Bank of England

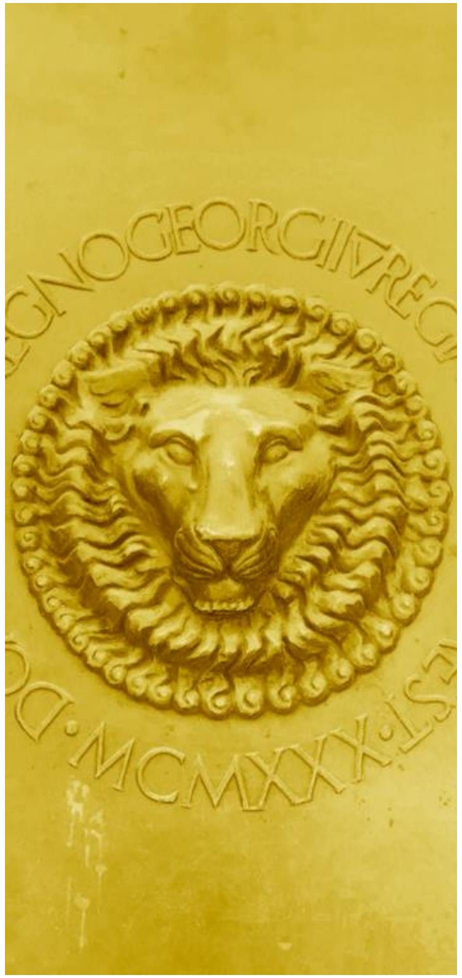
Monetary Policy Report

November 2023

Jamie Jordan

Deputy Agent, East Midlands

Plan for the session



- The headlines
- Tour of the Report
- MPC perspective and policy
- Questions and discussion

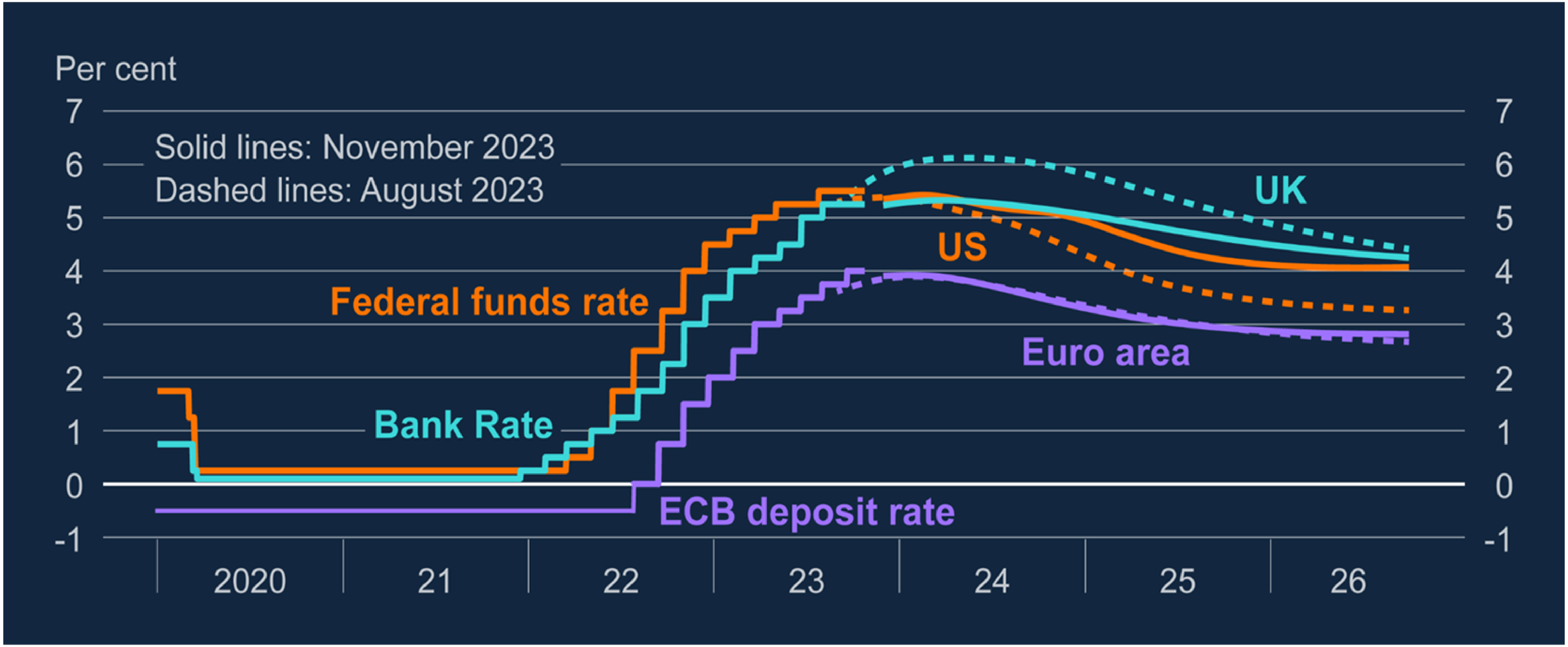
Main points from the MPR

The headlines

Key points

- Inflation is continuing to fall back and should be below 4% in the Spring.
- Services prices and wage growth remain elevated and continue to signal that inflation will be sticky on the way down to the 2% target.
- MPC is maintaining interest rates at a restrictive level to combat this.
- The economy is slowing by a little more than expected as the impact of higher rates is felt – GDP weaker and unemployment higher in the near term.
- Most likely path for inflation sees it falling back to the 2% target by the end of 2025, and below it further out.
- Risks to the upside – from energy prices and from more entrenched domestic price pressures. Taking account of these, inflation is likely to be a little above target at year 2.

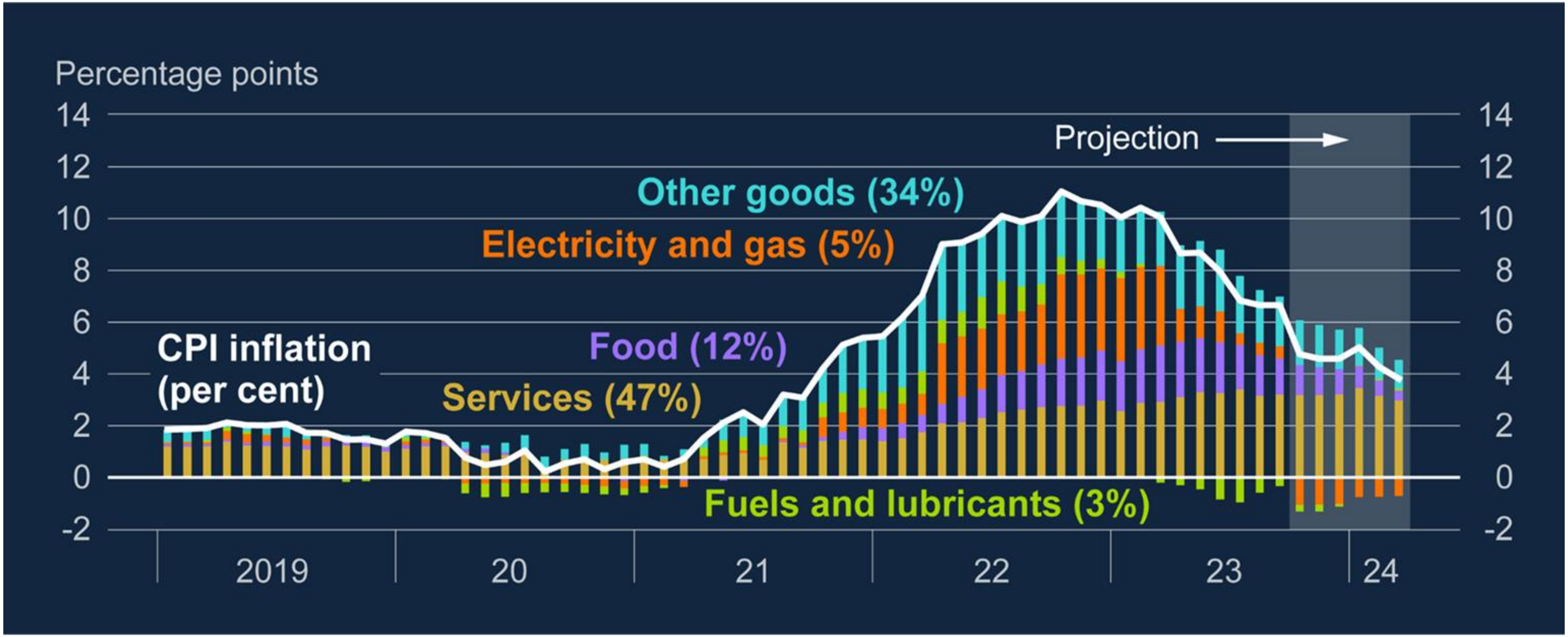
Interest rates are close to the peak of their market-implied paths in the US, euro area and UK



