



House of Commons
Treasury Committee

**Re-appointment of Dr Andrew
Sentance to the Monetary
Policy Committee**

Eighth Report of Session 2007–08

Volume II

Oral and written evidence

*Ordered by the House of Commons
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The Treasury Committee

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of HM Treasury, HM Revenue & Customs and associated public bodies.

Current membership

Rt Hon John McFall MP (*Labour, West Dunbartonshire*) (Chairman)
Nick Ainger MP (*Labour, Carmarthen West & South Pembrokeshire*)
Mr Graham Brady MP (*Conservative, Altrincham and Sale West*)
Mr Colin Breed MP (*Liberal Democrat, South East Cornwall*)
Jim Cousins MP (*Labour, Newcastle upon Tyne Central*)
Mr Philip Dunne MP (*Conservative, Ludlow*)
Mr Michael Fallon MP (*Conservative, Sevenoaks*) (Chairman, Sub-Committee)
Ms Sally Keeble MP (*Labour, Northampton North*)
Mr Andrew Love MP (*Labour, Edmonton*)
Mr George Mudie MP (*Labour, Leeds East*)
Mr Siôn Simon MP, (*Labour, Birmingham, Erdington*)
John Thurso MP (*Liberal Democrat, Caithness, Sutherland and Easter Ross*)
Mr Mark Todd MP (*Labour, South Derbyshire*)
Peter Viggers MP (*Conservative, Gosport*).

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No. 152. These are available on the Internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at www.parliament.uk/treascom.

A list of Reports of the Committee in the current Parliament is at the back of this volume.

Committee staff

The current staff of the Committee are Colin Lee (Clerk), Sïan Jones (Second Clerk and Clerk of the Sub-Committee), Adam Wales, Jon Young and Jay Sheth (Committee Specialists), Phil Jones (Committee Assistant), Caroline McElwee (Secretary), Tes Stranger (Senior Office Clerk) and Laura Humble (Media Officer).

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Wednesday 26 March 2008

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Oral evidence

Taken before the Treasury Committee

on Wednesday 26 March 2008

Members present

John McFall, in the Chair

Nick Ainger
Mr Graham Brady
Mr Colin Breed
Jim Cousins
Mr Philip Dunne
Mr Michael Fallon

Ms Sally Keeble
Mr Andrew Love
John Thurso
Mr Mark Todd
Peter Viggers

Witness: **Dr Andrew Sentance**, external member of the Monetary Policy Committee, Bank of England, gave evidence.

Q1 Chairman: Dr Sentance, welcome again.

Dr Sentance: Thank you.

Q2 Chairman: Can I ask when were you approached about your willingness to be reappointed, and by whom?

Dr Sentance: I cannot remember that there was a sort of discrete point, but it was understood from the outset when I was appointed to take over from David Walton's term that I might have a reasonable expectation of being reappointed because I would have only served 18 months when my reappointment came up. Actually, I was expecting this to be announced probably in February, but the Treasury approached me in January and said that they were going to go ahead with this, was this okay with me? And I said, "Yes, that's fine, that was my expectation".

Q3 Chairman: What have you brought to the MPC and what do you think you will continue to bring to it or enhance it in the coming few years?

Dr Sentance: I think I bring a mixture of things, as I said in my original appointment hearing. Obviously experience in the business world, applying economics in the business world, and that has been helpful in a number of ways over the last 18 months. A lot of my career I have been looking at sources of business information, such as business surveys. In the early time of my period in the MPC in late 2006 and early 2007 there was an issue about whether we were picking up how quickly the economy was expanding and the strength of demand, and I found looking at business survey information particularly important in assessing that. My experience in the business world has also given me a stock of knowledge to draw on. One of the things that has struck me while I have been on the MPC is the very significant impact that the international economy is having, and has had, on the UK. If you look at the challenges that the MPC has faced over its nearly 11 years of existence they have been very much driven by international developments and that seems to be continuing to be the case, so having worked in major

international companies such as British Airways has been helpful and looking at the international economy throughout my career. It is a combination of business experience and, of course, my economic background and expertise. I have found both those aspects useful on the Committee and I hope they will continue to be so.

Q4 Chairman: In your questionnaire you mentioned that in your work at the University of Warwick you worked on the Economics of Climate Change. How and when do you think climate change will impact on decisions made by the Monetary Policy Committee?

