Bank of England

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 18 September 2024

19 September 2024

These are the minutes of the Monetary Policy Committee meeting ending on 18 September 2024.

They are available at https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2024/september-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 6 November will be published on 7 November 2024.

Monetary Policy Summary, September 2024

The Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. The MPC adopts a medium-term and forward-looking approach to determine the monetary stance required to achieve the inflation target sustainably.

At its meeting ending on 18 September 2024, the MPC voted by a majority of 8–1 to maintain Bank Rate at 5%. One member preferred to reduce Bank Rate by 0.25 percentage points, to 4.75%. The Committee voted unanimously to reduce the stock of UK government bond purchases held for monetary policy purposes, and financed by the issuance of central bank reserves, by £100 billion over the next 12 months, to a total of £558 billion.

Monetary policy decisions have been guided by the need to squeeze persistent inflationary pressures out of the system so as to return CPI inflation to the 2% target both in a timely manner and on a lasting basis. Policy has been acting to ensure that inflation expectations remain well anchored. As set out at the time of the August Monetary Policy Report, the Committee's deliberations have been supported by the consideration of a range of cases, to which different probabilities and different risks can be attached.

In the first case, the unwinding of the global shocks that drove up inflation and the resulting fall in headline inflation should continue to feed through to weaker pay and price-setting dynamics. The persistence of inflationary pressures would therefore dissipate with a less restrictive stance of monetary policy than in other cases.

In the second case, a period of economic slack, in which GDP falls below potential and the labour market eases further, may be required in order for pay and price-setting dynamics to normalise fully. Domestic inflationary persistence would then be expected to fade away, owing to the opening up of slack from a more restrictive stance of monetary policy relative to the first case.

In the third case, the economy may be subject to structural shifts such as changes in wage and price-setting following the major supply shocks experienced over recent years. The degree of restrictiveness of monetary policy may be less than embodied in the Committee's latest assessment, meaning that monetary policy would have to remain tighter for longer.

Since the MPC's previous meeting, global activity growth has continued at a steady pace, although some data outturns suggest greater uncertainty around the near-term outlook. Oil prices have fallen back, reflecting in large part weaker demand. Market-implied paths for policy rates across major advanced economies have declined.

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There has generally been limited news in UK economic indicators relative to the Committee's expectations in the August Monetary Policy Report. Headline GDP growth is expected to return to its underlying pace of around 0.3% per quarter in the second half of the year. Twelve-month CPI inflation was 2.2% in August, and is expected to increase to around 2½% towards the end of this year as declines in energy prices last year fall out of the annual comparison. Services consumer price inflation remained elevated at 5.6% in August. Private sector regular average weekly earnings growth declined to 4.9% in the three months to July.

At this meeting, the Committee voted to maintain Bank Rate at 5%.

In the absence of material developments, 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.

Minutes of the Monetary Policy Committee meeting ending on 18 September 2024

1. Before turning to its immediate policy decisions, the Committee discussed: the international economy; monetary and financial conditions; demand and output; and supply, costs and prices.

The international economy

- 1. UK-weighted global GDP was estimated to have grown by 0.5% in 2024 Q2, broadly in line with the projection in the August Monetary Policy Report, and consistent with steady growth over recent quarters. US GDP had grown more strongly than had been anticipated, while GDP growth had moderated in the euro area and in China in the second quarter.
- 2. In the third quarter, euro-area GDP growth was expected to be a little weaker than had been anticipated in the August Report, and US GDP growth was expected to moderate somewhat, in line with previous expectations. Activity indicators such as PMIs suggested ongoing weakness in the manufacturing sector in both economies over recent months, while the services sector had continued to expand.
- 3. Labour market outturns in the United States had been softer in July and August relative to previous months. Unemployment in the euro area had remained low, pointing to some continuing tightness. Wage growth had continued to moderate across both regions.
- 4. Headline consumer price inflation had declined further towards central bank targets in the euro area and in the United States. In the euro area, 12-month HICP inflation had been 2.2% in August, while core inflation had ticked down to 2.8%, in line with market participants' expectations. US CPI inflation had fallen to 2.5% in August, while core CPI inflation had remained unchanged at 3.2%, also in line with market expectations. Annual services price inflation had remained elevated in both economies, although higher frequency measures pointed to some easing over recent months.
- 5. There were tentative signs of a shift in the balance of risks to global activity towards the downside. Consistent with that, since the MPC's previous meeting, the Brent spot oil price had declined by around 6%, to \$75 per barrel. Market contacts had ascribed the moves largely to weaker demand in China, as indicators of domestic demand there had continued to be soft.