Main points from the MPR

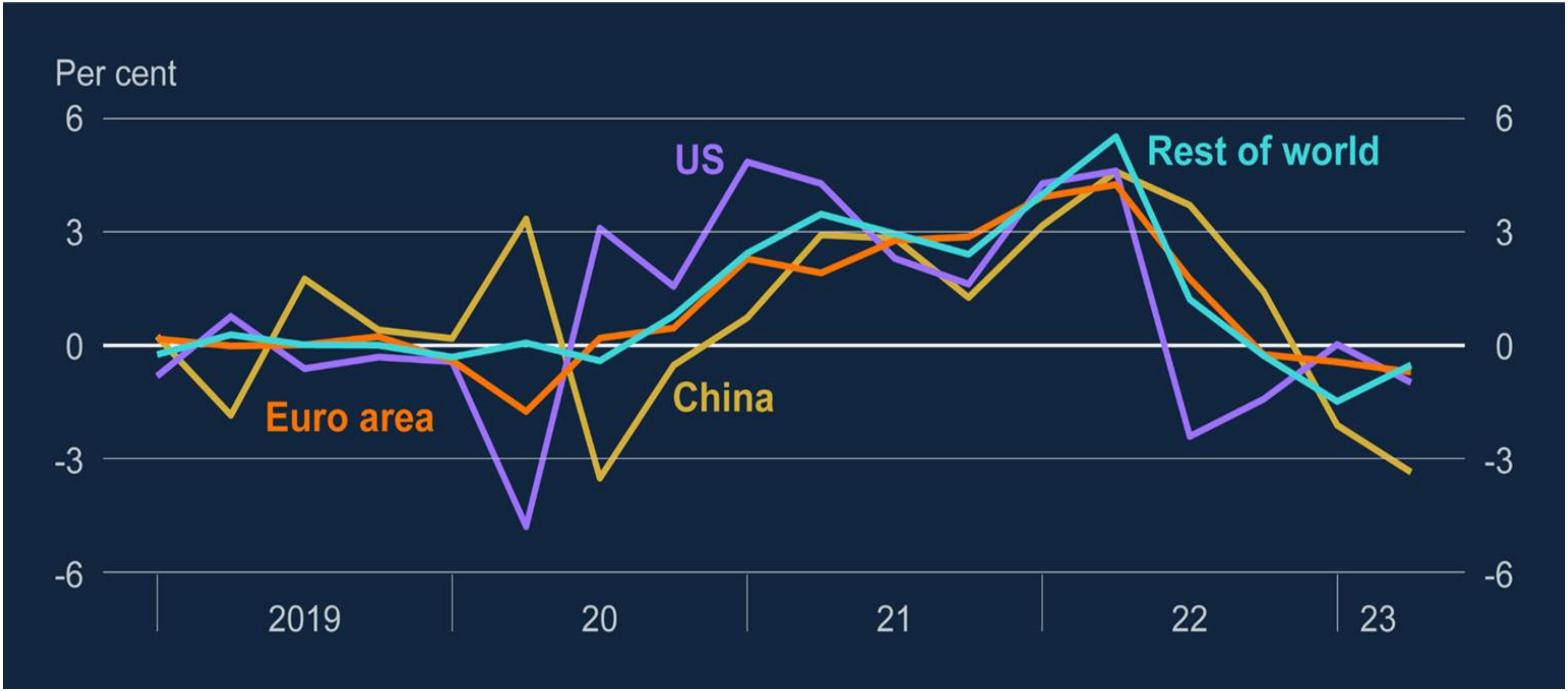
Near-term inflation prospects

Consumer price inflation has fallen since last year's peak and is projected to fall further

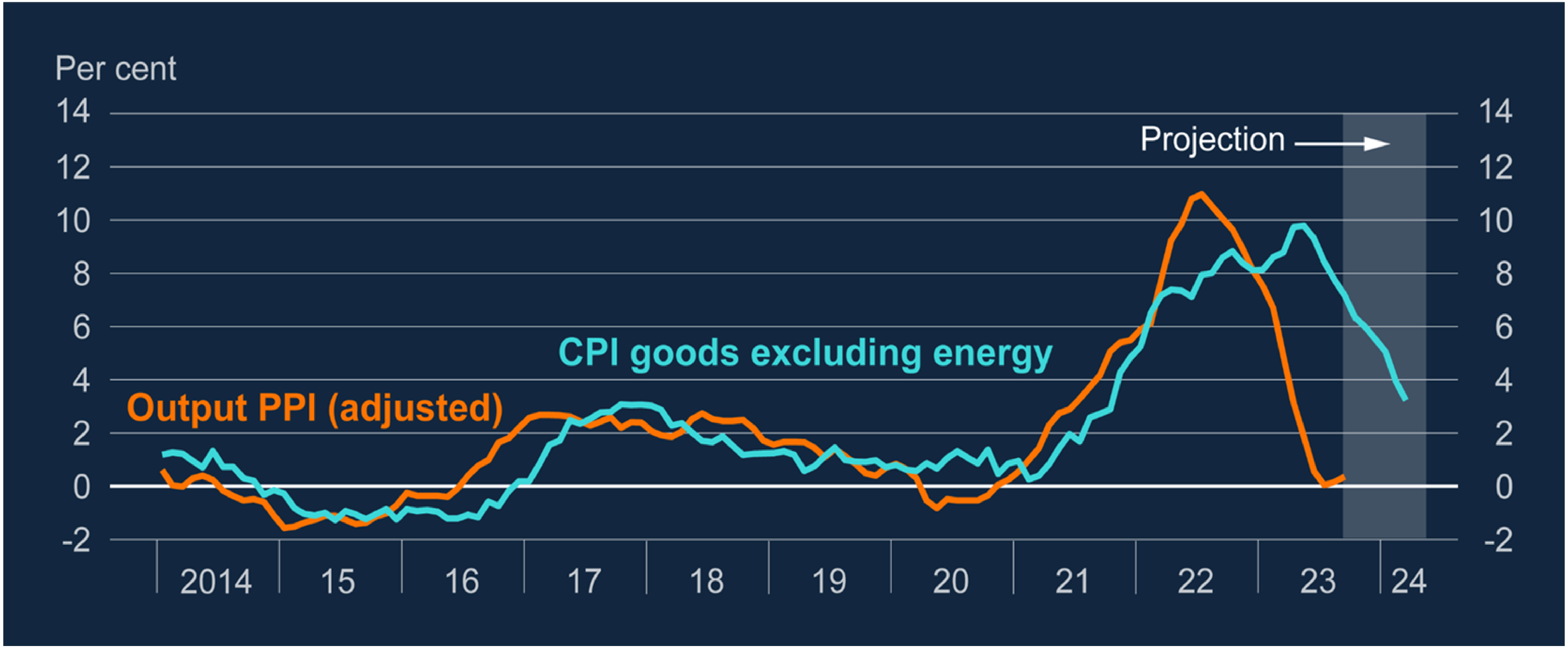


Oil prices have increased since the August Report. Wholesale gas futures prices are little change

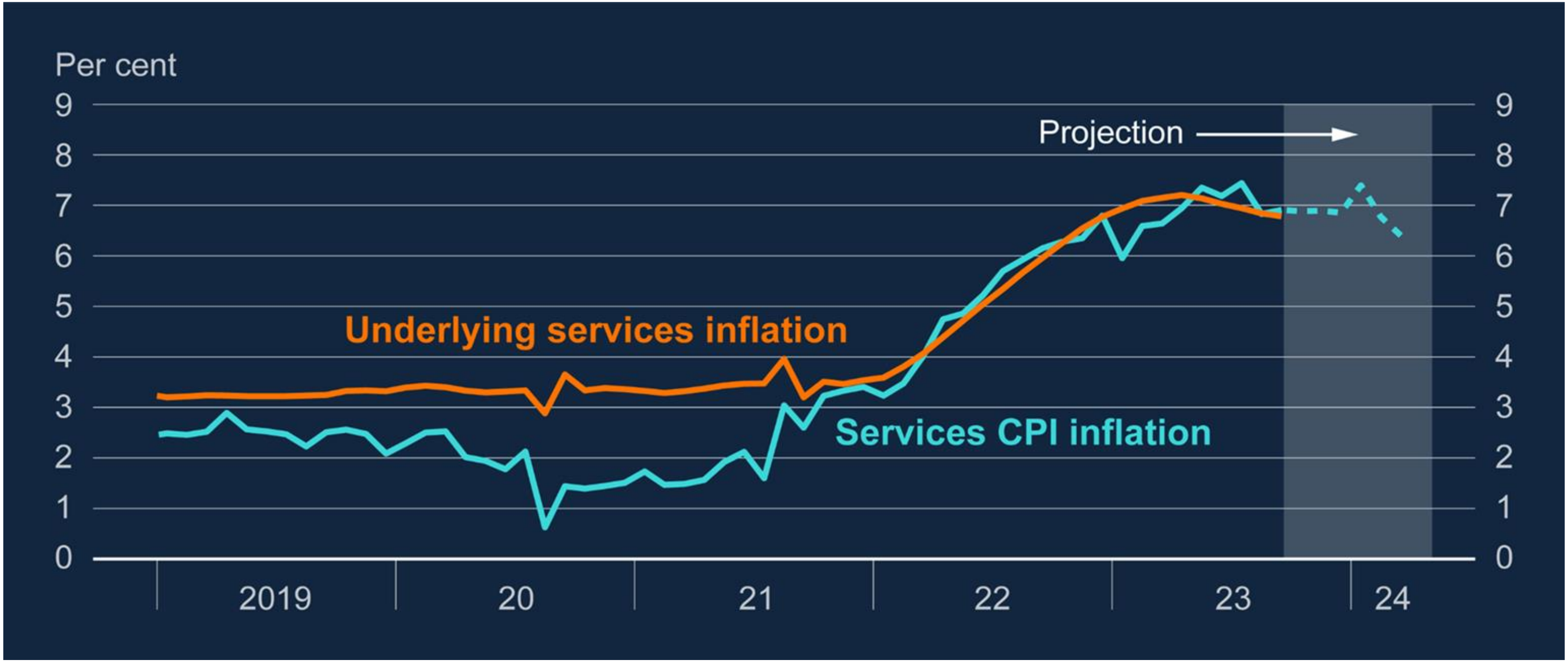
Global export price inflation has fallen significantly



Producer price inflation suggests cost pressures for goods are easing



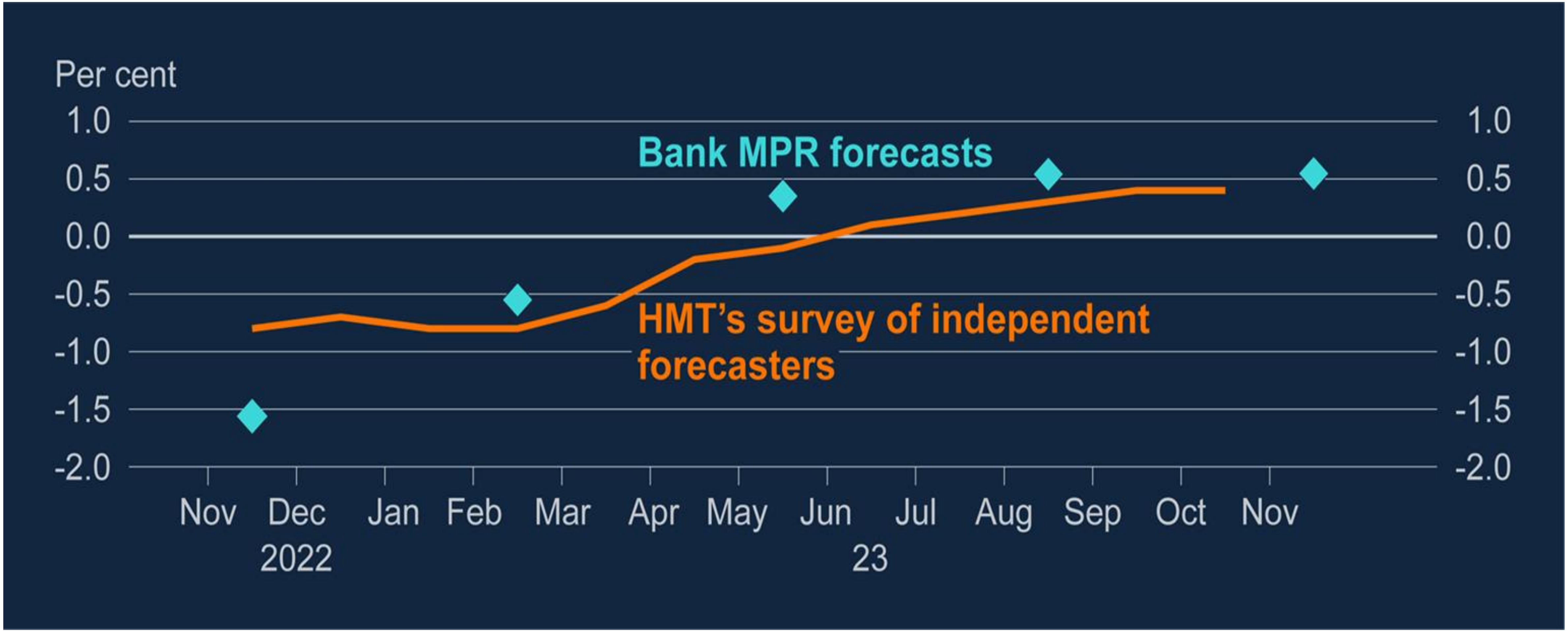
A measure of underlying services inflation has started to fall back slightly