Dr Sentance: I think climate change is a longer term issue, but we already see some of the pressures that are being talked about on the inflation front, such as pressure on food prices are being attributed to some degree to developments linked to climate change, whether it is biofuels or unpredictable weather. I very much see climate change as being a longer term issue that requires policy attention over a 5, 10, 15, 20 year time horizon and the focus of the MPC is obviously on stabilising inflation on a much shorter term time horizon.

Q5 Chairman: Indeed. You mentioned your work with BA and we have made comment on plane duty, or aviation tax. How feasible is that? How should freight be accounted for in an environmental taxation system for aviation?

Dr Sentance: Just to be clear on the question, are you talking about the potential changes to APD?

Q6 Chairman: How effective would a plane duty be? The Government are now going to go down that line, how effective is it in terms of environmental taxation?

Dr Sentance: The notion of directing taxation closer to the source of emissions rather than to the passenger has a lot of attractions from an environmental standpoint. There are some technical and logistical issues with actually putting that in

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place. It obviously requires a totally different collection system from the one we have currently with APD.

Q7 Chairman: As a concept you are at ease with it?

Dr Sentance: In my current capacity I no longer have any links with British Airways.

Q8 Chairman: Understood.

Dr Sentance: It has the merit of bringing the tax instrument closer to the source of emissions, but my preferred instrument, and it remains so, something that I argued for when I was at British Airways, is the application of emissions trading to aviation. When I was at British Airways we demonstrated that could be done by being a member of the UK's voluntary Emissions Trading Scheme and work is in progress in Europe. In the longer term I would still be of the view that applying emissions trading on a much more comprehensive basis within aviation is economically and environmentally the better way to go.

Q9 John Thurso: You have outlined in your questionnaire very helpfully and in very good detail your work with businesses, schools and universities. Two questions flow from that. First, what other ways do you think there are that the wider public can be informed of the workings of the MPC? Secondly, flowing on from that, as we go into a much more difficult financial conjuncture do you think there is a risk that the MPC's standing will fall with the public when some of the difficult actions that might be needed work through?

Dr Sentance: Taking the second point first, I hope the standing of the MPC will not fall with the public. In terms of the feedback that I have got from the work I have done over the last 18 months, I have been particularly impressed that in the business community there is a very strong buy-in now to the target of low inflation and the process that we are operating at the moment. I see business as a key constituency for low inflation in the country, although obviously the general public is important as well. That harks back to my experience at the CBI when there was a large lack of confidence in the business community that we could achieve low inflation, there was a lot of economic volatility that business had to cope with. Now we have moved out of that era and I think one of the big challenges is to make sure we stay in this era of low inflation. Clearly there may be more volatility on the real side of the economy than we have been accustomed to. We have seen what is happening globally and to some extent we can only steer ourselves through that. We cannot avoid global turbulence if it is affecting a wide range of countries, but I would hope that we do maintain public confidence. In terms of what more we can do, as you can see I have been quite active in terms of getting out and undertaking regional visits. I do believe that work with schools and universities is very important. I am a big supporter of the Target 2.0 Competition and I think that has fulfilled a very valuable role. I suppose in terms of reaching out to the general public, I think the MPC could make

more of the broadcast media, in particular radio. We do quite a lot in print, a lot of what we do is reported in print. I have certainly put that point to colleagues on the communications side in the Bank.

Q10 John Thurso: How involved have you been as an external member of the MPC in the work being undertaken by the Bank in considering its role in money market operations? Have you had access to other sections of the Bank, such as markets or financial stability areas to enable you to do your work more effectively?

Dr Sentance: We certainly have access to all the information that we need within the Bank. We have not been involved as external members in terms of day-to-day decisions on money market operations and financial stability matters, and you would expect that. But we have been kept well-briefed by the Governor personally, and others, on what is going on and how it might have a bearing on our decisions in the Monetary Policy Committee. In the discussions that we have had, particularly in the Wednesday meeting which is quite free-ranging, there has been a lot of focus on trying to understand what is going on in financial markets. I would draw a distinction between us wanting to understand how it is affecting our monetary policy role and actually getting involved in those financial stability and money market decisions themselves. We have not been drawn into that and I think that is quite appropriate.