Monetary and financial conditions

6. Since the MPC's previous meeting, government bond yields had fallen across major advanced economies in response to the softening in US labour market data and associated FOMC communications. Market-implied paths for policy rates across economies had generally ended the period lower. Coupled with UK data releases in that period having been largely in line with market expectations, that meant UK interest rate movements had been driven primarily by developments in the United States. Nevertheless, the UK market-implied path had fallen by less than in the United States. That had been associated with an appreciation of sterling against the dollar of 3%, which had accounted for most of the 1% increase in the sterling effective exchange rate since the previous MPC meeting.

- 7. Movements in yields across major advanced economies had been particularly pronounced early in August, alongside large moves in asset prices more generally. Market-specific factors including seasonally low market liquidity were likely to have exacerbated reactions to news. While these early August moves had unwound quickly, yields across countries had nevertheless ended the period lower. In contrast, UK equity prices had been little changed since the MPC's previous meeting and the S&P 500 and Euro Stoxx 50 had both increased somewhat.
- 8. At its meeting on 12 September, the ECB Governing Council had reduced its key policy rate by 25 basis points, in line with market expectations. In its statement, the Governing Council had reiterated its data-dependent and meeting-by-meeting approach, focused on the inflation outlook and strength of policy transmission. At its meeting ending on 18 September, the FOMC was expected to reduce the federal funds rate by either 25 or 50 basis points.
- 9. In the United Kingdom, Bank Rate expectations implied by market pricing had continued to suggest that the next 25 basis point cut would occur in November. That was consistent with the Bank's latest Market Participants Survey (MaPS). Beyond November, while the median MaPS profile implied a slightly slower pace of reduction in Bank Rate than the market-implied path, both pointed to much more gradual reductions than were expected in the United States and to a lesser extent in the euro area.
- 10. Regarding credit conditions, it was too soon to assess fully the extent to which the Bank Rate reduction in August had passed through to the relevant saving and borrowing rates facing households and corporates. Nevertheless, as had been anticipated, mortgage rates had fallen since the MPC's previous meeting broadly in line with declines in risk-free reference rates.
- 11. The share of two-year fixed-rate mortgages within new secured household lending had been increasing since 2023 Q1, despite rates on these mortgages being above five-year fixed rates over this period. That had reversed the previous trend whereby longer-duration

mortgage fixes had increased in popularity since 2016, probably reflecting household expectations of lower interest rates. Slow mortgage stock turnover meant that the share of five-year fixed-rate mortgages in outstanding lending had remained historically high.

12. Household saving preferences had also adjusted over the past year, as rates offered on time deposits had become relatively less attractive, reflecting the declines in risk-free reference rates. Deposit flows had shifted into sight deposits and ISAs, many of which were instant access. Household deposits had continued to be the main driver of aggregate sterling broad money growth. The latter had increased to 1.6% on an annual basis in July, but had remained weak by historical standards.

Demand and output

- 13. UK GDP had increased by 0.6% in 2024 Q2, 0.1 percentage points lower than had been expected in the August Monetary Policy Report. That had followed 0.7% growth in Q1, but Bank staff judged that the underlying pace of growth had been somewhat weaker during the first half of the year.
- 14. Within the expenditure components of Q2 GDP, household consumption had risen by 0.2% on the quarter, while business and housing investment had both declined by 0.1%. Real government expenditure had increased by 1.6%, and there had continued to be some evidence of greater-than-projected central government spending in recent public sector finances data.
- 15. GDP had been unchanged on the month in both July and June but had grown by 0.5% on a three-month-on-three-month basis in July. Slightly weaker-than-expected output in July had been concentrated in the manufacturing and professional services sectors.
- 16. Bank staff now expected GDP growth of 0.3% in 2024 Q3, marginally weaker than the 0.4% rate that had been incorporated in the August Report. That was broadly in line with estimates of the underlying growth rate that had been extracted from models based on a range of business survey indicators and on disaggregated GDP data. The latest intelligence from the Bank's Agents suggested that improving real incomes, the August Bank Rate reduction and anticipated further cuts in interest rates had underpinned improved sentiment and expectations of increased activity across most sectors around the turn of the year.
- 17. There had been little news from most indicators of consumer spending, although housing market data had strengthened somewhat. Retail sales volumes had been volatile, around a very gradually rising trend since the start of the year. GfK consumer confidence had been unchanged in August. Forward-looking indicators in the housing market had continued to point to a recovery in home buyer enquiries and prices, while mortgage approvals for house purchase had increased to their highest level since September 2022.