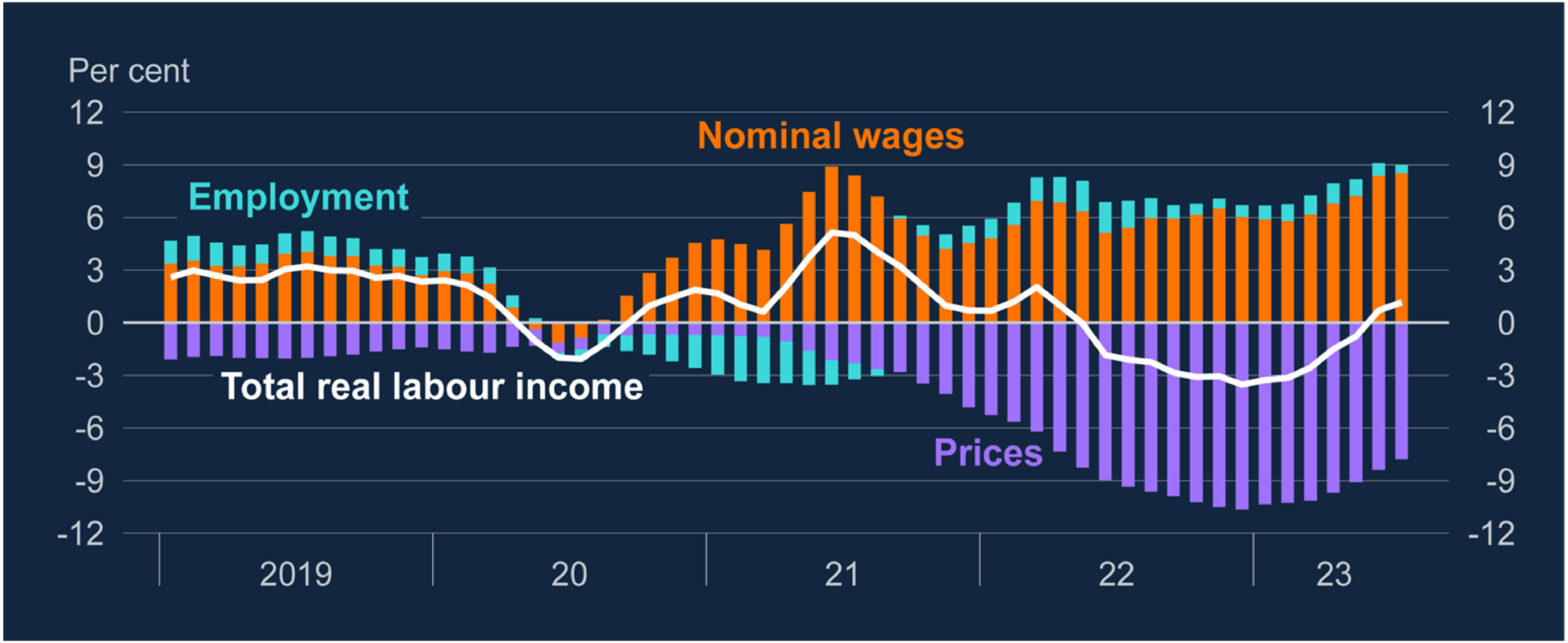
Main points from the MPR

The demand outlook

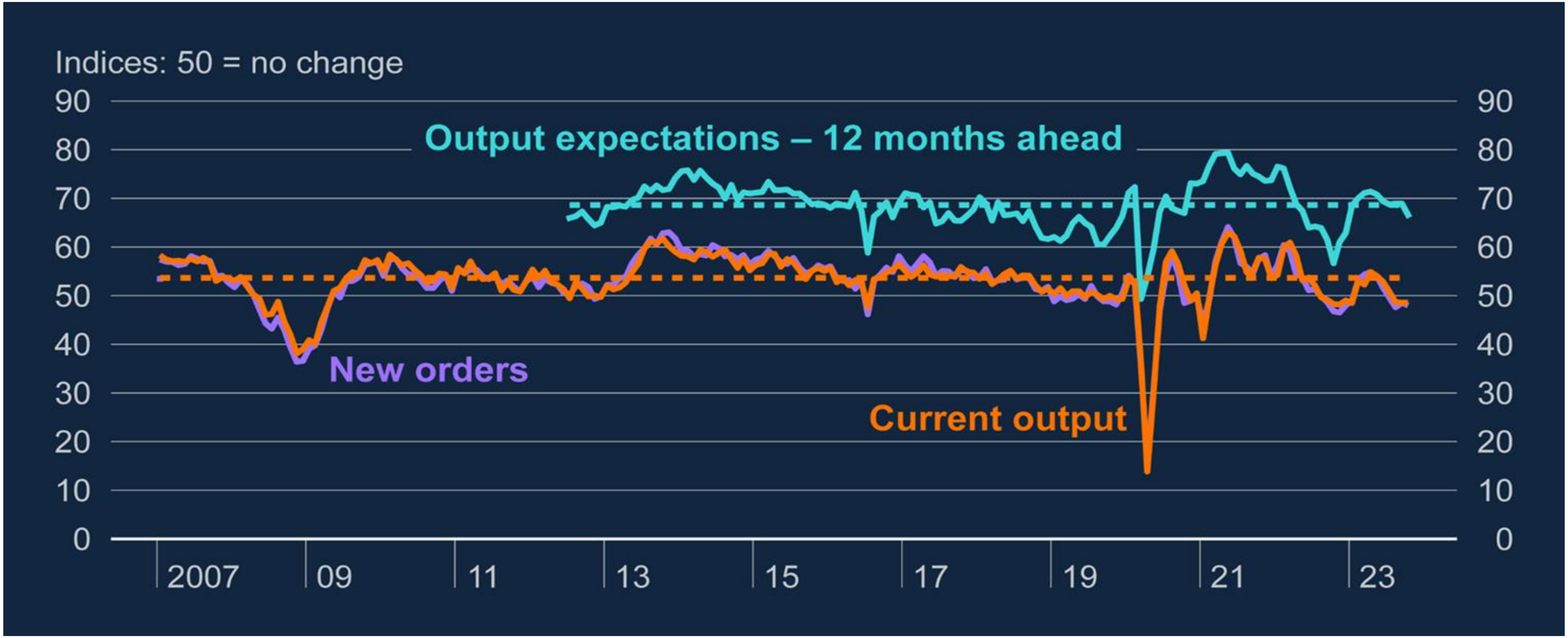
Forecasters have consistently revised up expectations for 2023 GDP growth over the past year



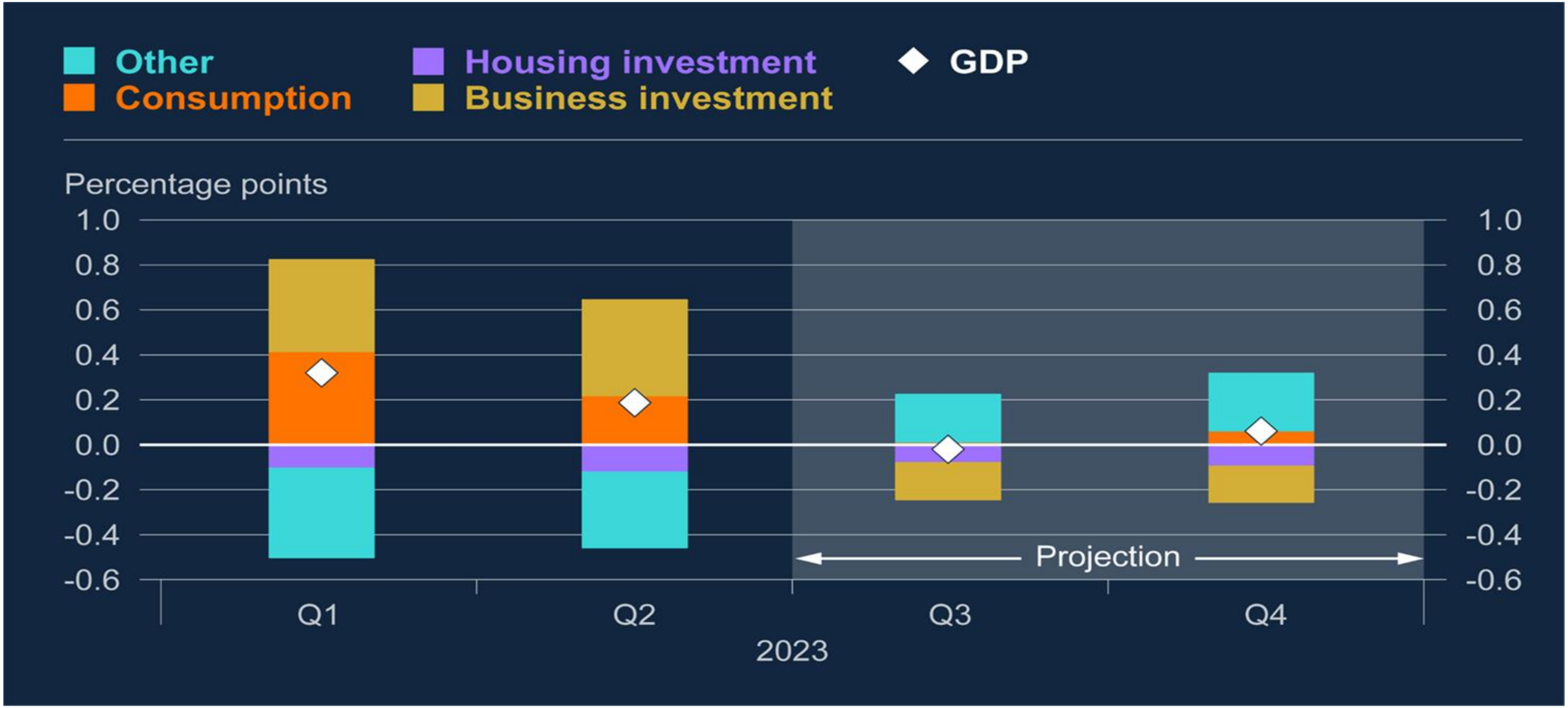
A resilient labour market and fall in energy prices have supported an improvement in household real income growth



