

## **Report to the Treasury Committee**

**Andrew G Haldane, Chief Economist**

**4 September 2019**

**Term of appointment: 1 June 2014 - 11 June 2020**

**Last TSC Annual Report:** 21 February 2018

**Last TSC Appearance:** 20 November 2018 – *Inflation Report* Hearing

### **Voting record over the past year and economic overview**

12 MPC votes cast between February 2018 and August 2019: March, May, June, August, September, November, December 2018 and February, March, May, June and August 2019.

It is approximately 18 months since my last report to the Treasury Committee. Over that period, I voted to raise interest rates by 25 basis points in June 2018 and August 2018, while maintaining the stock of asset purchases. Since then, I have voted to maintain the level of interest rates and the stock of asset purchases at current levels.

Growth in the UK economy over the period has continued at modest rates by historical standards. It has come mainly from household spending which has remained resilient, underpinned by rising jobs and pay growth and accommodative credit conditions. Investment spending by companies has, by contrast, remained very subdued, largely as a result of Brexit-related uncertainties. Net trade has also disappointed slightly to the downside.

Until the middle of 2018, the UK economy was growing at rates slightly above its supply potential. The unemployment rate had fallen to levels at, or slightly below, its longer-term equilibrium. There were widespread reports of skills shortages among companies, including from the Bank's regional intelligence, suggesting little slack in the economy. And labour costs were rising, with pay growth increasing to around 3% by the middle of 2018.

With excess demand projected to emerge over the forecast horizon, and with inflation projected to exceed its target, I along with other MPC colleagues voted to raise rates in August 2018. By reducing slightly the degree of monetary policy accommodation, the aim was to ensure inflation returned to its 2% target in a sustainable fashion. The MPC also signalled that, were the economy to continue to grow slightly above trend, further "limited and gradual" interest rate rises would be necessary to meet the inflation target.

Since the middle of last year, growth in the UK economy has been bumpy. On an underlying basis, though, it appears to have slowed to a rate below its supply potential. Quarterly growth in the first half of 2019 averaged 0.15%, compared with 0.4% during 2017/18. The key drivers have been a slowing of world growth and an escalation of Brexit-related uncertainties. Although it remains tight, it is no longer clear the labour market is tightening.

In light of this slowing, and with the economy facing a number of possible paths depending on the outcome of Brexit, I have voted to leave unchanged the level of interest rates and asset

purchases at recent MPC meetings. Brexit uncertainty is not, by itself, a reason for leaving interest rates on hold, as the two tightenings in monetary policy by the MPC since the referendum illustrate. Nonetheless, with the economic road ahead potentially forking, the case for holding rates until the road ahead becomes clearer has strengthened of late.

In the event of a smooth Brexit, and assuming world growth recovers as expected, I expect a further gradual and limited withdrawal of monetary stimulus would be appropriate to meet the inflation target on a sustainable basis. In that event, consumer spending is likely to remain robust, underpinned by rising income growth. Some recovery in companies' investment spending would also be expected, as Brexit uncertainties dissipate. This would raise UK growth to above its supply potential, generating a degree of excess demand in the economy.

In the event of a no deal or disruptive Brexit, the appropriate monetary policy would depend on the reaction of demand, supply and the exchange rate. As that cannot be known in advance, the response of interest rates cannot be automatic. The risks to interest rates in that event are two-sided, although these risks may not be symmetric. The downside risks to demand would need to be balanced against the upside risks to inflation from a lower exchange rate and any hit to the economy's supply potential.

My personal view is that I would be cautious about loosening monetary policy, barring a sharp downturn in demand in the economy. Despite slowing, underlying UK growth remains only a little below potential and the labour market remains tight. Brexit-related uncertainties have not, so far, significantly affected consumer spending which is three-quarters of the economy. Consumer confidence remains robust, jobs and pay growth are still rising and the UK housing market shows some signs of bottoming-out.

UK monetary conditions remain accommodative by historical or international comparison. The UK's economic circumstances today are different than in other countries and from a decade ago. Monetary accommodation was the right response a decade ago when the credit crunch opened up a large gap between aggregate demand and supply in the economy. That gap has now largely been closed and domestic cost pressures are still rising.