18. The Committee discussed the near-term outlook for activity and the evolution of the output gap. Although uncertainties surrounded this assessment, overall demand and supply were judged to have been broadly in balance over recent quarters. A continuation of the current pace of underlying GDP growth would, given the Committee's view of potential supply growth, be consistent with little change in the output gap through the end of this year. That path was a little stronger than the August Report projections, however, in which demand growth had been expected to slow at the end of this year and a significant margin of spare capacity had been projected to open up over time. That projection in part reflected the previously announced medium-term tightening in the stance of fiscal policy, prior to the upcoming Budget. The Committee would also continue to monitor closely how the different channels of the monetary transmission mechanism were interacting with the dynamics of the household saving ratio, and in turn the outlook for consumer demand.

Supply, costs and prices

- 19. Labour market data quality issues continued to be an area of concern. Very low achieved sample sizes meant Labour Force Survey (LFS)-based estimates of labour market dynamics remained subject to considerable uncertainties. This was making it difficult to gauge the underlying state of labour market activity. The MPC had, for some time, utilised a wide range of data to inform its judgements on the labour market, including official data, business surveys and intelligence from the Bank's Agents.
- 20. A Bank staff indicator model of underlying employment continued to point to growth of around 0.2% per quarter, broadly in line with population growth. There was greater dispersion among outturns from individual employment indicators. The KPMG/REC/S&P Global UK Report on Jobs had continued to point to a contraction in employment while the Lloyds Business Barometer suggested an expansion.
- 21. In line with softening labour demand, vacancies had continued to fall back gradually, although at a slower pace than in 2023 and they had remained above pre-pandemic levels. The REC Report and Agents' intelligence signalled a continued easing in recruitment difficulties, with the latter suggesting improved job retention in some sectors. The vacancies-to-unemployment ratio had returned to its pre-pandemic average at the start of 2024 Q2. A Bank staff indicator model suggested that underlying unemployment had increased steadily over the past few quarters, in contrast to more volatile LFS data.
- 22. Indicators of households' inflation expectations had largely normalised to close to their historical averages. The Bank of England/Ipsos Inflation Attitudes Survey's measure of median short-term inflation expectations had fallen to 2.7% in August. The corresponding measure of medium-term expectations had remained close to, but below, its historical average. The Citi/YouGov indicator of households' short-term inflation expectations had increased slightly to 3.1% in August from 2.7% previously, possibly owing to media reports of

a rise in the Ofgem utility price cap in October. Businesses' own price expectations, as reported in the DMP Survey, had remained at slightly more elevated levels, although on a continued downward path.

- 23. This normalisation in inflation expectations, as well as, to a lesser extent, the easing in labour market tightness, had supported continued moderation in pay growth. Annual private sector regular average weekly earnings growth had eased to 4.9% in the three months to July from 5.3% in the three months to June, broadly in line with August Monetary Policy Report projections. Other surveys suggested that wage growth would continue to moderate, although remain above inflation target-consistent levels, with the DMP Survey indicating a fall to approximately 4% over the next year. The latest Agents' intelligence indicated that pay settlements over the second half of the year were, as expected, coming in at lower rates compared to H1, and 2025-expected settlements might be in a 2 to 4% range. There remained the possibility of some upside risk to pay growth depending on the trajectory of the National Living Wage (NLW) in the first half of next year.
- 24. Twelve-month CPI inflation had been 2.2% in August and July, slightly lower than August Report expectations. Consumer core goods and food price inflation had remained subdued as the cost pressures from previous global shocks had unwound further, and producer price levels had been broadly flat. Energy prices had continued to drag on CPI inflation.
- 25. Services price inflation had increased to 5.6% in August compared to 5.2% in July and 5.7% in June. This was slightly lower in August than had been expected at the time of the August Report. There had been volatility in a number of services sub-components in the July and August outturns, including accommodation and catering prices and airfares.
- 26. The Committee discussed momentum in services price inflation and price-setting behaviour in firms. Strength in services price inflation was supported by evidence from the DMP Survey which showed firms' own-price inflation continuing to fall, but to a lesser extent among services firms. July CPI microdata pointed to a higher proportion of services prices being raised each month than was the case pre-Covid, though with some easing in catering services where food input costs had moderated. The monthly annualised inflation rates of a seasonally adjusted services price measure, which excluded indexed and volatile components, rents and foreign holidays, had averaged around 4% in the three months to August, close to its average since the end of 2023. Although it had fallen from its peak level, the apparent stability in this measure suggested further pass-through from lower labour costs and easing inflation expectations was still to come. Accordingly, Bank staff expected services inflation to ease slightly further in Q4.
- 27. CPI inflation was expected to increase somewhat over the remainder of this year, owing to the smaller drag on 12-month inflation from domestic energy bills. The announced uptick in

utility prices to take effect in October was likely to be offset somewhat by the recent decrease in petrol prices.