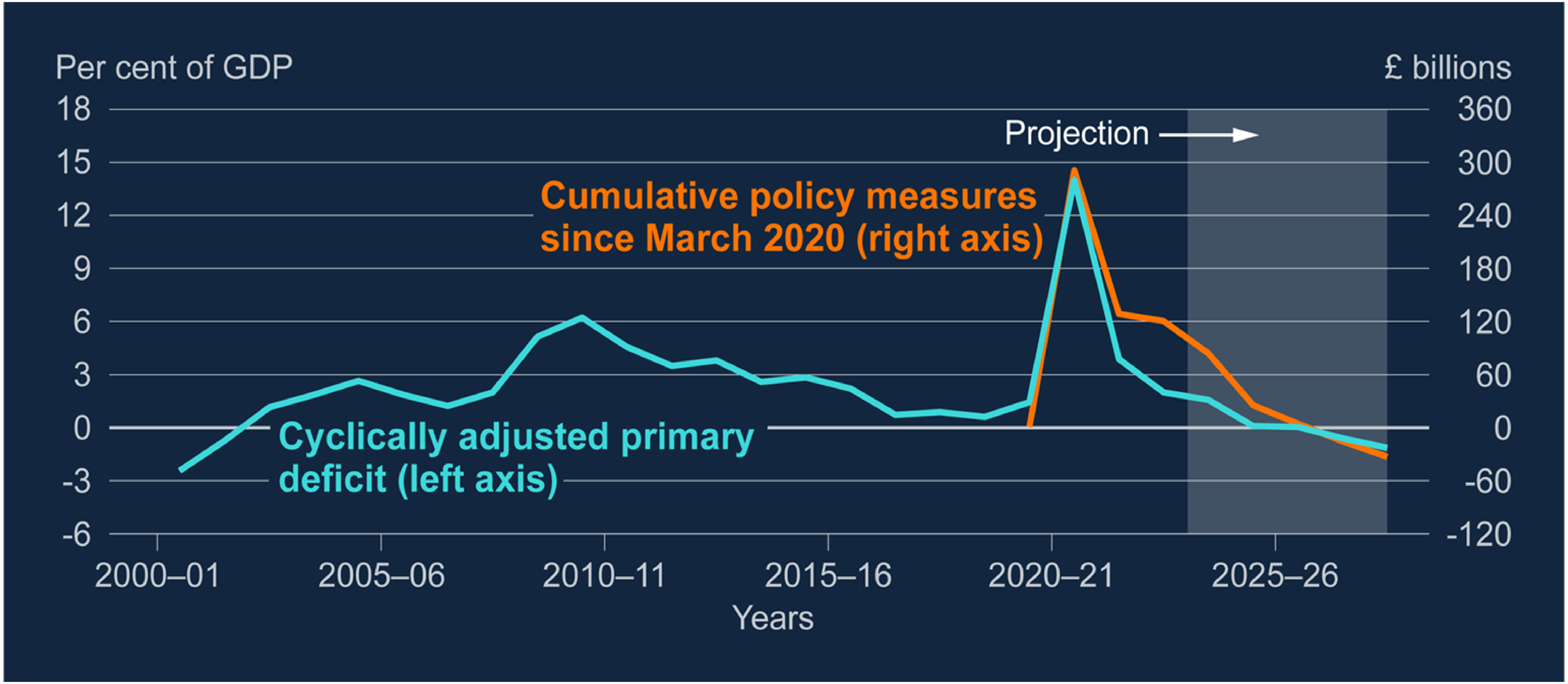
Survey measures suggest economic activity growth will weaken in 2023 H2, forward-looking measures are less pessimistic



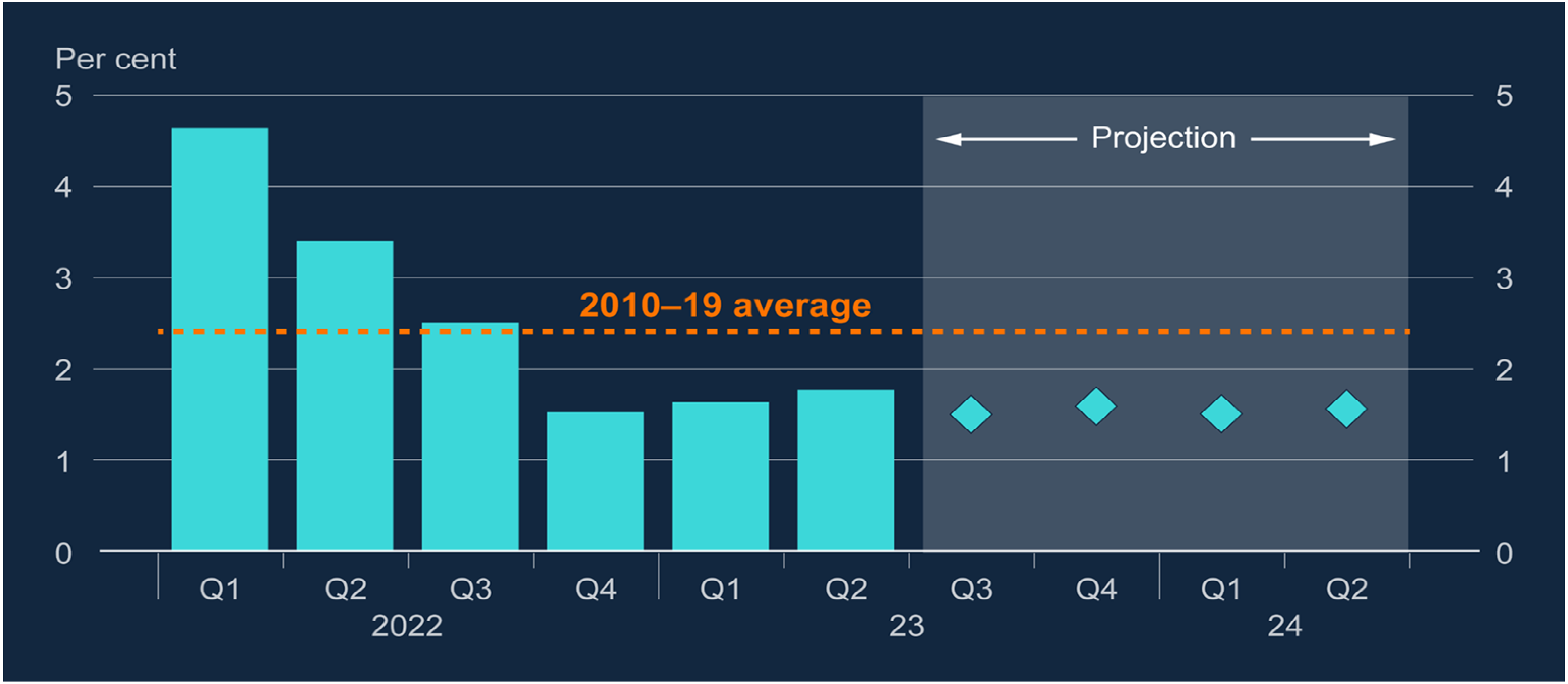
GDP is expected to be broadly flat in 2023 H2



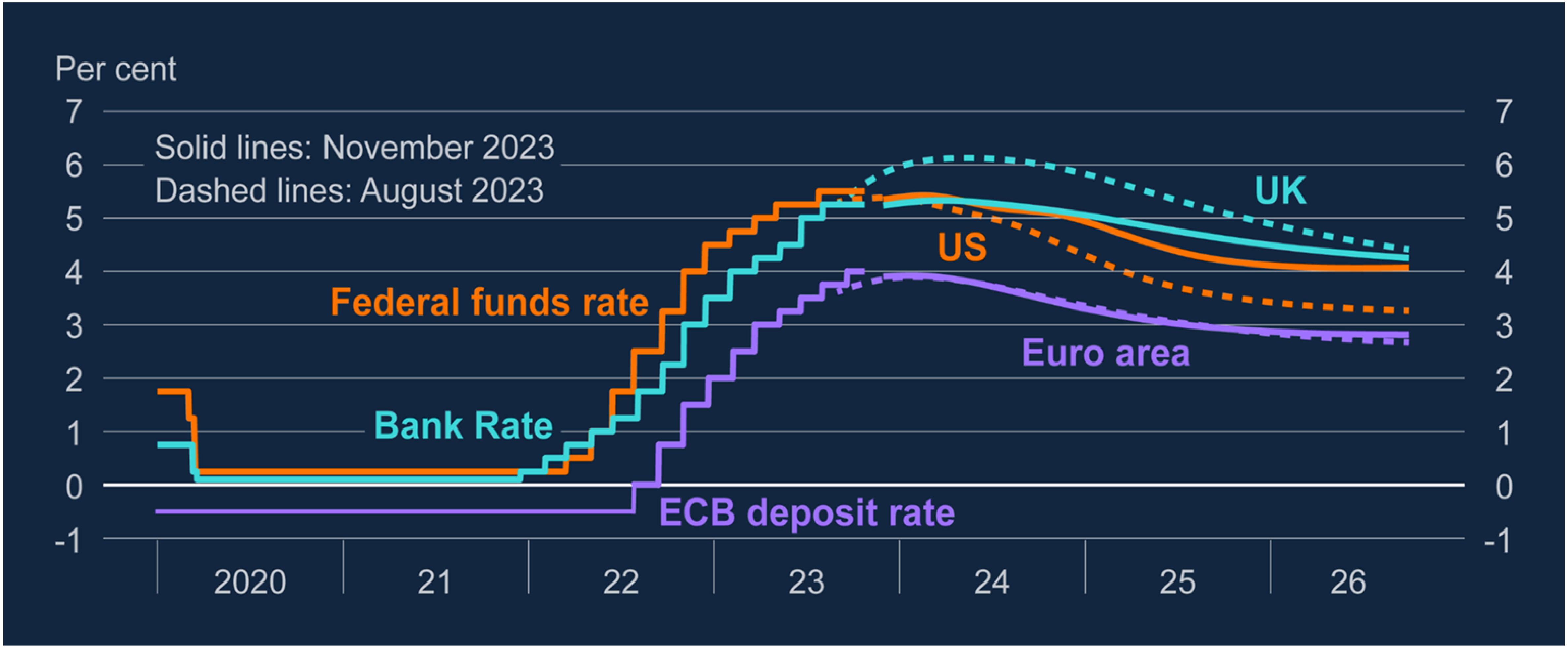
Support from fiscal policy is expected to fall in the coming years



