

The Short-Term Effects of Monetary Policy

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HOW LONG IS THE LAG OF MONETARY POLICY?

Central bankers' conventional wisdom is that **monetary policy affects behaviour only with significant lag**. But recent literature has begun to challenge this notion.

We assemble a **novel high-frequency dataset for the UK**, covering credit and debit card spending, vacancy postings, online prices, and consumer sentiment.

We estimate a six-variable **Bayesian Proxy-SVAR at daily frequency**.

We find that in response to a **contractionary monetary policy shock...**

1. ...private consumption falls significantly without a lag,
2. ...labour market sentiment deteriorates contemporaneously with consumption,
3. ...firms are quick in adjusting hiring plans.

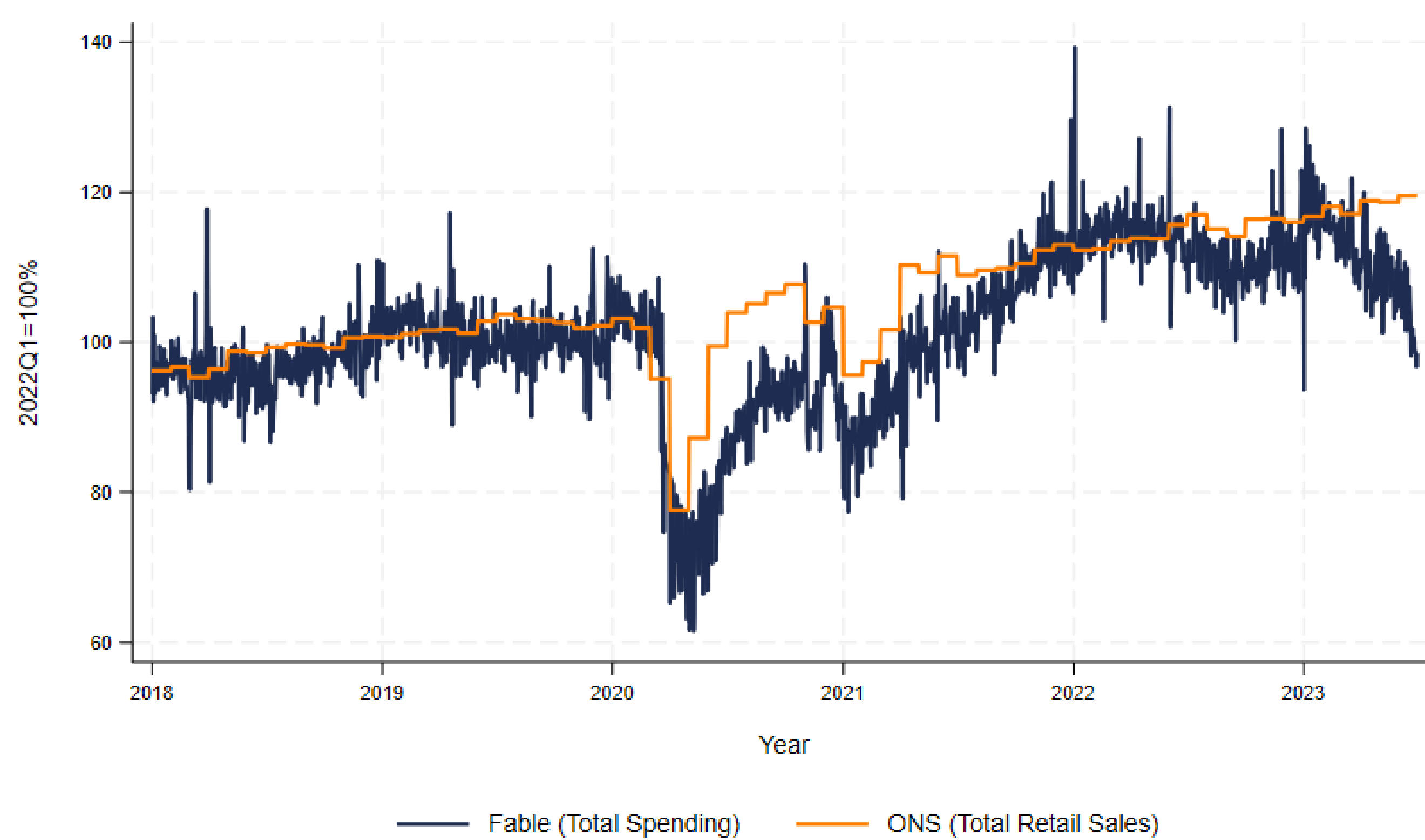
Our results suggest that monetary policy which assumes long transmission lags may not be optimal.

Daily card spending: Fable

- Fable Data obtains credit and debit card transactions from financial organisations (e.g., banks, card issuers, open banking fintechs) → ≈900 million transactions by more than 5 million cards.
- For each transaction, we see: transaction date, transaction amount, location (post code), card type (credit vs. debit), card holder age group, gender, and income group, as well as merchant category code (MCC). Allows mapping to spending category (COICOP).
- Following Koeniger et al. (2024), we select only *active* cards, i.e. used at least once a year. And we exclude expenditures that do not enter consumption in national accounts (e.g. fines), and those not transacted in Sterling.
- Final Sample: ≈125mn transactions performed by ≈200k cards.

Daily macro dataset of the UK

Credit and Debit Card Spending: Fable Data



Job Vacancies: Indeed Hiring Lab

- most used page for online job search in the UK (≈50m visits/month).

