted by a majority of 6–3 to maintain Bank Rate at 5.25%. Two members preferred to increase Bank Rate by 0.25 percentage points, to 5.5%. One member preferred to reduce Bank Rate by 0.25 percentage points, to 5%.

The Committee's updated projections for activity and inflation are set out in the accompanying February Monetary Policy Report. These are conditioned on a market-implied path for Bank Rate that declines from 5¼% to around 3¼% by the end of the forecast period, almost 1 percentage point lower on average than in the November Report.

Since the MPC's previous meeting, global GDP growth has remained subdued, although activity continues to be stronger in the United States. Inflationary pressures are abating across the euro area and United States. Wholesale energy prices have fallen significantly. Material risks remain from developments in the Middle East and from disruption to shipping through the Red Sea.

Following recent weakness, GDP growth is expected to pick up gradually during the forecast period, in large part reflecting a waning drag on the rate of growth from past increases in Bank Rate. Business surveys are consistent with an improving outlook for activity in the near term.

The labour market has continued to ease, but remains tight by historical standards. In the February Report projections, the continuing relative weakness of demand, despite subdued supply growth by historical standards, leads a margin of economic slack to emerge during the first half of the forecast period. Unemployment is expected to rise somewhat further.

Twelve-month CPI inflation fell to 4.0% in December 2023, below expectations in the November Report. This downside news has been broad-based, reflecting lower fuel, core goods and services price inflation. Although still elevated, wage growth has eased across a number of measures and is projected to decline further in coming quarters.

CPI inflation is projected to fall temporarily to the 2% target in 2024 Q2 before increasing again in Q3 and Q4. This profile of inflation over the second half of the year is accounted for by developments in the direct energy price contribution to 12-month inflation, which becomes less negative. In the MPC's latest most likely, or modal, projection conditioned on the lower market-implied path for Bank Rate, CPI inflation is around 2¾% by the end of this year. It then remains above target over nearly all of the remainder of the forecast period. This reflects the persistence of domestic inflationary pressures, despite an increasing degree of slack in the economy. CPI inflation is projected to be 2.3% in two years' time and 1.9% in three years.

The Committee judges that the risks around its modal CPI inflation projection are skewed to the upside over the first half of the forecast period, stemming from geopolitical factors. It now judges that the risks from domestic price and wage pressures are more evenly balanced, meaning that, unlike in previous forecasts, there is no difference between the MPC's modal and mean projections at the two and three-year horizons.

Conditioned on the alternative assumption of constant interest rates at 5.25%, the path for CPI inflation is significantly lower than in the Committee's modal projection conditioned on the declining path of market rates, falling below the 2% target from 2025 Q4 onwards.

The MPC's remit is clear that the inflation target applies at all times, reflecting the primacy of price stability in the UK monetary policy framework. The framework recognises that there will be occasions when inflation will depart from the target as a result of shocks and disturbances. Monetary policy will ensure that CPI inflation returns to the 2% target sustainably in the medium term.

At this meeting, the Committee voted to maintain Bank Rate at 5.25%. Headline CPI inflation has fallen back relatively sharply. The restrictive stance of monetary policy is weighing on activity in the real economy and is leading to a looser labour market. In the Committee's February forecast, the risks to inflation are more balanced. Although services price inflation and wage growth have fallen by somewhat more than expected, key indicators of inflation persistence remain elevated.

As a result, monetary policy will need to remain restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term in line with the MPC's remit. The Committee has judged since last autumn that monetary policy needs to be restrictive for an extended period of time until the risk of inflation becoming embedded above the 2% target dissipates.

The MPC remains prepared to adjust monetary policy as warranted by economic data to return inflation to the 2% target sustainably. It will therefore continue to monitor closely indications of persistent inflationary pressures and resilience in the economy as a whole, including a range of measures of the underlying tightness of labour market conditions, wage growth and services price inflation. On that basis, the Committee will keep under review for how long Bank Rate should be maintained at its current level.

Minutes of the Monetary Policy Committee meeting ending on 31 January 2024

1. Before turning to its immediate policy decision, the Committee discussed: the international economy; monetary and financial conditions; demand and output; and supply, costs and prices. The latest data on these topics were set out in the accompanying **February 2024 Monetary Policy Report**.

2. Consumer price inflation across major advanced economies had declined by more than had been expected in the November Report, with continued easing of both goods and services price inflation. The Committee compared features of the disinflation seen across the United States, the euro area and the United Kingdom, and the risks around the inflation outlook. The Committee judged that the divergence seen across economies reflected differences in energy price dynamics and variation in the impact and timing of recent global shocks and their subsequent dissipation, alongside distinct profiles for spare capacity. Disinflation in core goods prices had been comparatively more pronounced so far in the United States because in the euro area and the United Kingdom the lag between falls in producer output price inflation and core consumer goods inflation had shown signs that it might have been longer than in previous cycles.

