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## UK: BoE Uncertain of Underlying State of Economy

by Andrew Wroblewski

Surprising few, the minutes to the 5-6 December Bank of England (BoE) Monetary Policy Committee (MPC) meeting showed the committee still to be split somewhat over its decision to keep the asset purchase program target unchanged at £ 375 bln, albeit with only the continuing formal dissent of further action from long-standing dove Miles. Unsurprisingly, *the MPC was, however, unanimous in its decision to keep the benchmark interest rate at a record low of 0.5%.*

**Little New on the Month.** Unlike at the November meeting, there was no further clear discussion (and therefore possibly division) in regard to the impact of asset purchases. In November, the MPC had suggested, that while more asset purchases may very well drive asset prices higher, in a period of high uncertainty such a development may have less impact on real activity than hitherto. *More likely than not, no such further discussion took place simply because there was little additional debate about adding to the asset purchase plan.*

Indeed, the news received over the month about activity had been mixed, meaning that the inflation outlook portrayed in the November Inflation Report was still valid from the MPC viewpoint. *Indeed, most of the MPC agreed that developments on the month had done little to alter the balance of arguments between maintaining and increasing the size of the monetary stimulus.* Growth remained subdued. The impact of the most recent round of asset purchases was still to be fully felt. While it was too soon to assess the effectiveness of the FLS in supporting lending and demand, the early signs of its impact had been encouraging; the next few quarters would bring more information. Although inflation was at 2.7%, and seemed likely to remain above the target for the next year or so, it was judged likely to fall back to the target over the medium term.

**Sterling Worry Continues.** Echoing comments that Governor King has made of late, the Minutes (again) pointed to discomfort with the gradual appreciation of the pound in the last year or so. *However, rather than purely being a reflection of the modest rise in the trade-weighted level of sterling, the worry was highlighted more about the real appreciation of the currency, the latter very much aggravated by the rise in unit labor costs, the latter of course also being a worry on the inflation outlook.*

**DE View:** These Minutes portray an MPC possibly more split than the token dissent would suggest. But also the MPC is uncertain, willing to admit that it remained difficult to assess the underlying state of the economy given the unreliable readings from survey data and the distortions evident in official activity numbers. All of which point to a *BoE likely to be on hold for some time as it grapples to get a better gauge of what the economy is actually doing, hoping for a diminution of uncertainty, both to assess the economic outlook and also as this may allow existing stimulus measures to take greater effect.*