The immediate policy decisions

- 28. The Monetary Policy Committee sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. The MPC adopts a medium-term and forward-looking approach to determine the monetary stance required to achieve the inflation target sustainably.
- 29. Monetary policy decisions had been guided by the need to squeeze persistent inflationary pressures out of the system so as to return CPI inflation to the 2% target both in a timely manner and on a lasting basis. Policy had been acting to ensure that inflation expectations remained well anchored. As set out at the time of the August Monetary Policy Report, the Committee's deliberations had been supported by the consideration of a range of cases, to which different probabilities and different risks could be attached.
- 30. In the first case, the unwinding of the global shocks that had driven up inflation and the resulting fall in headline inflation should continue to feed through to weaker pay and price-setting dynamics. The persistence of inflationary pressures would therefore dissipate with a less restrictive stance of monetary policy than in other cases.
- 31. In the second case, a period of economic slack, in which GDP fell below potential and the labour market eased further, might be required in order for pay and price-setting dynamics to normalise fully. Domestic inflationary persistence would then be expected to fade away, owing to the opening up of slack from a more restrictive stance of monetary policy relative to the first case.
- 32. In the third case, the economy might be subject to structural shifts such as changes in wage and price-setting following the major supply shocks that had been experienced over recent years. The degree of restrictiveness of monetary policy might be less than embodied in the Committee's latest assessment, meaning that monetary policy would have to remain tighter for longer.
- 33. The Committee continued to monitor the accumulation of evidence from a broad range of indicators, with a focus on the extent to which it was possible over time to use developments in data series to assess the various cases.
- 34. Since the MPC's previous meeting, global activity growth had continued at a steady pace, although some data outturns suggested greater uncertainty around the near-term outlook. Oil prices had fallen back, reflecting in large part weaker demand. Market-implied paths for policy rates across major advanced economies had declined.

35. There had generally been limited news in UK economic indicators relative to the Committee's expectations in the August Monetary Policy Report. Headline GDP growth was expected to return to its underlying pace of around 0.3% per quarter in the second half of the year. Based on a broad set of indicators, the MPC judged that the labour market continued to loosen but that it remained tight by historical standards.

36. Twelve-month CPI inflation had been 2.2% in August, and was expected to increase to around 2½% towards the end of this year as declines in energy prices last year fell out of the annual comparison. Services consumer price inflation had remained elevated at 5.6% in August. Private sector regular average weekly earnings growth had declined to 4.9% in the three months to July. Households' inflation expectations had largely normalised to close to their historical averages, although businesses' inflation expectations had remained at slightly more elevated levels.

Bank Rate decision

- 37. Different members took different views on the probabilities and risks associated with the various cases that the Committee was considering, which were informing their votes on Bank Rate.
- 38. Eight members preferred to maintain Bank Rate at 5% at this meeting. Wage and price-setting had continued to normalise and UK activity growth had been broadly in line with expectations, although there was some greater uncertainty around the near-term global outlook. There was a range of views among these members on the degree to which the unwinding of past global shocks, the normalisation in inflation expectations and the current restrictive policy stance would lead underlying domestic inflationary pressures to continue to unwind, or whether these pressures could prove more entrenched, possibly as a result of more structural factors or greater momentum in demand. Despite these differences of view, the current policy stance was judged to be appropriate. For most members, in the absence of material developments, a gradual approach to removing policy restraint would be warranted.
- 39. One member preferred a 0.25 percentage point reduction in Bank Rate at this meeting. 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. CPI inflation had been on a firm downward trajectory for some time. Data developments remained consistent with CPI inflation staying sustainably at target, given the further easing in the labour market, continued falls in inflation expectations and forward-looking indicators of pass-through, and the subdued outlook for demand.
- 40. Monetary policy would need to continue to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium term had dissipated

further. The Committee continued to monitor closely the risks of inflation persistence and would decide the appropriate degree of monetary policy restrictiveness at each meeting.

41. The MPC would make a full assessment of recent and prospective developments as part of its forthcoming November forecast round.