With the economy close to full capacity, medium-term growth in the economy is unlikely to come from aggregate demand stimulus from monetary policy. It instead will require a boost to the economy's supply-side. This calls for action on structural and fiscal policies rather than monetary policies. Policies which boost the supply-side of the economy are what is now needed to lift growth in the UK economy over the medium term.

### **Engagement with External Stakeholders**

As in previous years, I have maintained an active programme of visits across the UK to a wide range of stakeholders: companies, charities, faith and community groups, schools, colleges and universities. Over the period, I have conducted 13 regional visits. I have also continued my visits to less well-performing parts of the UK, engaging directly with citizens and community groups through Townhalls, Citizens' Panels and Community Forums. I have conducted a further 13 Townhalls and Community Forums and 3 Citizens' Panels over the period.

In addition, I have given:

- 13 published speeches on the economy;
- Around 30 talks to various business groups;

- Around a dozen presentations at academic conferences and events;
- 13 talks in schools and colleges;
- 16 published articles or interviews for newspapers, magazines and radio;
- 7 published articles in academic journals and books.

A selection of my external engagements and contributions is listed in Annex 1.

## **Annex 1: External engagements since February 2018**

### **Regional Visits**

#### **2018**

- 15 May – South West
- 25-26 June – Wales
- 9-10 July – North East
- 24 September – Central Southern
- 11 October – West Midlands
- 22-23 November – Scotland
- 27-28 November – Northern Ireland

#### **2019**

- 11 January – Wales
- 6-7 March – Yorkshire & Humber
- 16-17 May – South West
- 3 June – East Midlands
- 11 July – West Midlands
- 23 July – Yorkshire & Humber

### **Speeches**

- Climbing the Public Engagement Ladder, 6 March 2018
- How Monetary Policy Affects your GDP, 10 April 2018
- Will Big Data Keep Its Promise?, 19 April 2018
- Ideas and Institutions – A Growth Story, 23 May 2018
- The UK's Productivity Problem: Hub No Spoke, 28 June 2018
- Market Power and Monetary Policy, 24 August 2018
- Folk Wisdom, 19 September 2018
- Pay Power, 10 October 2018
- The Creative Economy, 22 November 2018
- Industrial Strategy and Institutions, 6 March 2019
- Is All Economics Local?, 7 May 2019
- The Third Sector and the Fourth Industrial Revolution, 22 May 2019
- Climbing the Jobs Ladder, 23 July 2019

### **Townhalls, Community Forums and Citizens' Panels**

#### **2018**

- 5 March – Townhall with North Staffordshire YMCA, Stoke on Trent
- 26 March – Townhall with Age Scotland, Scotland
- 15 May – Townhall with Age UK, Gloucester
- 25 June – Townhall with National Museum of Wales, Cardiff
- 10 July – Townhall with Board of Deputies of British Jews, Gateshead
- 24 September – Townhall with Hampshire & Isle of Wight CF, Winchester
- 28 September – Townhall with Smallwood Trust, Walworth & Islington

- 11 October – Townhall with British Board of Jews, Birmingham
- 23 November – Townhall with Citizens Advice Scotland, Glasgow
- 27 November – Citizens’ Panel in Northern Ireland

## **2019**

- 6 March – Citizens’ Panel in Hull
- 16 May – Community Forum with Cornwall Community Foundation, Launceston
- 3 June – Citizens’ Panel in Leicester
- 11 June – Community Forum with Ecnmy, Manchester
- 11 July – Community Forum with Age UK, Oxfordshire

## **Business Group Meetings**

### **2018**

- Discussion at FTSA Roundtable with CityYearUK, 22 February
- Discussion at Marshall Institute Kitchen Cabinet, 27 February
- Discussion at the IPPR Economic Justice Dinner, 28 February
- Discussion at the RSA, 6 March
- Discussion at the Pro Bono Economics and BAML Thought Leadership event, 18 May
- Discussion at TEDx, Glasgow, 1 June
- Discussion at Silicon Valley Bank Technology Roundtable, 16 July
- Discussion at Economy’s Economic Literacy event, 8 October
- Discussion at N+1 Singer, 19 October
- Discussion at the OECD New Approaches to Economic Challenges Launch, 23 October
- Discussion at Bristol Festival of Economics, 9 November
- Discussion at FT Diversity Series Roundtable, 13 November
- Discussion at Danmarks Nationalbank High-Level Networking Seminar, 15 November
- Discussion at the Lord Mayor’s Better City for All Event, 20 November