3. There had also been some differences, as well as commonalities, in the development of services price inflation and wage growth across these economies. Bank staff analysis suggested that the recent falls in services inflation across the three economies had been accounted for largely by declining non-labour input costs, including energy. Labour costs, by contrast, had remained elevated across countries, although there were some signs of easing emerging, particularly in the United States. To the extent that they were broadly comparable, measures of wage inflation had remained considerably higher in the United Kingdom than elsewhere.

4. In the United Kingdom, all of the respondents to the Bank's latest Market Participants Survey (MaPS) expected Bank Rate to be left unchanged at this MPC meeting. They also all expected the next move in the Bank Rate to be downward. The median expected profile for Bank Rate from the MaPS implied a cumulative 100 basis point reduction in Bank Rate this year starting from June 2024, broadly in line with market pricing. Market contacts had suggested that disinflationary news in recent economic data outturns both in other jurisdictions and in the United Kingdom had been a significant factor in the downward moves in UK short-term rates in recent months. Similar downward moves in short-term rates had also occurred in other advanced economies over this period.

5. UK GDP growth had weakened in 2023, with this weakness particularly pronounced in market sector output. This reflected the significant tightening of monetary policy implemented since the end of 2021 to contain the persistence of second-round effects on inflation as well as continued weakness in potential supply growth. Cumulative GDP growth over 2023 as a whole had been materially weaker than expected at the time of the November Report, with the path for household consumption notably below expectations. Timelier indicators suggested that activity would edge up in 2024 Q1.

6. The Committee had completed its annual supply stocktake, as set out in Section 3 of the February Report, and judged that potential supply growth remained weak by historical standards. The MPC also now judged that the degree of excess demand had been a little higher over the recent past than had been assumed in the November Report, implying weaker supply growth in the past. At the same time, it had revised up slightly its view of potential supply growth in the future, although this was still expected to be weaker than the rates seen pre-Covid.

7. The Committee discussed the degree of persistence in wage growth and domestic price inflation. There had been downside news in headline CPI inflation relative to the November Report, accounted for by a combination of fuel, core goods and services prices. In absolute terms, services price inflation remained significantly elevated. There had been a common signal from a range of indicators that wage growth had eased somewhat recently, although it had remained significantly elevated overall. This downward trend had been most pronounced in the annual rate of growth of private sector regular average weekly earnings (AWE), although that had brought the AWE series more into line with other indicators.

8. The majority of this year’s wage setting processes would conclude in the next few months. A survey of firms conducted by the Bank’s Agents suggested that the average pay settlement in 2024 would be for a rise only slightly lower than in 2023, at 5.4%. It remained to be seen to what degree the falls in CPI inflation and short-term inflation expectations would influence this year’s wage setting, although this could also be influenced by a catch-up effect following the high rates of CPI inflation seen over the past couple of years. Evidence from the Agents suggested some possible upward pressures on wages from indirect effects of the increase in the National Living Wage. Intelligence from the Agents, however, also suggested that companies would not be able to pass on increased costs into prices as much as they had done in 2023.

The immediate policy decision

9. The MPC sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment.

10. In the MPC's February Monetary Policy Report projections, UK GDP was expected to have been flat in 2023 Q4. Growth was expected to pick up gradually during the forecast period, in large part reflecting a waning drag from past increases in Bank Rate. In the medium term, the lower market-implied interest rate path, on which the forecast was conditioned, pushed up on GDP materially compared with the November projection.

11. The labour market had continued to ease, but had remained tight. In the February Report projections, the continuing relative weakness of demand, despite subdued supply growth by historical standards, led to a margin of economic slack emerging during the first half of the forecast period. Relative to November, the output gap projection had been pushed up by the boost to demand from the lower market path of interest rates. Equivalently, this implied that, if monetary policy were to follow the yield curve, then the stance of policy would be less restrictive than at the time of the November Report.

12. Twelve-month CPI inflation had remained above the 2% target. Inflation had fallen to 4.0% in December, below expectations in the November Report. The downside news had been broad-based, reflecting lower fuel, core goods and services price inflation. Although still elevated, wage growth had eased across a number of measures and was projected to decline further in coming quarters.

13. In the MPC's latest most likely, or modal, projections, CPI inflation was expected to fall temporarily to the 2% target in 2024 Q2 before increasing again in Q3 and Q4. This profile of inflation over the second half of the year was accounted for by developments in the direct energy price contribution to 12-month inflation, which becomes less negative. Conditioned on a lower market-implied path for Bank Rate than had underpinned the November Report, CPI inflation was then projected to remain above the 2% target over nearly all of the remainder of the forecast period, owing to persistence in domestic inflationary pressures.