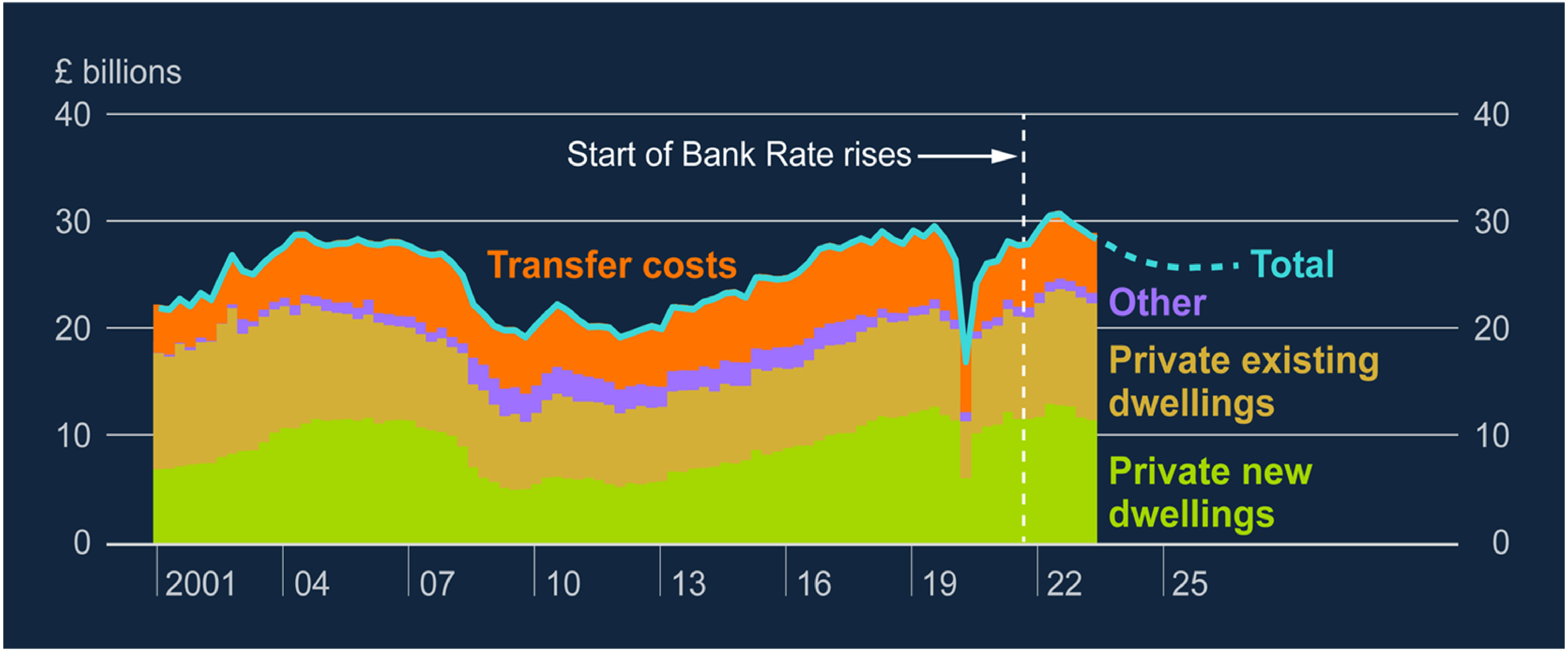
Global GDP growth continues to be subdued



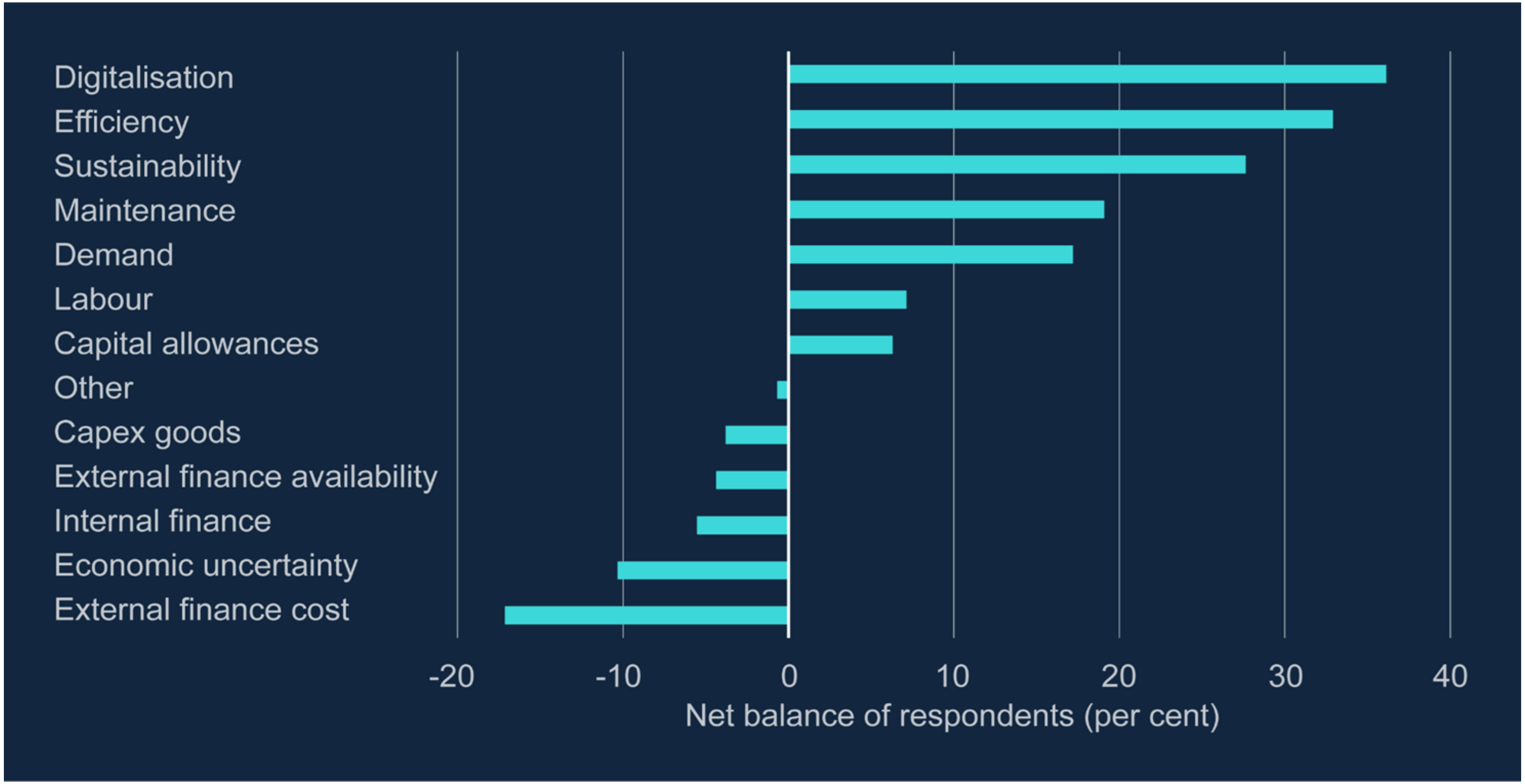
Interest rates are close to the peak of their market-implied paths in the US, euro area and UK



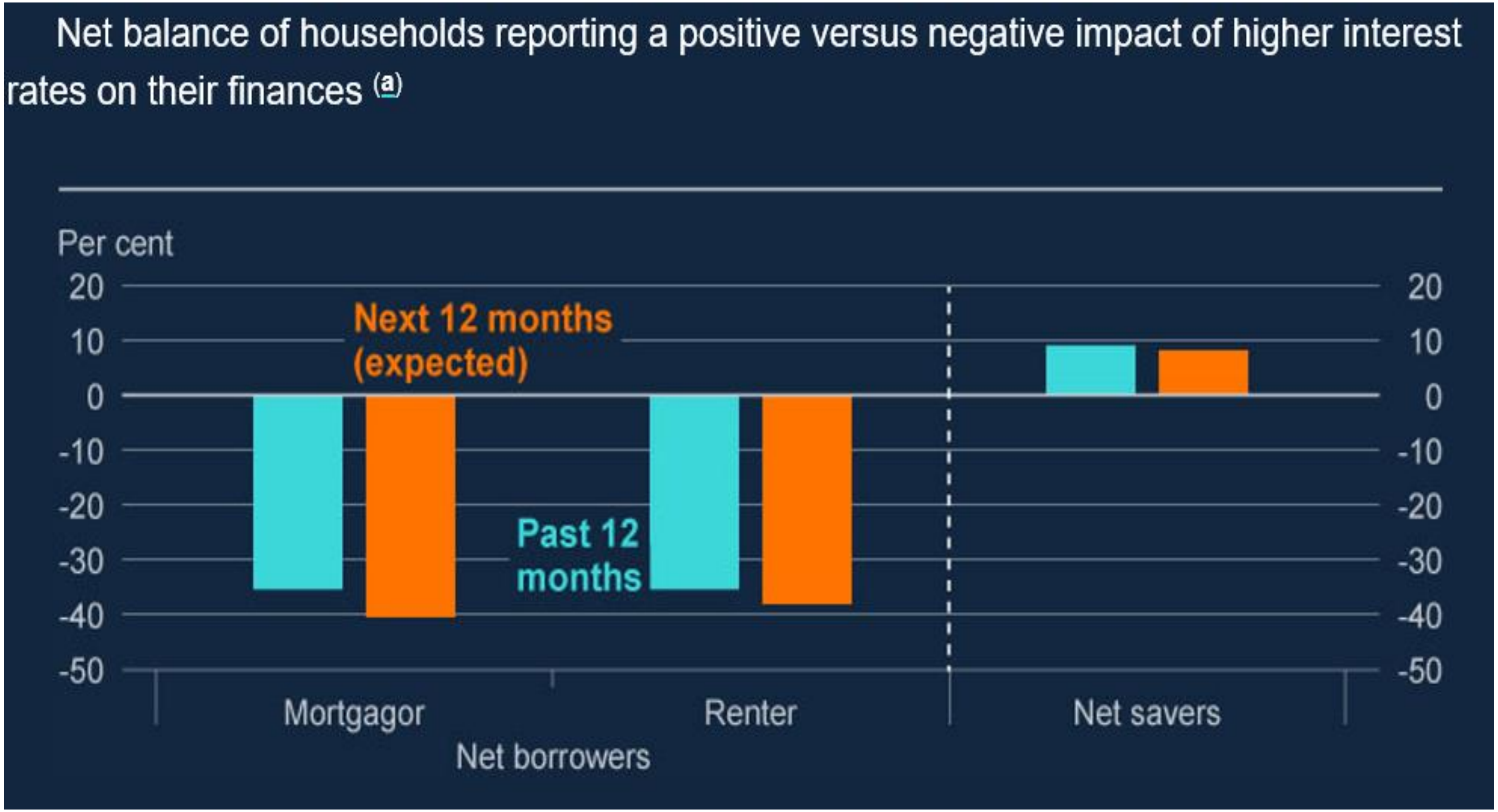
Housing investment has fallen since early 2022, driven by lower investment in new dwellings and lower transfer costs