Q11 Mr Todd: You have emphasised both your experience in the real economy and also your wish to maintain contact through regional tours and other activities, and that is very commendable. You and Tim Besley are pretty much joined at the hip in terms of voting activity on the MPC at, in simplistic terms, the hawkish end of the spectrum. I must admit my experience of business economists and those speaking on behalf of business is they have tended to be rather less aggressive on interest rates than you have voted. Have you either noticed a change in sentiment in business towards the use of interest rates to control inflation and the potential downsides on economic activity that can bring or are you perhaps attempting to lead a trend there?

Dr Sentance: I gave a speech on this entitled "Monetary Policy: Good for Business", where I tried to explain where I was coming from in this respect. I think it is not in the interests of the business community for the MPC to get behind the curve, whether it is responding to an inflationary pressure or responding to a downturn in the economy. In fact, the most damage that has been done to business in the UK has been in recessions where getting inflation down has been a major factor in the depth and the length of those recessions. As I said before, business is in the camp of low inflation. Not every business in the land will agree with the judgment that I make on an independent basis in the Monetary Policy Committee, but I was concerned through 2006 and 2007 that we were moving interest rates up quickly enough in response to a stronger economy, just as now there is an issue about the question to the extent

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to which we need to respond to a weakened economy. I do not see any conflict between having business roots and being prepared to vote for higher interest rates even in the minority. I do not feel that I am a representative of the business community; I am trying to make an independent judgment.

Q12 Mr Todd: I am wondering more whether there has been a change in sentiment in business. I think I am probably right in interpreting in the past perhaps a somewhat softer approach to interest rate rises among business economists.

Dr Sentance: I have tried to explain this in speeches I have made over the last 18 months. If you take the first half of this decade it was very different in terms of the global inflation environment that we faced and that poses a different set of risks. So even a few years ago you might have made a different judgment in a different global environment from the one that we now face.

Q13 Mr Todd: Do you think that we can do better in gathering intelligence for the MPC? The Agents Network, which I think you commend, and obviously use quite a lot, is important. Are there areas of improvement that you have identified in your contact, particularly areas where data uncertainty is a problem and better collection of data would help? I think we have all explored the issue of labour data which has been a major problem obviously.

Dr Sentance: I have been struck, having gone through the period in the late 1980s and early 1990s in the CBI when there were some serious data problems, by coming back into a situation and

finding still many of them remain unresolved. The way I deal with this, as I explained in my note, is to seek to try and triangulate between the three sources of information we have from the business surveys, the ONS and the agents. I do think there is an issue with the ONS in trying to keep up with changes to the structure of the economy. An undercurrent to what has happened over the last 10 or 15 years is the structure of the economy has changed greatly and sources of official data will only be accurate if they keep up with that, both in the methods of collection and in terms of the way we try and track the economy.

Q14 Mr Todd: You will be aware that there has been some gentle and polite tension between the Bank and the ONS over data issues. Would you add to that a little because I think you are making an important point there on how thoroughly the ONS attempt to maintain their data on the real economy as a meaningful set of indicators?

Dr Sentance: I think I would concur with the comments that the Bank has made, which have got stronger over the last year or so, to make sure that the ONS does focus properly on the quality of the real economic data which we use; it is a vital tool for us in managing the economy.

Q15 Chairman: Dr Sentance, can I thank you for your answers and your co-operation with the Committee in the past session and on behalf of the Committee I wish you every success in your forthcoming work.

Dr Sentance: Thank you very much, Chairman.

Chairman: Thank you.

Treasury Committee Questionnaire: Response from Dr Andrew Sentance

MONETARY POLICY FRAMEWORK AND INDIVIDUAL ROLE

1. *What contributions have you made individually to the conduct of monetary policy on the MPC? What lessons have you learned from your period as a member?*

When I joined the MPC in October 2006, it seemed to me that the main challenge facing the Committee was to judge the pace and extent of monetary tightening needed to contain demand growth and prevent a build-up of inflationary pressures. UK growth was being supported by strong global demand, which was adding to inflation through its impact on global energy and commodity prices. Meanwhile, consumption and the housing market had recovered from the weak performance in 2005 and a recovery in investment was boosting domestic spending. Responses to business surveys and the reports of the Bank's regional agents supported this picture of healthy demand growth at home and abroad, and it was clear from the regional visits I undertook in late 2006 and the first half of 2007 that the economy was growing robustly.

