
July 2011

SUMMARY MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

Held on the 6th & 7th July 2011

PAYdata

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Financial markets

- On average, financial market participants expected Bank Rate to have increased by 25 basis points by around the middle of 2012.
- Longer-term forward interest rates had increased a little in both the UK and US, but had been broadly unchanged in the core euro-area countries.
- Euro-area sovereign debt markets had become more strained, reflecting heightened concerns over some peripheral countries' fiscal positions.
- Equity prices had risen a little internationally over the month.

The international economy

- The data pointed towards a broadly based easing in the pace of global activity, but it remained unclear whether this slowing would prove persistent.
- JP Morgan's global manufacturing Purchasing Managers' Index (PMI) had fallen in June, reaching its lowest level for almost two years.
- A range of indicators suggested that output growth in the US had slowed by more than could be explained by supply-chain disruptions.
- In the euro area, the picture was one of moderate growth at the aggregate level in the second quarter, but with considerable cross-country variation.
- Oil prices had fallen slightly on the month, probably reflecting both demand and supply factors.
- Monetary policy had been tightened further in a number of Asian economies over the past month, partly in response to inflationary pressures.

Money, credit, demand and output

- According to the most recent ONS estimate, GDP had grown by 0.5% in the first quarter, unchanged from the previous estimate.
- Business surveys had pointed towards continued modest underlying economic growth in the second quarter.

- The most recent indicators had pointed towards continued weakness in the near-term outlook for consumption.
- The pace of the economic recovery in the medium term more broadly would be affected by the price and availability of credit to households and businesses.
- Broad money and credit growth continued to be weak.

Supply, costs and prices

- Twelve-month CPI inflation had remained at 4.5% in May, unchanged from April.
- An advance estimate for CPI inflation of 4.2% for June had been provided to the Governor ahead of publication.
- Recent developments in utility and imported food prices indicated that the near-term peak in CPI inflation would probably be higher, and occur sooner, than either the MPC or external commentators had assumed.
- There was considerable uncertainty about the near-term profile for CPI inflation.
- There remained a significant risk that expectations of above-target inflation would become entrenched, adding to wage and price pressures.
- There was little clear evidence to suggest that elevated CPI inflation had begun to feed through into wages yet.
- Private sector regular annual pay growth had been 1.8% in the 3 months to April, in comparison with 2.1% in the 3 months to January, and private sector wage settlements had been subdued at 2.1% in the 3 months to May.
- Labour productivity growth had been puzzlingly weak.
- There were signs in the most recent UK labour market data and in some of the employment surveys that the pace of employment growth had begun to slow.

The Immediate Policy Decision

- Inflation had been well above the 2% target as a result of the temporary boost from higher energy and other commodity prices, the increase in the standard rate of VAT and the past depreciation of sterling.
- Despite the fall in CPI inflation in June, it was likely that inflation would rise further, to over 5%, in the coming months.

- The MPC's central view remained that a margin of spare capacity in the economy was likely to push down inflation and bring it back towards the target in the medium term but there were material risks to that view.
- The key risk to the downside was that demand growth would not be sufficiently strong to soak up the pool of spare capacity in the economy.
- The key risk to the upside was that the period of elevated inflation would persist for longer than the Committee expected.
- The balance between the risks to inflation in the medium term had not changed sufficiently over the month for MPC members to change their views on policy.
- Most members judged that it was appropriate to maintain the current stance of monetary policy.

The Governor invited the Committee to vote on the propositions that:

- Bank Rate should be maintained at 0.5%; and
- The Bank of England should maintain the stock of asset purchases financed by the issuance of central bank reserves at £200 billion.
- Regarding Bank Rate, seven members of the Committee voted in favour of the proposition and two voted against the proposition, preferring to increase Bank Rate by 25 basis points.
- Regarding the stock of asset purchases, eight members of the Committee voted in favour of the proposition and one voted against the proposition, preferring to increase the size of the asset purchase programme by £50 billion to a total of £250 billion.

Link to full minutes: <http://www.paydata.co.uk/mpc-minutes-july-2011>

Source: [Bank of England](#)

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