Bank of England

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 8 May 2024

9 May 2024

These are the minutes of the Monetary Policy Committee meeting ending on 8 May 2024.

They are available at **https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2024/may-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 19 June will be published on 20 June 2024.

Monetary Policy Summary, May 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 8 May 2024, the MPC voted by a majority of 7–2 to maintain Bank Rate at 5.25%. Two members 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 May Monetary Policy Report and are conditioned on a market-implied path for Bank Rate that declines from 5¼% to 3¾% by the end of the forecast period, compared with an endpoint of 3¼% in February.

Internationally, recent growth outturns have tended to be stronger in the United States than in the euro area. Underlying inflationary pressures in both regions have continued to moderate somewhat since the start of the year, though by less than expected in the United States. Forward interest rates have risen in the United States and, as a result, elsewhere.

Following modest weakness last year, UK GDP is expected to have risen by 0.4% in 2024 Q1 and to grow by 0.2% in Q2. Despite picking up during the forecast period, demand growth is expected to remain weaker than potential supply growth throughout most of that period. A margin of economic slack is projected to emerge during 2024 and 2025 and to remain thereafter, in part reflecting the continued restrictive stance of monetary policy.

With respect to indicators of inflation persistence, services consumer price inflation has declined but remains elevated, at 6.0% in March. There remains considerable uncertainty around statistics derived from the ONS Labour Force Survey. It is therefore more difficult to gauge the evolution of the labour market. Based on a broad set of indicators, the MPC judges that the labour market continues to loosen but that it remains relatively tight by historical standards. Annual private sector regular average weekly earnings growth declined to 6.0% in the three months to February, although that series tends to be volatile. Alternative indicators also suggest easing pay growth.

Twelve-month CPI inflation fell to 3.2% in March from 3.4% in February. CPI inflation is expected to return to close to the 2% target in the near term, but to increase slightly in the second half of this year, to around 2½%, owing to the unwinding of energy-related base effects. There continue to be upside risks to the near-term inflation outlook from geopolitical factors, although developments in the Middle East have had a limited impact on oil prices so far.

Conditioned on market interest rates and reflecting a margin of slack in the economy, CPI inflation is projected to be 1.9% in two years' time and 1.6% in three years in the May Report.

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 continued to fall back, in part owing to base effects and external effects from goods prices. The restrictive stance of monetary policy is weighing on activity in the real economy, is leading to a looser labour market and is bearing down on inflationary pressures. Key indicators of inflation persistence are moderating broadly as expected, although they remain elevated.

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. The Committee will consider forthcoming data releases and how these inform the assessment that the risks from inflation persistence are receding. 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 8 May 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 **May 2024 Monetary Policy Report**.

2. The MPC discussed developments in consumer price inflation in the United States and in the euro area. In the United States, recent outturns had been higher than expected by market participants on both headline and core PCE inflation. The evidence suggested that this higher-than-expected inflation had reflected surprisingly strong domestic demand rather than inflation persistence. Euro-area inflation data had been more in line with market expectations, and demand had remained relatively subdued. The increased divergence in demand across regions could be consistent with a divergence in monetary policy, with potential implications for exchange rates and broader financial conditions.

3. Given this change in the perceived outlook for US demand and inflation, market participants had revised their expectations for US monetary policy since the MPC's previous meeting, pushing out the expected timing and degree of future reductions in the federal funds rate. Alongside this, the market-implied path for policy rates in other major advanced economies, including the United Kingdom, had also shifted up materially, though by less.

4. The Committee discussed the degree to which these moves in UK interest rates had reflected global or domestic factors. This was not straightforward to separate out. The correlation between US and UK market interest rates had been near the top of its historical range, and the sensitivity of UK rates to both US and domestic data outturns had remained elevated. Nevertheless, market contacts had begun to judge that the increasing divergence of the US outlook from that of other major advanced economies could be reflected in their monetary policies in the near term. That said, contacts had expected that the influence of global factors could lead to greater macroeconomic and monetary policy convergence across major advanced economies beyond 2024.

5. In the United Kingdom, all but one of the respondents to the Bank's latest Market Participants Survey (MaPS) had expected Bank Rate to be left unchanged at this MPC meeting. They had also all expected the next move in Bank Rate to be downwards. The median expected profile for Bank Rate from MaPS implied a cumulative 75 basis point reduction in Bank Rate this year, similar to the profile from the March MaPS, despite the increase in the UK yield curve.

6. Turning to activity, UK GDP growth had strengthened since the start of the year, reversing the fall in output that was estimated to have occurred in the second half of 2023. The Committee expected the recovery in output to be underpinned by a pickup in household consumption, supported by higher real incomes.

7. The Committee discussed the risks around the near-term outlook for consumer spending. House price inflation had held up by more than had been expected, which could suggest upside risks to the outlook for spending. One potential explanation for this would be that higher interest rates had weighed on house prices by less than had been expected. Set against that, a modest expected rise in unemployment could pose downside risks to consumption, for example if those households not directly affected nevertheless chose to save more for precautionary reasons.

8. The Committee discussed the degree of persistence in UK wage growth and domestic price inflation. Consistent with the recent easing in short-term inflation expectations and a loosening in the labour market, wage growth had fallen somewhat further. Services consumer price inflation had also continued to ease. Although both wage growth and services price inflation had been slightly higher than expected in the February Monetary Policy Report, that difference was small in the context of typical data volatility. Both series still indicated elevated domestic inflationary pressures.