Structural factors are motivating higher investment spending next year

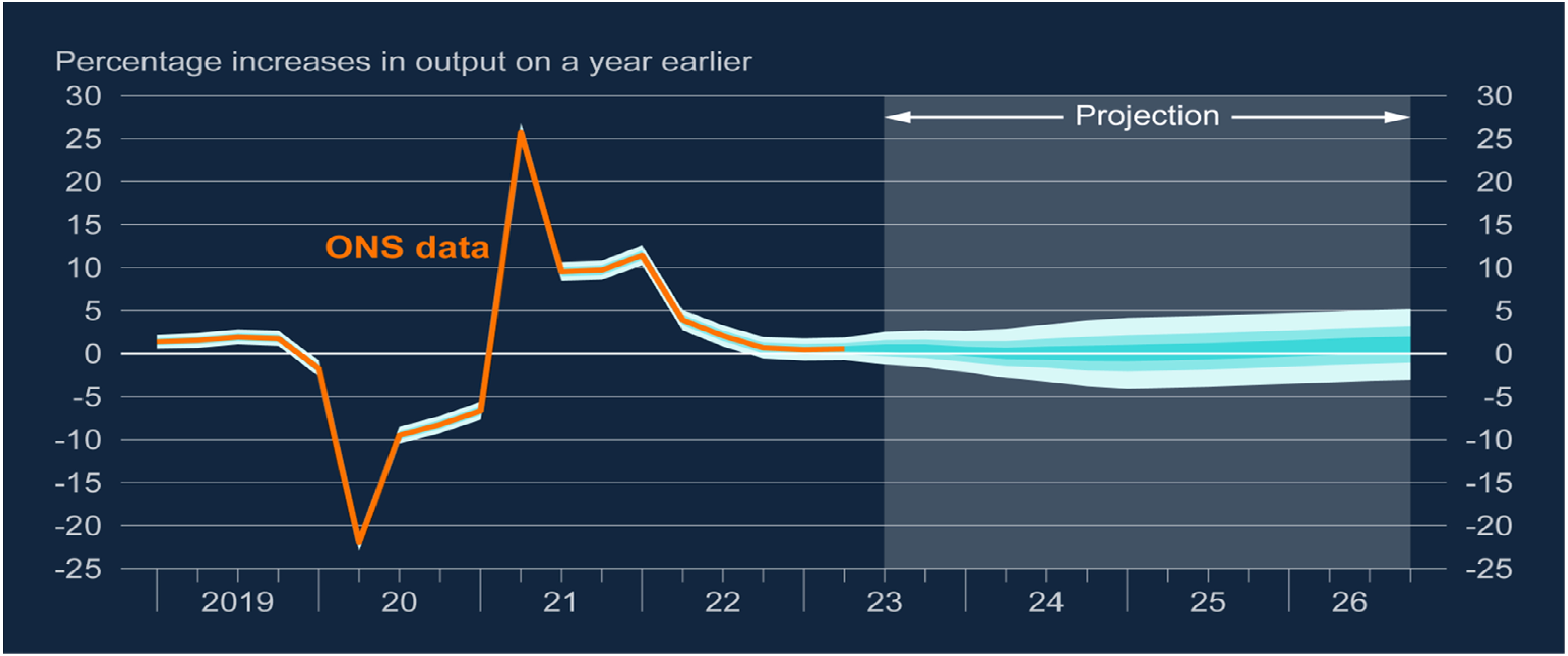


More borrower households report a negative impact on their finances from higher interest rates than saver households



Fewer households are expecting to save less than usual in the next six months than was the case over the past six months

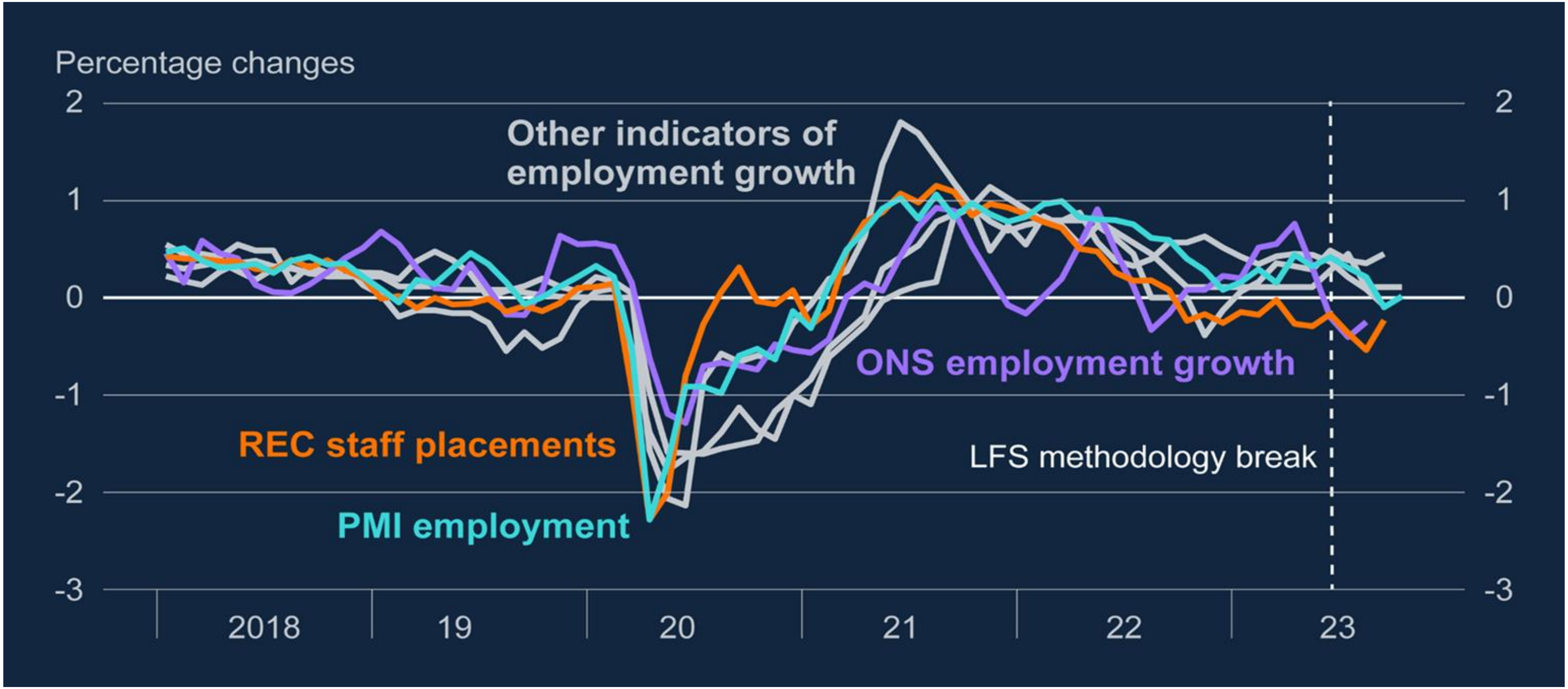
GDP growth projection based on market interest rate expectations; other policy measures as announced