### **2019**

- Discussion at Weil Partners, 16 January
- Discussion at SPE Women in Economics, 29 January
- Discussion at Pro Bono Economics and BAML roundtable, 12 February
- Discussion at Deloitte Chairman’s roundtable, 21 February
- Discussion at Cass Business School, 26 February
- Discussion at Power Going Places, 10 April
- Discussion at Department for Transport Economists’ Network, 10 April
- Discussion at Industry and Parliament Trust, 14 May
- Discussion at The Briefing Circle, 5 June
- Discussion at CogX, 10 June
- Discussion at the Alliance MBS Business School, 11 June
- Discussion at the Open University 50<sup>th</sup> Anniversary, 3 July
- Discussion at Behavioural Insights Team, 5 July
- Discussion at the Whitehall & Industry Group, 18 July

## **A Selection of Conferences and University Talks**

- Discussion at UCL Rethinking Capitalism event, 5 March
- Discussion at CAGE Warwick, 23 April
- Closing remarks at the Economic Statistics Centre of Excellence, Office for National Statistics and Bank of England Conference, 17 May
- Discussion at the launch of King’s College Centre for DAFM, 19 April

- Discussion at Trento Summer School, 6 June
- Discussion at the Quakers' Conference, 30 June
- Discussion at Financial History Conference in honour of Richard Roberts, 12 October
- Discussion at NIESR Conference, 20 October
- Discussion at the FCO Economic Officers Conference, 6 November
- Discussion at Supervisory Research Conference, 19 November
- Discussion at the Bank of England/DAFM Conference, 26 November
- Discussion at University of Cambridge Annual Public Policy Lecture, 3 December

### **Interviews and articles**

- Interview with BBC Newsnight, 7 March 2018
- Interview with Prospect Magazine, 18 April 2018
- Op-Ed on numeracy, Evening Standard, 15 May 2018
- Op-Ed on public deliberation, Herald Scotland, 30 May 2018
- Interview with the Wall Street Journal, 15 July 2018
- Op-Ed on diversity, Financial Times, 23 July 2018
- Interview on public understanding of economics with BBC, 12 August 2018
- Interview on future of work with BBC, 20 August 2018
- Interview on the financial crisis with BBC, 17 October 2018
- Interview with The Economist, 17 November 2018
- Interview with The Daily Mail, 23 January 2019
- Interview with The Yorkshire Post, 6 March 2019
- Op-Ed on numeracy for The Evening Standard, 14 May 2019
- Interview with The Guardian, 22 May 2019
- Op-Ed on monetary policy for The Sun, 8 June 2019
- Interview with BBC Northern Ireland, 26 June 2019

### **Schools/Colleges/Universities**

#### **2018**

- 5 March – Thistley Hough Academy, Stoke on Trent
- 26 March – Forth Valley College, Falkirk
- 20 April – All Saints School, Knowsley
- 26 June – Lewis Girls' Comprehensive School, Wales
- 9 July – Hummersknott Academy, Darlington
- 10 July – Ateres School, Gateshead
- 24 September – Peter Symonds Sixth Form College, Winchester
- 11 October – King David Primary School, Birmingham
- 9 November – Discover Economics Schools Event, Bristol
- 28 November – St Brigid's College and St Columb's College, Londonderry

#### **2019**

- 7 March – Sirius Academy North, Hull
- 17 May – Truro & Penwith College, Truro
- 25 June – Lewis Girls' Comprehensive School

### **Working papers and academic contributions to journals**

- 'Drawing on different disciplines: macroeconomic agent-based models', *Journal of Evolutionary Economics*, 26 March 2018
- 'An interdisciplinary model for macroeconomics', *Oxford Review of Economic Policy*, 5 January 2018
- 'Central Bank Communications and the General Public', *AEA Papers & Proceedings*, Vol. 108, May 2018.
- 'Uncertainty in Macroeconomic Modelling', *Uncertain Futures*, June 2018.
- 'How Monetary Policy Affects your GDP', *Australian Economic Review*, 1 September 2018
- 'Rethinking Financial Stability', *Petersen Institute Conference Volume*, September 2018
- 'Market Power and Monetary Policy', *Bank of England Staff Working Paper*, No. 798, 3 May 2019