



BANK OF ENGLAND

August 2021

Monetary Policy Report

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Friday 6 August 2021

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Plan for today

- Introduction
- Overview of the August 2021 Monetary Policy Report
- Q&A – please submit questions in the chat box as we go



Overview of the Report

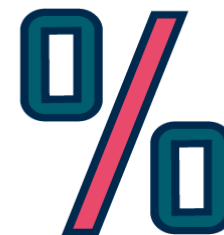
Forecast summary



Vaccines are helping spending, jobs and incomes recover



Inflation is above our 2% target. We expect it to rise further in the coming months, but then fall back to our target



We will continue to set interest rates to support households and businesses and ensure inflation returns to target

Outlook for GDP very similar to May

Chart 1.1: GDP projection based on market interest rate expectations, other policy measures as announced

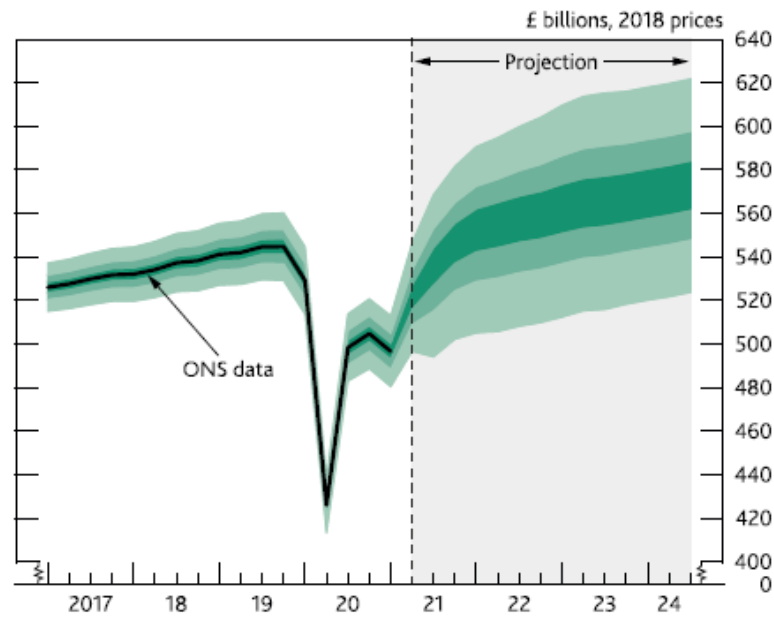
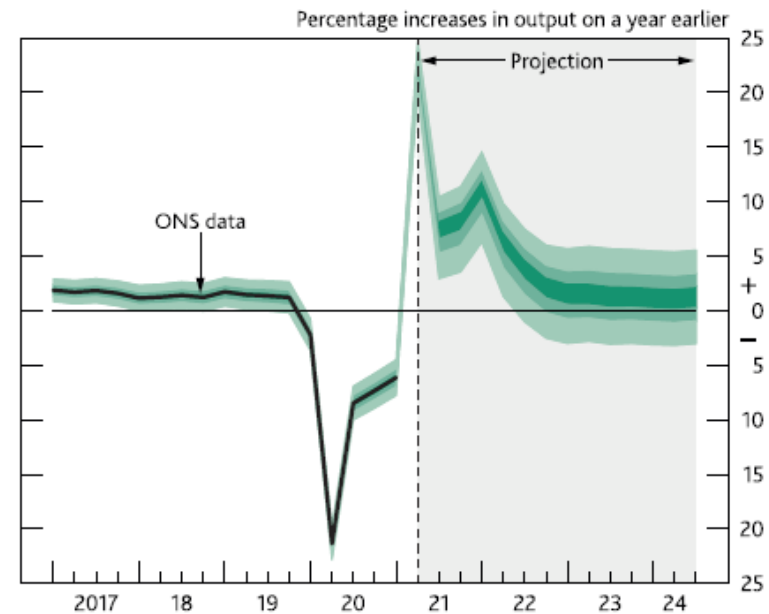