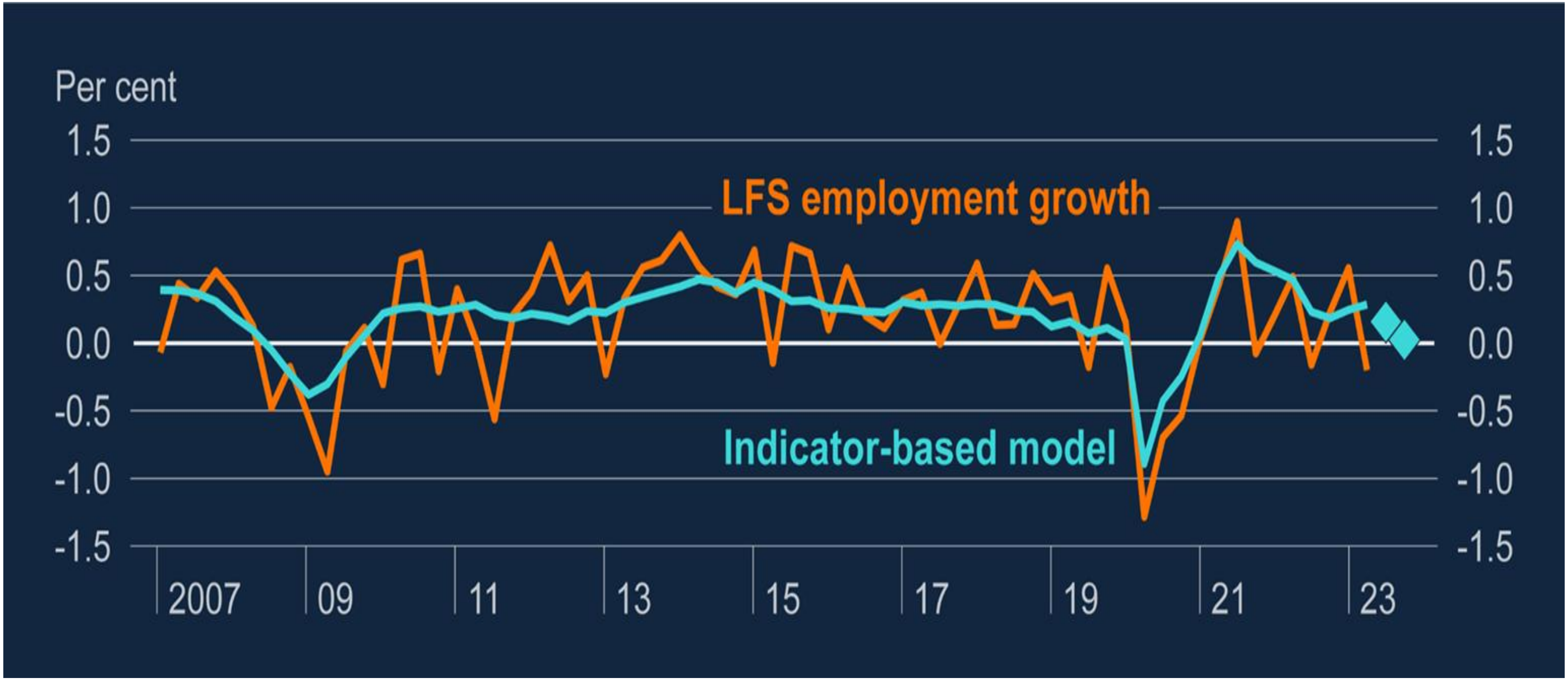
Main points from the MPR

The labour market and inflation in the medium term

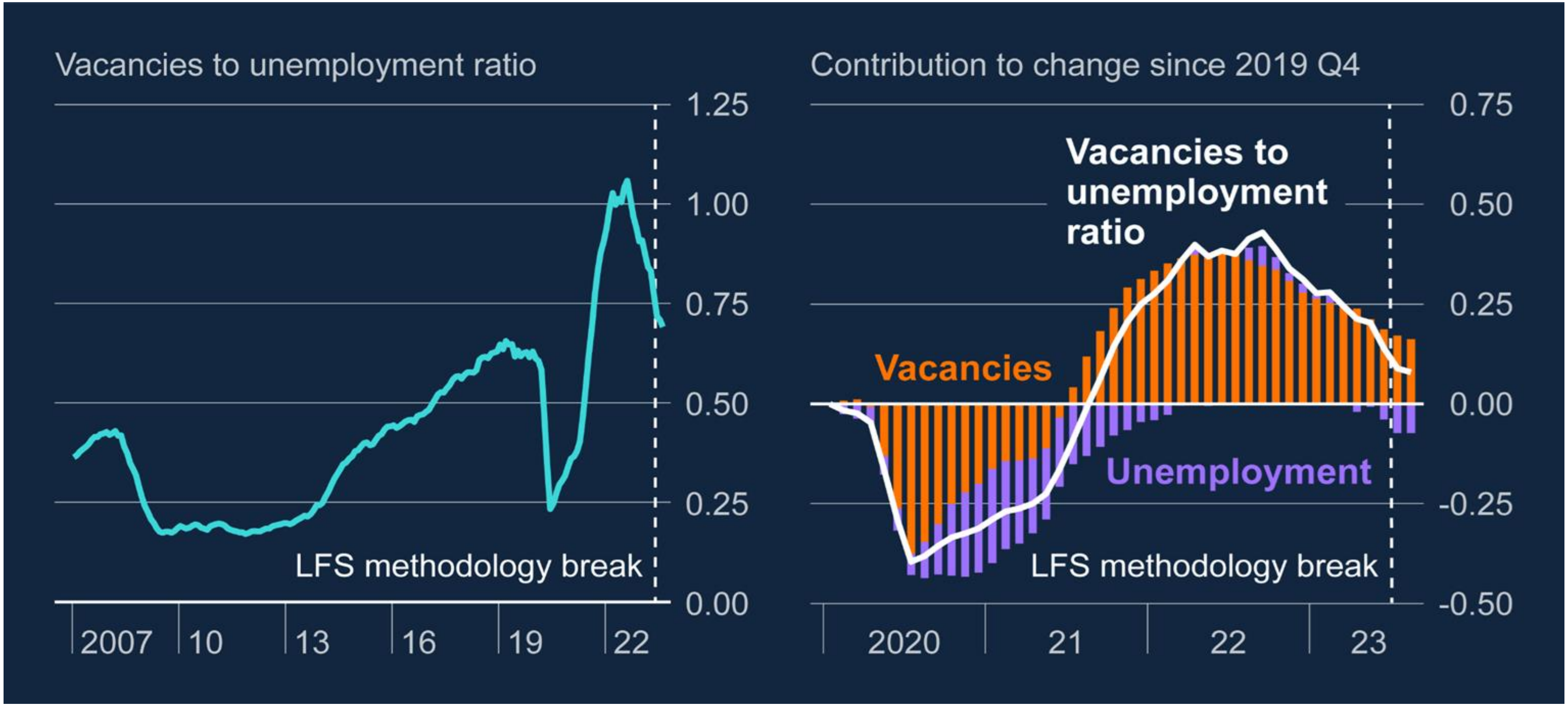
Most indicators of employment growth are softening



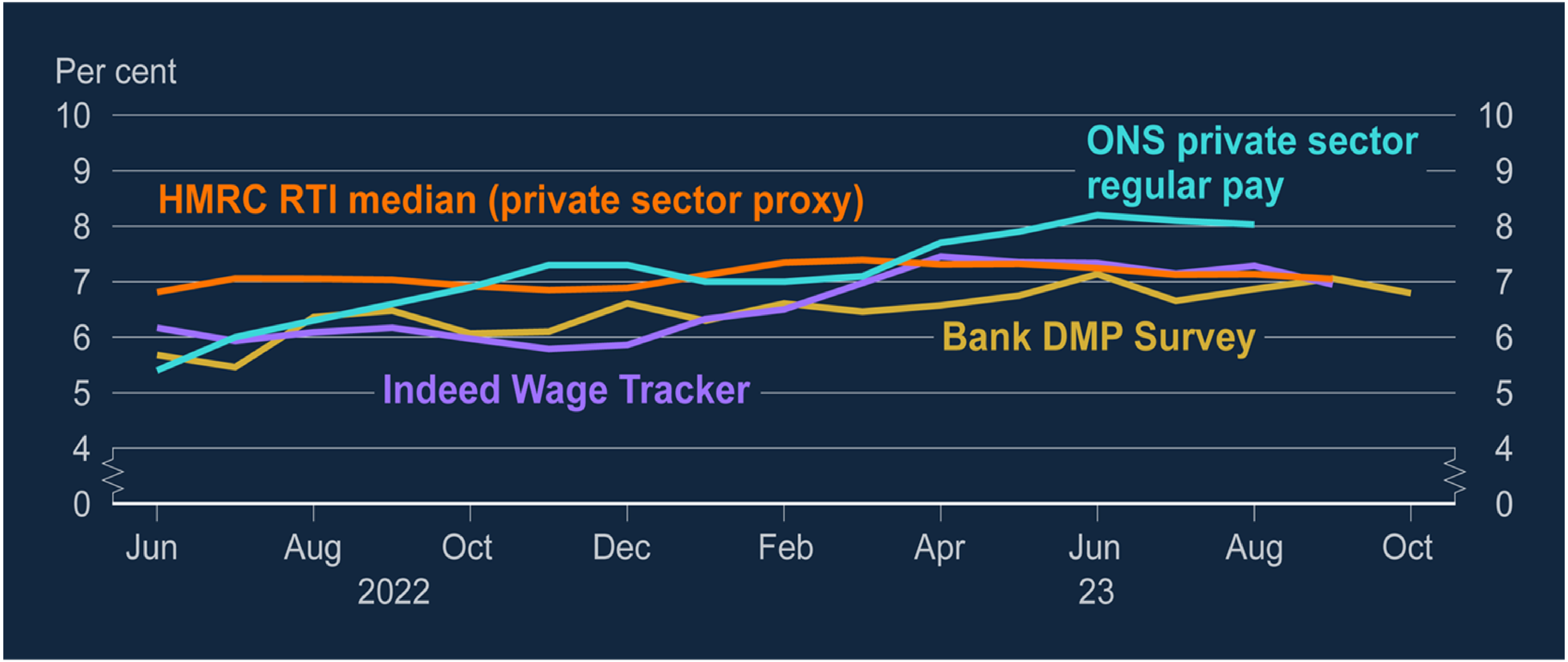
An indicator-based model points to flat employment in 2023 Q4



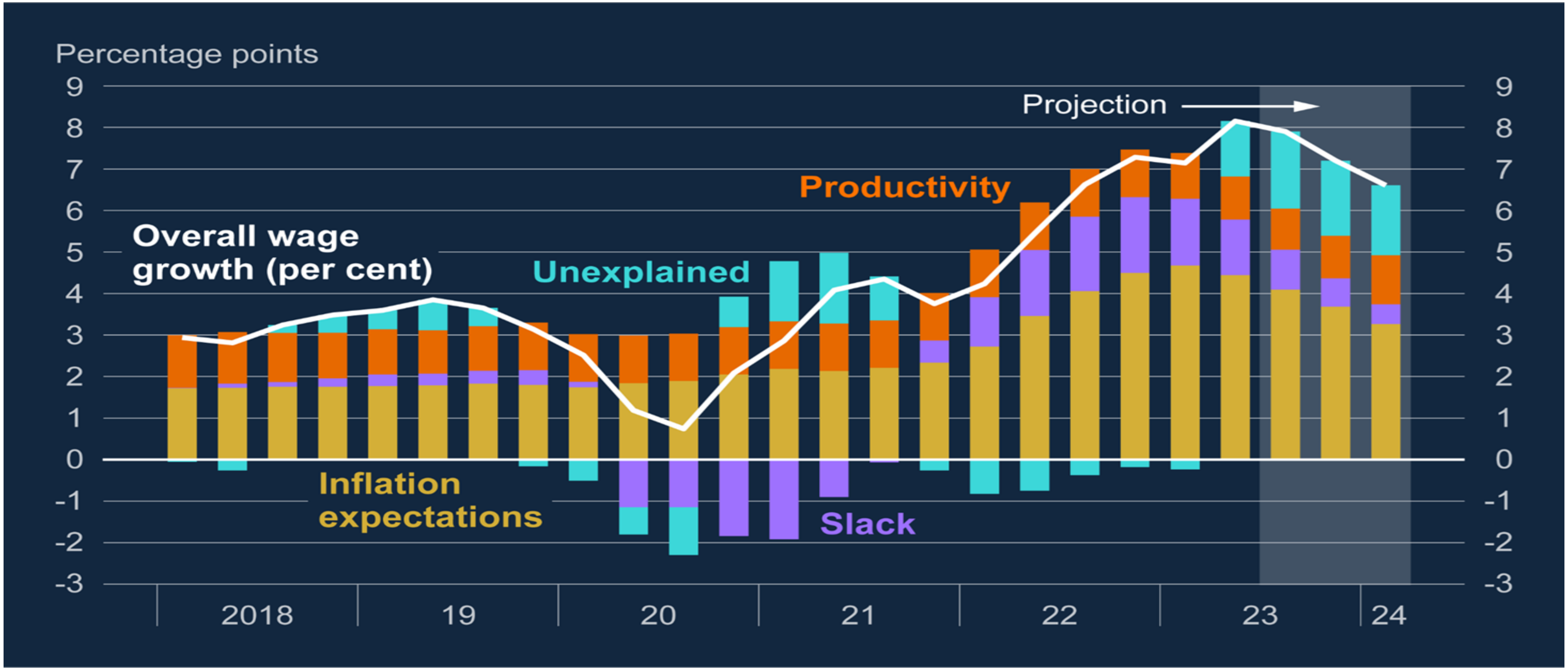
The labour market remains tight, although it has loosened since mid-2022