In response to this situation, I could not see any merit in holding back from tightening monetary policy. In addition to the need to contain demand, inflation was also rising and business surveys were showing elevated inflation expectations. In addition to restraining demand, I believed that raising interest rates sooner rather than later would reinforce the credibility of the inflation target and prevent a more sustained upward drift in inflation expectations. At my first meeting, I voted (in a minority) for a rise in interest rates and I supported the four rate increases from November 2006 to July 2007. In addition, I voted in a minority for higher rates on three further occasions—partly because I believed that raising rates more quickly could limit the extent of the rise eventually needed to moderate demand and keep inflation on target.

The situation changed as we moved through last summer and into the autumn: CPI inflation came back to target as expected; lending and borrowing conditions began to be affected by the turmoil in financial markets; and evidence began to accumulate that demand was slowing as the August and November *Inflation*

Report forecasts had suggested. Against this background, I supported the strong majority view on the Committee that interest rates should be kept on hold through the autumn. As evidence of a slowing economy and continuing financial turbulence accumulated, I supported the reductions in rates in December and February, though I remain conscious of the upside risks to inflation expectations from rising CPI inflation in the short-term.

Over the last 18 months, one of the factors I have emphasised in my contributions to MPC discussions and in speeches and presentations is the changing impact of the international economy on the UK inflation outlook and hence monetary policy.¹ In particular, the inflationary impact of energy and commodity prices contrasts strongly with the global disinflationary background to MPC policy decisions in the late 1990s and early 2000s. This makes the task of responding to the recent turbulence in global financial markets more complex and challenging.

2. What contributions have you made to explaining the work of the MPC and enhancing public confidence in its actions over the last three years?

My initial period of office on the MPC is shorter than the normal three years, as I was appointed for the remainder of David Walton's term, following his sudden death. However, over this shortened period, I have been very keen to contribute to public debate on UK monetary policy, through public speeches, interviews, regional visits, business briefings and educational activities.

I have given six public speeches to date—on a variety of topics of relevance to current monetary policy issues. My aim in giving speeches has been to discuss issues of longer term relevance to monetary policy alongside analysis of the current conjuncture and associated policy concerns. The themes of my speeches in 2007 and early 2008 were: supply-side constraints on UK economic growth (January 2007); the changing pattern of savings globally and in the UK (March 2007); business attitudes to monetary policy (July 2007); global influences on UK inflation (September 2007 and November 2007); and economic cycles and the risk of recession (February 2008).² A further speech to the CBI is planned for April 2008. Speeches by MPC members attract widespread media coverage, but I have also given three major press interviews.

Given my business background, I have tried to make the most of the opportunity to visit businesses and give off-the-record presentations and briefings to business groups around the country. As well as visiting businesses and business groups in London and the South-East, I have made 10 two-day regional visits—covering Scotland, Wales and Northern Ireland as well as most of the English regions. Over the last 18 months I have made over 60 company visits and business briefings around the country, each of which provides an opportunity to gather feedback on business conditions and to communicate current monetary policy issues and concerns.

Alongside these business-orientated visits, I have also spoken at a number of schools and universities in support of the educational role of the MPC. I have participated in judging area finals of the Target 2.0 Schools Competition and will be judging the national final this year.

3. How have you used your business experience when undertaking your work as part of the MPC?

There are three main ways in which I have found my business experience helpful while serving on the MPC. First, in forming my judgments on monetary policy, I have put considerable weight on business information—in particular survey data and the reports from the Bank's Agents around the country. I have a lot of experience developing and using business survey data, from my time at the CBI and later at the London Business School. Properly interpreted, business surveys can provide a timely and immediate guide to business conditions and prospects. Business surveys also contain a lot of information that is simply not available from official statistics—such as capacity constraints and investment intentions. I have also continued to receive airline industry data from the International Air Transport Association (IATA) and the Bank economists have started to use this in their analysis of the global economy and world trade.

