

Talk by Ian McCafferty of the Bank of England Monetary Policy Committee

The UK Economy

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UK has experienced four quarters of above trend growth with inflation below 2%. The sustainable recovery has two key factors :-

a) business and consumer confidence has risen as fears for the eurozone have declined and 800k new jobs have been established

b) exceptional credit conditions providing a real economic boost

Output however needs to achieve levels of 2008 before we enter real growth

Key outlook features :-

- recovery is weak by historical standards as consumers and business reduce debt

- fiscal tightening by government although increasing consumer confidence

A sustainable recovery?

- vulnerable to external shocks from eg financial markets, china or eurozone

- UK growth is fairly modest by international standards est 2.9% 2014 and 2.4% 2015. Pay agreements are likely to rise from subdued levels

- inflation outlook is benign at around 2% for the next three years. Commodity prices are stable, energy prices under downward pressure while sterling has appreciated by 10%

The recovery is domestically driven with exports having a limited impact. It is considered a degree of slack still exists in the economy which can allow growth without inflationary pressure. This slack consists of :-

- further scope to reduce unemployment

- moving employees from part to full time

- moving people from non employment

It is estimated there still remains 1-1.5% slack in the economy but another key factor remains productivity

Interest rates

There is no real pressure to increase interest rates and this is not likely until Q1 or Q2 of 2015 if the economy continues satisfactory growth. The lowest rates for 300 years are likely to remain below pre-crisis levels with any increase modest and handled sensitively. It is intended that bank rate will be the primary lever for economic management. The volume of QE is likely to continue to fall given the level of gilt purchases and a target of market stability

Ends