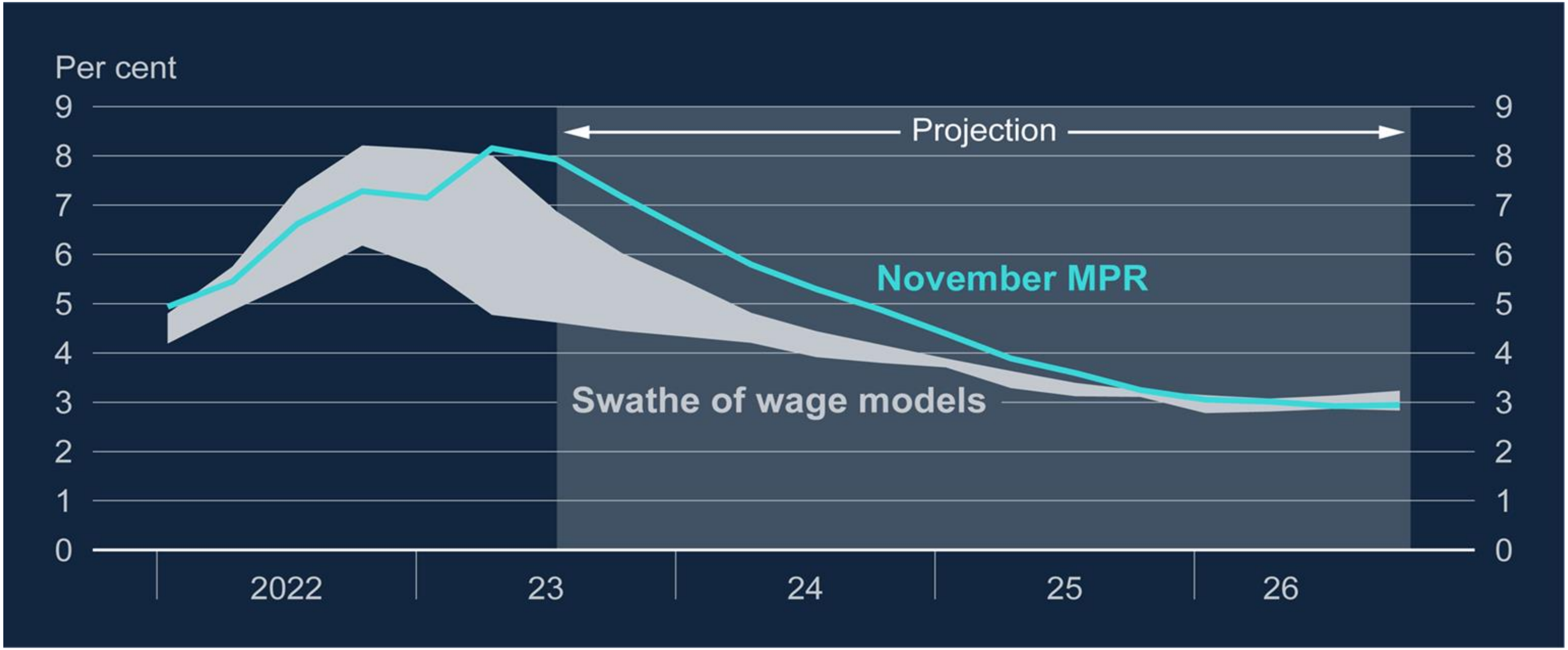
Annual private sector regular pay growth stood at 8.0% in August, higher than other indicators



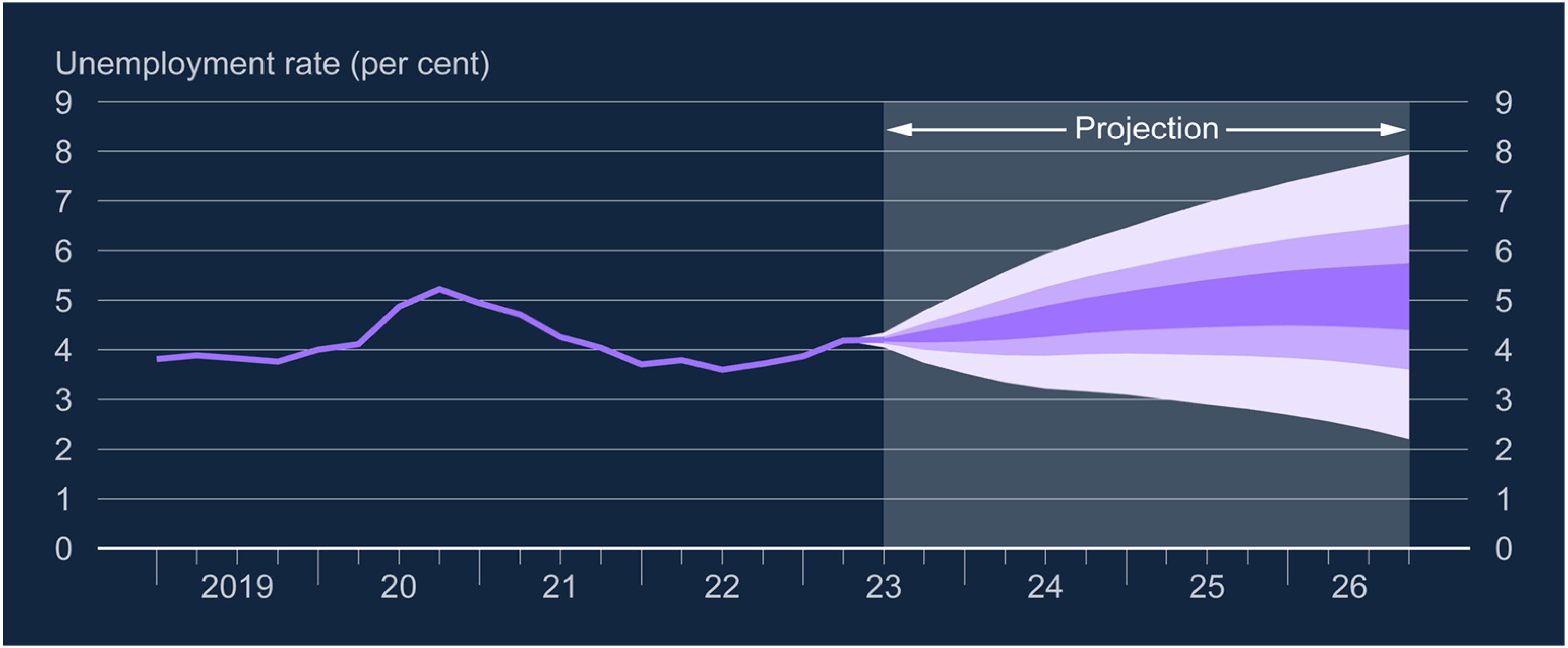
Easing labour market tightness and falling inflation expectations should reduce pay growth in the near term



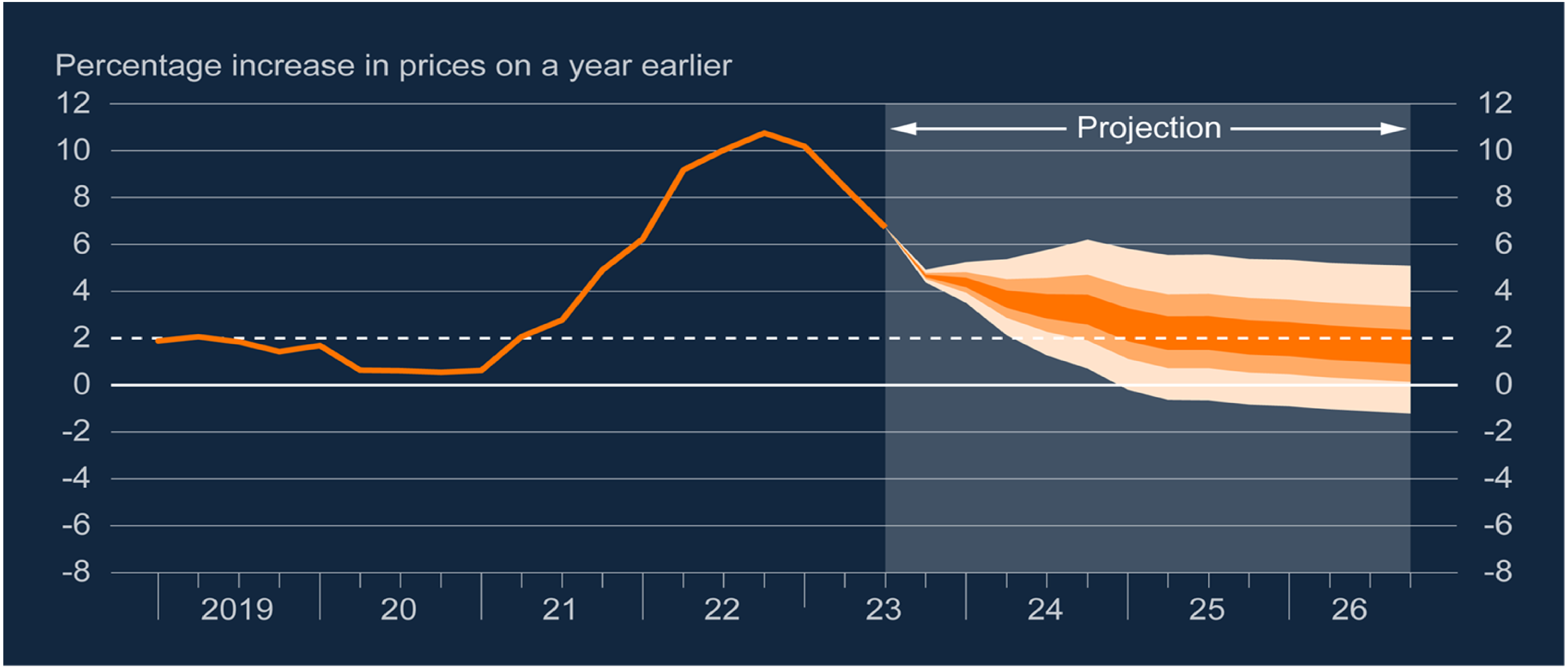
Projections for private sector regular average weekly earnings four-quarter growth



Unemployment rate projection based on market interest rate expectations; other policy measures as announced



CPI inflation projection based on market interest rate expectations; other policy measures as announced



MPC perspective and policy

Key messages from the November Monetary Policy Summary

MPC has maintained Bank Rate to 5.25%. The current **monetary policy stance is restrictive**. Little news since its September meeting.

“Monetary policy will need to be **sufficiently restrictive for sufficiently long** to return inflation to the 2% target sustainably.”

Based on these forecasts MPC thinks “monetary policy is **likely to need to be restrictive for an extended period of time**”

“**Further tightening…would be required if there were evidence of more persistent inflationary pressures.**”

Questions and discussion