Second, it has been extremely helpful to look back to previous episodes in my business career when thinking through some of the key issues we have encountered on the Monetary Policy Committee over the last 18 months. In my July 2007 speech,³ I contrasted some of the features of the UK economy I had experienced in my regional visits as a MPC member with the situation I encountered as a CBI economist in the late 1980s and early 1990s. I was struck in particular by the strong support for low inflation in the business community, the structural changes that had taken place across the UK economy—particularly in manufacturing industry, and the increasing globalisation of British business. My experience in the airline

¹ "The Global Economy and UK Inflation", Leeds, 24 September 2007, and "A Tale of Two Shocks: Global Challenges for UK Monetary Policy", London, 27 November 2007.

² All available at: <http://www.bankofengland.co.uk/publications/speeches/speaker.htm#sentence>

³ "UK Monetary Policy: Good for Business?" Speech hosted by Dow Jones, London, 10 July 2007.

industry has also been helpful in analysing the impact of changing international conditions on British business and in thinking through how demand and cost pressures have interacted to determine the impact of the recent oil price shocks on consumer prices and inflation.

Third, my experience of communicating economic issues to business audiences has been very helpful in giving business briefings and in talking to companies on regional visits.

4. *What other work commitments do you maintain in addition to membership of the MPC, and how do these benefit your work on the MPC?*

I have two other significant work commitments alongside the MPC. First, I am a part-time Professor at the University of Warwick, based at the Centre for the Study of Globalisation and Regionalisation. The focus on my work at Warwick is the economics of climate change, rather than monetary policy. However, Warwick has a very strong Economics Department, and I have also used my visits to Warwick to keep in touch with academic thinking on monetary policy. Warwick also has a strong tradition of developing research in conjunction with the business community, and so my position there also brings me into contact with the world of business. Second, I am a Member of the Commission for Integrated Transport (CfIT), which provides independent advice to the government on transport policy issues. I was appointed to the Commission while I was at British Airways, but my continuing involvement keeps me in touch with a wide network of business executives and economic advisers in the transport sector. CfIT also has a strong regional focus to its work, and we have visited the devolved administrations in Scotland and Wales while I have been a member.

INTEREST RATE DECISIONS AND ECONOMIC POLICY

5. *Of the votes that you have cast in the MPC, are there any which, with the benefit of hindsight, you wish you had cast differently?*

No. At this stage, I am comfortable with my votes on the MPC over my period of membership.

6. *How have you worked to combat the uncertainty around the economic outlook over recent times?*

Dealing with uncertainty is central to the practical conduct on monetary policy. There are two key areas of uncertainty which affect the judgments made by members of the MPC.

The first is uncertainty about where the economy is now or has been in the recent past. This is less an issue in terms of measures of inflation, but is much more significant when it comes to the measurement of demand and output and some key elements of business costs—notably wages. In terms of demand and output, my response is to attach particular weight to data from business surveys and the Agents' reports in my policy judgments. In 2006 and early 2007, these data sources were giving a stronger reading for economic activity than official data sources, and my view was that the business data was closer to the truth. This judgment was also supported by work carried out by Bank of England economists on data uncertainty⁴ which has resulted in a different presentation of the GDP growth fan charts in the *Inflation Report*. I am a strong supporter of this data uncertainty work, and served on the internal steering group which oversaw it. Another recent area of data uncertainty relates to the discrepancies between the AEI and AWE measures of wage growth and I welcome the work that the ONS has recently commissioned from Martin Weale to help understand this and reconcile the two data sources.

The second area of uncertainty is about the future. The MPC has at its disposal a formidable array of modeling and forecasting tools and the services of over 100 economists to help us with our analysis. But as our *Inflation Report* fan-charts suggest, there will always be a substantial margin of uncertainty around our GDP growth and inflation projections. Weighing these risks and uncertainties is a key factor in our policy judgments. And highlighting their relative importance in both the *Inflation Report* and the minutes is a key communication challenge for the Committee.

Economic models and forecasts are useful tools, but will always be imperfect characterisations of a complex real economy. They do, however, provide benchmarks against which we can evaluate the latest data and assess how the balance of risks and uncertainties may have changed. Over my time on the Committee, I have found it very important to scrutinise the latest data—particularly the feedback from businesses through surveys and Agents' reports—to inform and update my assessment of the economic outlook. As I made clear in my latest speech,⁵ that data flow and business feedback will be particularly important in the current conjuncture.

