Face to Face

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Presenter: Welcome to Face to Face. Lots of fear and heat and light generated by the Monetary Policy Committee (MPC) meeting. Now we've heard it's a 50 basis points increase - with me to talk about that is Simon Stockley, the CEO of Integer. Simon, 50 basis points is what we've had before. There was talk of 200 and we've ended up with 50 after expecting 100 - a bit of a fuss about nothing?

Simon Stockley: I suppose we should be grateful - but deep down I'm a little disappointed. I think it's an increase that the market didn't deserve and didn't need - and the economy is taking real strain. People are hurting out there. I think the theatre around the announcement was uncalled for, was unnecessary. I think the tide is turning - consumer spending is slowing - and I think we could have afforded to wait this one out.

Presenter: Let's talk a bit about the style of the Governor in doing this. Apparently he made that 200 basis points remark off the cuff at an event - but he appears to enjoy doing this, and there's a tone to the announcements which is perhaps offensive to people who are battling?

Simon Stockley: There is a history of "stage managing" these types of announcements. My view for what it's worth is that this is a serious matter and it warrants serious attention. These are people's lives that he is dealing with, and people make decisions based on these sorts of announcements. I am of the view that what we should be doing is striving for growth in the economy, we should be looking to create jobs and sustainable employment. If that necessitates inflation moving out for extraneous reasons from his targeted range I think we can live with that for a while.

Presenter: But isn't that the problem? Whatever the cause - wherever the source of the inflation is, food and oil for example - in the end it's money and goods. What else can they do to bring inflation down? Do we want inflation for any reasonable time? That's a tax on the poor in its own way?

Simon Stockley: I think you're right, but the impact of the hikes that have been manifesting themselves over the last couple of years are starting to slow down. Look at the impact on the property sector…

Presenter: Car sales…

Simon Stockley: Car sales is where I was going. Consumer spending - rising levels of consumer debt - so the effects of the policy are coming through. Really for me it was a time where we should have been perhaps a little more patient, a little more circumspect and waited this one out.

Presenter: People talk about the markets discounting a 100 points increase - now it's 50. So decisions have been made on the expectation of this and again it's unnecessary confusion. It's not just irritating. Calls have been made?

Simon Stockley: I think these are uncertain times - liquidity drying up in global financial markets, uncertainty in relation to the exchange rate, oil prices. I think what is called for is consistency and a steady hand on the tiller. We seem to have been seeing a kind of criss-crossing of a course and I really don't think it's warranted in these times.

Presenter: Given that it's been 50 this time - and there were fears of 200 - what's going to happen next time?

Simon Stockley: My personal sense is that we are nearing the top of the interest rate cycle. I think as I indicated earlier we are seeing the effect and the impact of that tightening. I think inflation is going to start to come back but I think practically the economy cannot sustain any further increases. I think that is going to be ultimately what tempers the Governor's enthusiasm for these increases.

Presenter: A lot of you colleagues, the economists and people like that have said the next one will probably be the last. But then you look at what they say the causes are - food prices, and perhaps food prices will come down - but there's a view that oil won't come down for a long time. Also, there's the electricity whammy that's lurking – this huge increase that's going to happen either all at once, or over the next few years - surely that's going to feed in and keep inflation higher?

Simon Stockley: I think you're right. I think we are in for a period of sustained inflation and I think it's going to be a period of time before we get back to the targeted 3% to 6% range.

Presenter: There's also expectations of that because you now look at the wage increase requests - that's 18% from the municipal workers. They're looking presumably at 14% or 15%. Last time we had this was really in the late 1980s early 1990s…

Simon Stockley: In 1998 when interest rates peaked at 25%. I think the reality of the situation is that we're going to have to accept that we will have to live in a period of sustained inflation for a period of time and that's the bottom line, by virtue of these extraneous facts that you've indicated.

Presenter: I don't think that's what people have been expecting - they've been vaguely thinking even if we have to have a little period of it, it's going to come down. What do you see changing now as a result - apart from inflationary expectations for wages? What are people going to do and do differently?

Simon Stockley: Hopefully one of the positive impacts of this announcement is that a little bit more positive sentiment will come back into the market - and particularly the property market that's under strain. There has been considerable debate in the market about buyers being under pressure, about sellers not being able to achieve the prices that they were looking for, with lenders under threat of foreclosure. Hopefully the 50 basis points rise will fuel an element of positive sentiment that will trickle through to the market. As you know markets are driven predominantly by sentiment - hopefully that sentiment will solidify and strengthen the market.

Presenter: That is Simon Stockley, Chief Executive of Integer.