Online Prices: Pricestats

- formerly Billion Prices Project (Cavallo and Rigobon, 2016)
- web-scraped prices for goods and services (60% of CPI weights)
- re-weighted with official CPI weights.

Labor Market Sentiment: Google Trends

- First principal component of web searches related to unemployment

Monetary Policy and Financial Markets: UKMPD

- 1-year gilt yield and ICE BofA Sterling high-yield option-adjusted spread
- Path Factor from the UKMPD of Braun et al. (2025)

⇒ Daily, seasonally adjusted, 7-day moving average data on vacancies, prices, and consumer spending from 1 February 2018 - 30 June 2023.

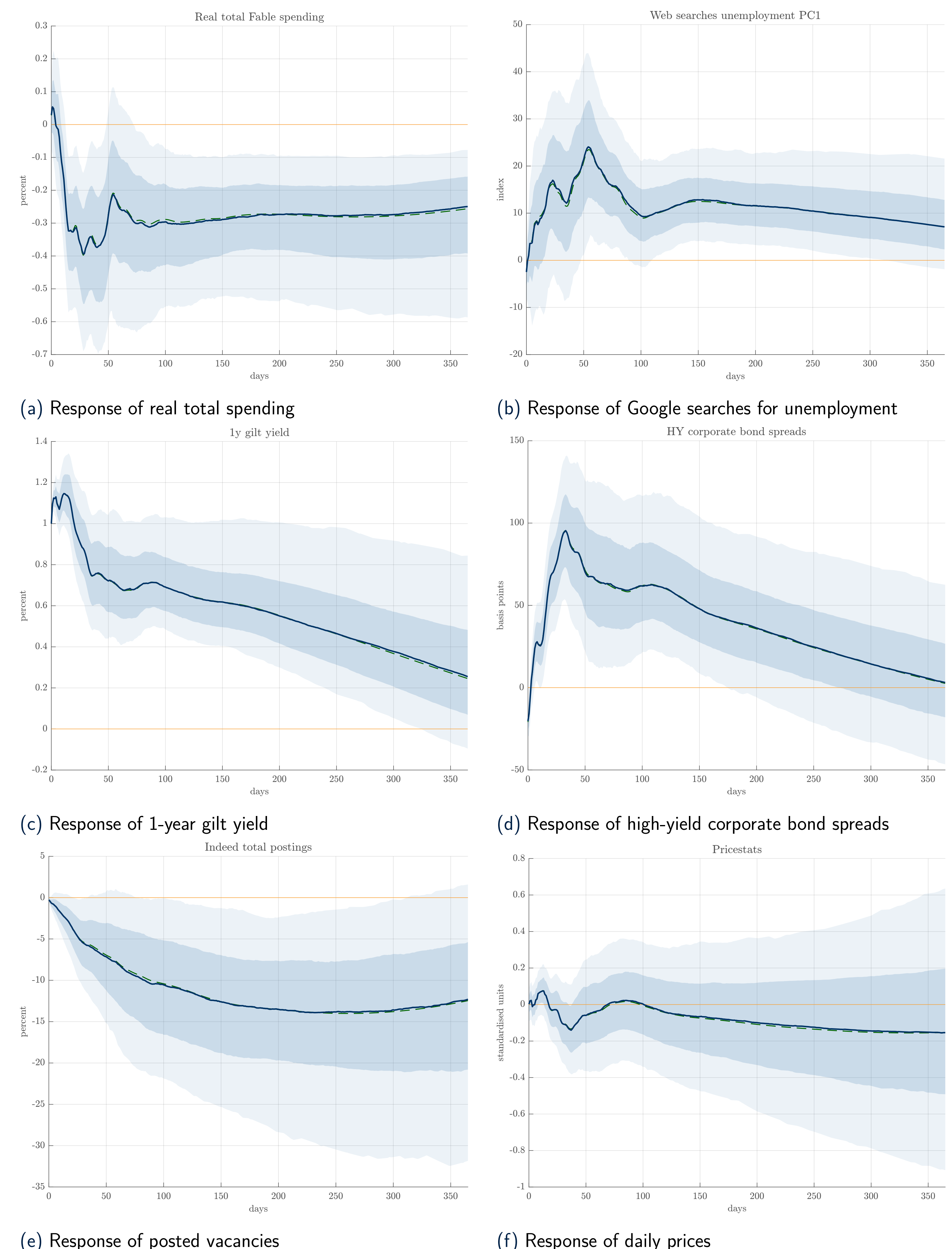
Daily Bayesian Proxy-SVAR

We estimate a six-variable VAR at **daily** frequency:

$$\begin{bmatrix} \text{1-year gilt} \\ \text{spreads} \\ \text{sentiment} \\ \ln(\text{spending}) \\ \ln(\text{vacancies}) \\ \ln(\text{prices}) \end{bmatrix} \equiv y_t = \sum_{j=1}^p B_j y_{t-j} + u_t$$

- In the baseline we use eight weeks of lags, i.e. $p = 56$ with daily data.
- We use the Path Factor of Braun et al. (2025) as instrument for the residual in the interest rate equation.
- To capture the Covid period in a data-driven way, we use a break-in-volatility prior following Lenza and Primiceri (2022). Results are unchanged if we simply exclude the shocks in March 2020.

The short-term effects of monetary policy



What could explain the fast reaction of spending?

- Firms are quick in adjusting hiring plans.
- Consumer sentiment about the labor market deteriorates, almost mirroring the response of spending over a year.
- This is consistent with evidence that monetary announcements swiftly reshape household expectations (e.g., Rast (2024), Lewis et al. (2019)).

Disclaimer

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