⁴ A Cunningham and R Jeffery "Extracting a better signal from uncertain data", Bank of England Quarterly Bulletin, 2007, Quarter 3.

⁵ "How big is the risk of recession?" Exeter, 21 February 2008.

7. *To what extent do you think that the current turmoil in financial markets will affect business investment?*

There will clearly be an impact—but the jury is still out on the issue of how significant it will be. Investment intentions data have weakened since the middle of 2007, particularly in the services sector. However, this is not just a reflection of the current turmoil in financial markets. It may also reflect the lagged impact of past UK policy tightening and slower growth overseas.

The impact of the financial turmoil on investment intentions will be a combination of three main channels of influence. The first is the impact on the general business climate and confidence about future demand. In 2006 and the first half of 2007, business confidence at home and abroad was very supportive of investment—and this was reflected in strong data for both capital expenditure and investment intentions. This confidence has clearly been dented in recent times and has given way to a more cautious approach. This has been particularly true in businesses close to the financial and property sectors but it has been less noticeable in manufacturing industry—where the latest CBI Industrial Trends Survey showed uncertainty about demand was still a less significant constraint on investment than on average over the last decade.

The second channel of impact is through financing costs. The LIBOR spread over the expected policy rate has widened, potentially adding to short-term financing costs—though reductions in policy rates have provided an offset. However, investment should be geared around longer term financing costs, and the impact here has been more muted. The latest CBI Industrial Trends Survey shows that 4% of manufacturers regard the cost of finance as a constraint on investment, in line with the average for the last year and only slightly up on the average for the last decade.

The third channel is the availability of external finance. Historically, this has not been an important constraint on investment, normally cited by around 5% of companies responding to the CBI's Industrial Trends Survey. Banks have reported in their responses to the Bank of England's credit conditions survey that they are tightening the availability of credit and smaller companies and new business start-ups may be particularly affected by this. However, the impact of credit tightening on the availability of finance is not yet apparent from business contacts or survey evidence. The latest CBI Industrial Trends Survey showed just 4% of companies reporting inability to raise external finance as a constraint on investment—below historical averages. However, this may reflect lags in company perceptions of bank lending policies.

The combined impact of these factors remains to be seen, and I will be monitoring investment intentions data and other relevant evidence in the months ahead. Certain categories of business investment—such as commercial property and capital expenditure by smaller firms—may be more vulnerable than others and they need to be monitored particularly closely.

8. *When considering the UK economy, how much emphasis do you place on the international economic environment? How concerned are you about global imbalances?*

Over my first term on the MPC, I have placed a great deal of emphasis on understanding how changes in the international environment are affecting the outlook for inflation. I devoted two speeches to this issue last Autumn. In my view, disturbances from the global economy have been the main source of shocks to UK growth and inflation over the period since 1997, and this has remained true in recent years.

In the late 1990s and early 2000s, the shocks from the international economy were predominantly in a disinflationary direction. This allowed the MPC to relax policy by stimulating domestic demand and interest rates fell to a low of 3.5% in 2003. Since then, the predominant direction of the shocks from the international economy has been inflationary—strong growth of global demand and rising energy and commodity prices. The picture has become more complex recently, as we face twin shocks working in opposite directions—rising energy and food prices, accompanied by the negative impact of financial turbulence. The monetary policy challenge at present involves understanding the net impact of these twin shocks on the medium term inflation outlook, which depends on how severe the negative demand shock is and how far inflation expectations will be influenced by a period of above target inflation in the short-term.

Global imbalances have provided an undercurrent to this situation but they are not the whole story. These imbalances reflect an excess of savings in Asia—and more recently among commodity producing countries as well. The counterparts to excess savings in these parts of the world are the current account deficits in more mature economies, including the UK and the US, where saving is inadequate to finance the current level of investment.⁶

However, global financial imbalances are part of a wider economic picture. The global economy is changing shape. Asia and emerging markets are growing strongly and becoming a more significant force in the global economy more generally. Earlier this decade, the shift in production towards low-cost economies (the “China effect”) was considered to be a disinflationary influence on UK inflation. More recently, strong demand from these countries has added to recent inflationary pressures in global commodity markets. This highlights the fact that the continuing transition to a world economy where China, India and other emerging economies play a larger role is unlikely to be smooth. And monetary policy needs to be prepared to deal with further shocks to output and inflation from the global economy as this transition takes place.