14. The Committee judged that the risks around the modal inflation projection were skewed to the upside over the first half of the forecast period, stemming from geopolitical factors. Risks from domestic price and wage pressures were now more evenly balanced, however. Taken together, this meant there was no difference between the MPC's modal and mean projections at the two and three-year horizons.

15. The MPC judged that monetary policy would need to remain restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term, in line with the MPC's remit. The Committee had judged since last autumn that monetary policy needed to be restrictive for an extended period of time until the risk of inflation becoming embedded above the 2% target dissipated.

16. Six members judged that maintaining Bank Rate at 5.25% was warranted at this meeting. Headline CPI inflation had fallen back relatively sharply. The restrictive stance of

monetary policy was weighing on activity and was leading to a looser labour market. In the Committee's February forecast, the risks to inflation were more balanced. Although services price inflation and wage growth had fallen by somewhat more than had been expected, key indicators of inflation persistence remained elevated. There were questions, on which further evidence would be required, about how entrenched this persistence would be, and therefore about how long the current level of Bank Rate would need to be maintained.

17. Two members preferred a 0.25 percentage point increase in Bank Rate, to 5.5%, at this meeting. Although headline inflation had fallen by more than had been expected, this was not necessarily informative about inflation persistence. Current indicators of economic activity had remained subdued, but real household incomes had continued to edge up, and forward-looking indicators of output had remained positive. The labour market was still relatively tight, consistent with a rise in the medium-term equilibrium rate of unemployment, and a range of indicators suggested that the pace of loosening had been slow. Measures of wage growth had moderated further but remained at rates above those consistent with the inflation target. Underlying services price inflation had slowed but remained elevated. These members continued to judge that there was evidence of more persistent inflationary pressures than included within the forecast. Financial conditions had eased since the MPC's December meeting. An increase in Bank Rate at this meeting was necessary to address the risks of more deeply embedded inflation persistence and to return inflation to target sustainably in the medium term.

18. One member preferred a 0.25 percentage point reduction in Bank Rate at this meeting. For this member, the increments applied on the way up, together with lags in transmission, meant that Bank Rate needed to become less restrictive now. Waiting for lagging indicators of domestic relative price growth to fall sharply before reducing rates would come with a risk of overtightening. There might be potential upside risks from geopolitics. That said, consumer price inflation was already, and had been for some time, on a firm downward trajectory. Moreover, leading indicators, such as those from granular producer prices data, pointed to an easing in consumer prices. The outlook for demand remained weak, and less resilient than previously assumed, with vacancies falling more sharply than in some other advanced economies and consumption not having recovered to pre-pandemic levels. This further reduced the prospects of embedded persistence, shown in forward-looking indicators of domestic relative prices, such as monthly annualised rates of nominal pay growth and the Bank's Agents' surveys, and suggested lower pass-through of costs to prices.

19. The MPC remained prepared to adjust monetary policy as warranted by economic data to return inflation to the 2% target sustainably. It would, therefore, continue to monitor closely indications of persistent inflationary pressures and resilience in the economy as a whole, including a range of measures of the underlying tightness of labour market conditions, wage

growth and services price inflation. On that basis, the Committee would keep under review for how long Bank Rate should be maintained at its current level.

20. The Chair invited the Committee to vote on the proposition that:

Bank Rate should be maintained at 5.25%.

21. Six members (Andrew Bailey, Sarah Breeden, Ben Broadbent, Megan Greene, Huw Pill and Dave Ramsden) voted in favour of the proposition. Three members voted against the proposition. Two members (Jonathan Haskel and Catherine L Mann) preferred to increase Bank Rate by 0.25 percentage points, to 5.5%. One member (Swati Dhingra) preferred to reduce Bank Rate by 0.25 percentage points, to 5%.

Operational considerations

22. On 31 January, the total stock of assets held for monetary policy purposes was £738.0 billion, comprising £737.6 billion of UK government bond purchases and £0.4 billion of sterling non-financial investment-grade corporate bond purchases.

23. The following members of the Committee were present:

Andrew Bailey, Chair
Sarah Breeden
Ben Broadbent
Swati Dhingra
Megan Greene
Jonathan Haskel
Catherine L Mann
Huw Pill
Dave Ramsden

Sam Beckett was present as the Treasury representative.

David Roberts was also present on 24 and 26 January, as an observer for the purpose of exercising oversight functions in his role as a member of the Bank's Court of Directors.