9. The Committee discussed the relative weights to put on different indicators of inflation persistence, particularly in the event that they were to give divergent signals in the future. There remained considerable uncertainty around estimates of labour market tightness derived from the Labour Force Survey (LFS), owing to small sample sizes. A range of labour market indicators, including the vacancies to unemployment ratio and survey indicators of recruitment difficulties, suggested that the labour market had continued to loosen, however, while remaining relatively tight by historical standards.

10. Although less severe than the issues surrounding the LFS, the Committee noted that the private sector regular average weekly earnings (AWE) series tended to be volatile, especially when compared with services price inflation. While AWE growth had fallen sharply since last year, the decline suggested by other indicators appeared more gradual and from a lower peak. Possibly reflecting past falls in real wages and a relatively tight labour market, nominal pay growth had continued to be elevated.

11. The appropriate weight to place on different indicators of inflation persistence would also depend on wider economic developments. Depending on the expected path for demand, for example, indicators of inflation persistence might be expected to diverge. In an environment of subdued demand, firms might be expected to absorb higher wage growth into their profit margins. Higher wage growth would then not pass through to higher services price inflation. But as demand recovered, firms might choose to pass through that wage growth, resulting in

higher services price inflation. Initial reports indicated that the Agents' contacts generally expected lower pass-through of higher labour costs to prices than last year, owing to weaker demand. Consumer-facing services firms surveyed in the Decision Maker Panel in the three months to April had said that they expected to raise prices by 4.7% over the next year. The Committee would consider evidence from different indicators of persistence and would continue to monitor them in context.

The immediate policy decision

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

13. Indicators of inflation persistence had evolved broadly as expected, albeit a little stronger than had been anticipated in the February Monetary Policy Report.

14. Services consumer price inflation had declined but remained elevated, at 6.0% in March. Higher-frequency measures of services price inflation showed somewhat more of a slowdown than annual rates but still indicated elevated domestic inflationary pressures. Services price inflation was expected to continue to ease gradually over the course of this year, as wage growth and indirect effects from energy and other goods prices weakened further.

15. There remained considerable uncertainty around statistics derived from the ONS Labour Force Survey. It was therefore more difficult to gauge the evolution of the labour market. Based on a broad set of indicators, the MPC judged that the labour market continued to loosen but that it remained relatively tight by historical standards. Annual private sector regular average weekly earnings growth had declined to 6.0% in the three months to February, although that series tended to be volatile. Alternative indicators also suggested easing pay growth.

16. The Committee noted that this year's pay settlements, which tended to be concentrated in the early part of the year, would provide an important indication of the extent to which pay growth continued to moderate as expected. Firmer information on April settlements would soon become available, including from the Bank's Agents' intelligence.

17. Twelve-month CPI inflation had fallen to 3.2% in March from 3.4% in February, broadly as expected in the February Report. In the MPC's May Report projections, CPI inflation was expected to return to close to the 2% target in the near term, but to increase slightly in the second half of this year, to around 2½%, owing to the unwinding of energy-related base effects. Conditioned on market interest rates and reflecting a margin of slack in the economy, CPI inflation was projected to be 1.9% in two years' time and 1.6% in three years.

18. There continued to be upside risks to the modal CPI inflation projection from geopolitical factors during the first half of the forecast period, but the risks overall were more evenly balanced over the second half.

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

20. 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. The Committee recognised that the stance of monetary policy could remain restrictive even if Bank Rate were to be reduced, given that it was starting from an already restrictive level.

21. Seven members judged that maintaining Bank Rate at 5.25% was warranted at this meeting. Headline CPI inflation had continued to fall back, in part owing to base effects and external effects from goods prices. The restrictive stance of monetary policy was weighing on activity in the real economy, was leading to a looser labour market and was bearing down on inflationary pressures. Key indicators of inflation persistence were moderating broadly as expected, although they remained elevated. There was a range of views among these members regarding the risks around the assumptions on persistence embodied in the May CPI projection. There was also a range of views about the extent of the evidence that was likely to be needed to warrant a change in Bank Rate, and the degree to which these members anticipated that incremental information in forthcoming data outturns would lead them to update materially their assessment of inflation persistence. All of these members would continue to consider the degree of restrictiveness of policy at each meeting.

22. Two members preferred a 0.25 percentage point reduction in Bank Rate at this meeting. For these members, Bank Rate needed to become less restrictive now to enable a smooth and gradual transition in the policy stance, and to account for lags in transmission. Consumer price inflation was already, and had been for some time, on a firm downward trajectory. The latest forecasts showed inflation returning close to the target in the short term, and this was consistent with forward-looking indicators of output price inflation falling behind input price inflation. As the outlook for demand remained subdued, with vacancies continuing to fall and nominal pay growth easing, the risks to inflation returning sustainably to the target in the medium term were to the downside.

23. 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. The Committee would consider forthcoming data releases and how these informed the assessment that the risks from inflation persistence were receding. On that basis, the Committee would keep under review for how long Bank Rate should be maintained at its current level.

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

Bank Rate should be maintained at 5.25%.

25. Seven members (Andrew Bailey, Sarah Breeden, Ben Broadbent, Megan Greene, Jonathan Haskel, Catherine L Mann and Huw Pill) voted in favour of the proposition. Two members (Swati Dhingra and Dave Ramsden) voted against the proposition, preferring to reduce Bank Rate by 0.25 percentage points, to 5%.

Operational considerations

26. On 8 May, the total stock of assets held for monetary policy purposes was £703 billion, all of which were UK government bonds. The Corporate Bond Purchase Scheme had been fully unwound on 2 April, such that there were now no holdings of sterling non-financial investment-grade corporate bonds.

27. 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 30 April and 2 May, as an observer for the purpose of exercising oversight functions in his role as a member of the Bank's Court of Directors.