⁶ See my speech “The Changing Pattern of Savings: Implications for Growth and Inflation”, Edinburgh, 15 March 2007, for more detail.

9. *To what extent do you think consumers have been affected by the recent disturbances in financial markets?*

Consumer confidence has fallen recently—quite sharply—though this is not solely due to the recent disturbance in financial markets. Financial market turbulence has been accompanied by a weakening housing market and a slowing economy. Also, media reports of the risks of recession in the United States may have spilled over into a concern that the United Kingdom could follow a similar course—though in my view these concerns are overstated. Consumer sentiment is being affected by a combination of these factors—some of which may prove to be temporary.

So far, consumer spending has proved more robust than sentiment—though there are indications of a slowdown in the Q4 national accounts data and in the growth of retail sales values. I would expect consumer spending to weaken further in the first half of this year, as real incomes are squeezed by higher energy, food and import prices, and consumers adjust further to the uncertainty created by the recent financial turmoil. Notwithstanding this, I am not expecting a consumer adjustment on the scale of the early 1990s recession or earlier recessionary periods. As long as inflationary expectations remain well anchored, monetary policy can respond to negative demand shocks. And the supply-side of the economy now has more flexibility to absorb shocks than in previous recessionary periods in the UK, particularly because of improvements in labour market performance.⁷

CV of Dr Andrew Sentance

Dr Andrew Sentance

Date of birth: 17 September 1958

Nationality: British

EDUCATION

1969–76	Eltham College, London SE9
1977–80	Clare College, Cambridge (BA, 1980: Economics. MA, 1984)
1981–82	London School of Economics (MSc, 1982: Economics)
1983–86	London School of Economics (PhD, 1988. “ <i>The Government as employer: a macroeconomic analysis</i> ”)

CAREER

1980–81	Petrocell Ltd—Petrol Station Manager
1982–83	National Coal Board—Management Trainee
1986–93	Confederation of British Industry—Head of Economic Policy (1986–88); Director of Economic Affairs (1989–93)
1994–97	London Business School, Centre for Economic Forecasting—Director (1995–97)
1998–2006	British Airways—Chief Economist and Head of Environmental Affairs (2003–06)
2006–	Bank of England—Monetary Policy Committee
2006–	University of Warwick, Centre for the Study of Globalisation and Regionalisation

OTHER PROFESSIONAL AND ADVISORY ROLES

1989–94	Retail Prices Advisory Committee
1992–93	Treasury Panel of Independent Forecasters (the “seven wise men”)
1992–98	Central Statistical Office (later ONS) Advisory Committee
1994–95	Commission on Wealth Creation and Social Cohesion (Chair: Lord Dahrendorf)
1995–2003	Society of Business Economists—Council member (1991–2003); Chairman (1995–2000); Deputy Chairman (2000–03)
1998–	Visiting Professor, Royal Holloway, University of London
1999–2006	International Civil Aviation Organisation—Market-Based Instruments Working Group (1999–2004); Emission Trading Task Force (2005–06)
2001–	Visiting Professor, Cranfield University
2006–	Commission for Integrated Transport

RECENT PUBLICATIONS AND SPEECHES

“Inflation and the supply side of the UK economy” Speech at Bloomberg City Gate House, London, 16 January 2007. Also published in *Bank of England Quarterly Bulletin*, Vol 47, No 1, 2007 Q1.

“The changing pattern of savings: Implications for growth and inflation”—RBS/Scottish Economics Society Lecture, Edinburgh, 15 March 2007. Also published in *Bank of England Quarterly Bulletin*, Vol 47, No 2, 2007 Q2

⁷ See my recent speech “How big is the risk of recession?”, Exeter, 21 February 2008, for more discussion.

“UK monetary policy: Good for business?” Speech hosted by Dow Jones in London, 10 July 2007. Also published in *Bank of England Quarterly Bulletin*, Vol 47, No 3, 2007 Q3

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“The global economy and UK inflation” Speech to Leeds Financial Services Initiative, 24 September 2007. Also published in *Bank of England Quarterly Bulletin*, Vol 47, No 4, 2007 Q4

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