Annual decision on the pace of reduction in the stock of UK government bond purchases held for monetary policy purposes

- 42. As set out in the minutes of its August 2022 meeting, the MPC had committed to review the reduction in the Asset Purchase Facility (APF) annually and, as part of that, to set an amount for the reduction in the stock of purchased UK government bonds (gilts) over the subsequent 12-month period. Box A of the August 2024 Monetary Policy Report had set out an assessment of the process of quantitative tightening over the previous year.
- 43. The Committee continued to judge that reducing the size of the APF had the benefit of reducing the risk of a ratchet upwards in the size of the Bank's balance sheet over time, and thus should increase the headroom and flexibility available to the Bank to use its balance sheet in the future if needed.
- 44. The appropriate pace of gilt stock reduction would continue to be guided by a set of key principles, which the MPC had first outlined in the August 2021 Monetary Policy Report. First, the Committee intended to use Bank Rate as its active policy tool when adjusting the stance of monetary policy. Second, sales would be conducted so as not to disrupt the functioning of financial markets. Third, to help achieve that, sales would be conducted in a gradual and predictable manner over a period of time.
- 45. As set out in the Box in the August 2024 Report, the Committee judged that quantitative tightening had continued to proceed smoothly. There was no evidence of a negative impact of gilt sales on market functioning across a range of financial market measures. In particular, measures of gilt market liquidity had further improved. APF reduction was likely to have had some tightening effect on yields, which, while difficult to measure precisely, was judged to have been modest. That was in line with the MPC's previous expectations, and was broadly consistent with findings from other empirical studies and central banks. The Committee would continue to learn from monitoring developments as the process progressed.
- 46. While it remained hard to measure precisely the marginal effect of quantitative tightening on the economy, the MPC's forecasts were conditioned on asset prices that incorporated announced and expected APF reductions. The MPC had therefore taken this effect into account when setting the desired monetary policy stance using Bank Rate. Any tightening effect from the reduction in the APF would have led to a slightly lower path for Bank Rate, all else equal. Given that the impact of APF reduction was judged to have been modest, this

was unlikely to have made a material difference to the appropriate path for Bank Rate over the past year.

- 47. The Committee considered the case to maintain the pace of gilt stock reduction at £100 billion over the 12 months ahead, of which £87 billion would be maturing APF gilt holdings. Bank staff had briefed the MPC on the current state of economic and market conditions. The Financial Policy Committee (FPC) had also been briefed on the MPC's deliberations.
- 48. All members of the MPC agreed at this meeting that the Bank of England should reduce the stock of UK government bond purchases held for monetary policy purposes, and financed by the issuance of central bank reserves, by £100 billion over the 12-month period from October 2024 to September 2025, comprising both maturing gilts and sales.
- 49. The MPC also reaffirmed that there would be a high bar for amending the planned reduction in the stock of purchased gilts outside a scheduled annual review. That was in order to remain consistent with the principles that Bank Rate should be the active policy tool when adjusting the stance of monetary policy, and that APF reduction should be predictable. In judging whether that bar was met, the FPC would also have a role through its assessment of financial stability.
- 50. The Chair invited the Committee to vote on the propositions that:

Bank Rate should be maintained at 5%; and

The Bank of England should reduce the stock of UK government bond purchases held for monetary policy purposes, and financed by the issuance of central bank reserves, by £100 billion over the next 12 months, to a total of £558 billion.

- 51. Eight members (Andrew Bailey, Sarah Breeden, Megan Greene, Clare Lombardelli, Catherine L Mann, Huw Pill, Dave Ramsden and Alan Taylor) voted in favour of the first proposition. Swati Dhingra voted against this proposition, preferring to reduce Bank Rate by 0.25 percentage points, to 4.75%.
- 52. The Committee voted unanimously in favour of the second proposition.

Operational considerations

- 53. On 18 September 2024, the stock of UK government bonds held for monetary policy purposes was £659 billion.
- 54. At this meeting, the MPC had voted to reduce the stock of UK government bond purchases held for monetary policy purposes by £100 billion over the 12-month period from October 2024 to September 2025. The details of the first quarter of the associated gilt sales

programme, covering 2024 Q4, were set out in a Market Notice accompanying these minutes. The Bank would continue to set auction sizes each quarter, to meet the MPC's annual target as closely as practicable.

55. The following members of the Committee were present:

Andrew Bailey, Chair Sarah Breeden Swati Dhingra Megan Greene Clare Lombardelli Catherine L Mann Huw Pill Dave Ramsden Alan Taylor

Sam Beckett was present as the Treasury representative.

David Roberts was present on 12 September, and Jonathan Bewes on 16 September, as observers for the purpose of exercising oversight functions in their roles as members of the Bank's Court of Directors.