Fisking Carney

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Mark Carney, Governor of the Bank of England, said today:

Any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent, and to be consistent with monetary policy continuing to provide substantial support to the economy.

There remain considerable risks to the UK outlook, which include the response of households, businesses and financial markets to developments related to the process of EU withdrawal. The MPC will respond to these developments as they occur insofar as they affect the behaviour of households and businesses, and the outlook for inflation.

What does that mean? I suggest one of my usual lists.

First, rate rises, if they happen, will be small. If base rate rose above 1 per cent based on this comment I would be amazed. They may well not get that far.

Second, those rate rises will be, at best, widely paced. What else does gradual mean?

Third, Brexit negotiation stress will derail this process. Which means derailment is inevitable.

Fourth, as Brexit driven inflation falls out of the system (as is likely over the next few months) this whole process could also come to an end.

And, last, QE is very unlikely to unwind, and could even recommence.

To put it another way, monetary policy is going to stay near the zero bound and any rate increase there might be (maybe in November, more likely February based on this) will be largely a token gesture so that the Bank can soon after indicate its continuing stress about Brexit without going to a zero base rate.

Whatever else I think of Carney what I am now sure about is that he is not a big risk taker, which is what serious rate rises would be.

But he is also a man who likes a gesture. And I think he's laying the plans for more than one, both of which will have vastly more symbolic than practical significance as rates rise and then fall again within the next year. I wouldn't be at all surprised if by next Autumn the base rate is 0.25%.