# Monetary Policy Report

The Monetary Policy Committee sets monetary policy to meet the two per cent inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 31 July, the Committee voted by a majority of five to four to reduce Bank Rate by a quarter of a percentage point, to five per cent.

Twelve-month consumer price inflation was at the target in both May and June. The Committee expects the fall in headline inflation, and the normalisation of many indicators of inflation expectations, to continue to feed through to weaker pay and price-setting dynamics over the coming quarters.

Gross domestic product has picked up quite sharply so far this year, but underlying momentum appears weaker. Household consumption has been subdued, business investment has recovered only slowly, and surveys of output point to a more modest pace of expansion in the second half of the year.

# Demand and output

A margin of slack is projected to emerge in the economy as activity falls below potential and the labour market eases further. Unemployment is expected to rise gradually over the forecast period.

# Costs and prices

Services price inflation has remained elevated, at 5.7 per cent in June. Private sector regular average weekly earnings growth has fallen to 5.6 per cent in the three months to May, and is expected to ease further as past increases in the minimum wage drop out of the annual comparison.

Energy prices are projected to push headline inflation up to around 2.75 per cent in the second half of this year, as declines in energy prices last year fall out of the annual comparison, revealing more clearly the prevailing persistence of domestic inflationary pressures.

Conditional on market interest rates, inflation is projected to fall back to 1.7 per cent in two years' time and to 1.5 per cent in three years, reflecting the continued restrictiveness of the policy stance and the emergence of spare capacity.