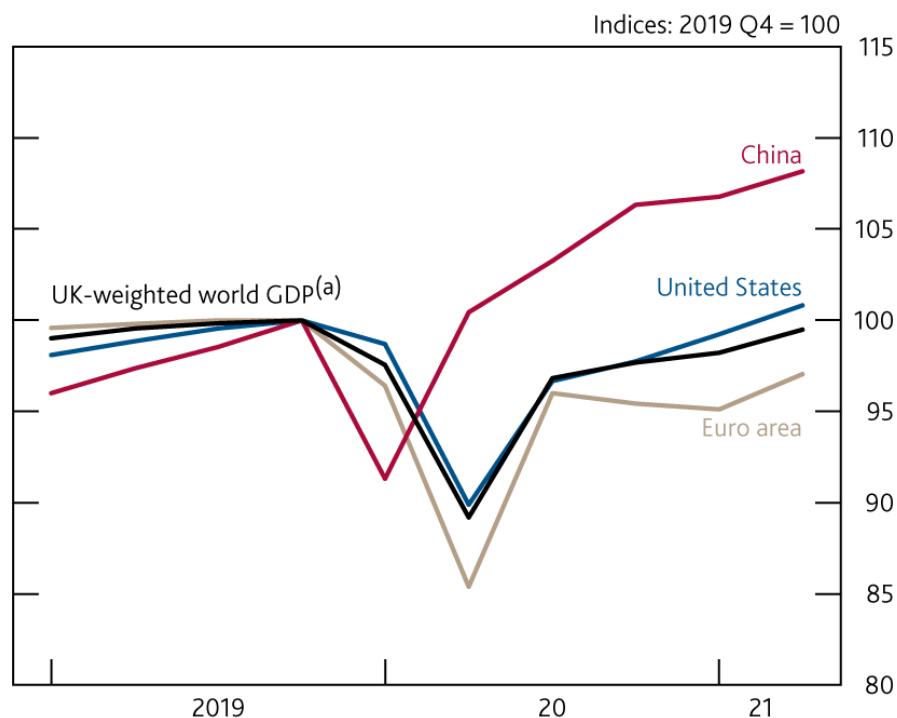
Chart 1.2: GDP growth projection based on market interest rate expectations, other policy measures as announced



Forecast summary

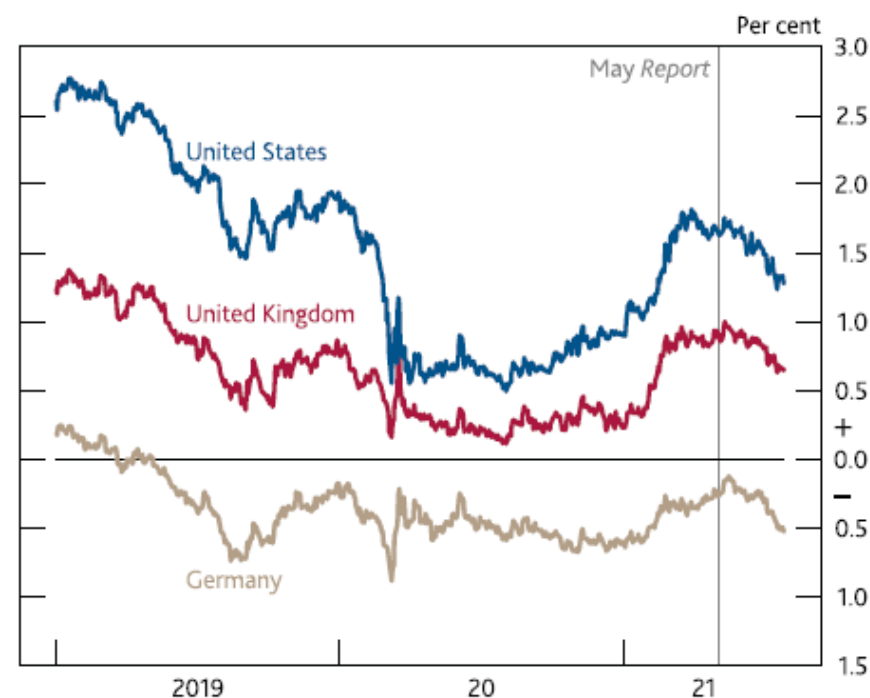
	Projections			
	2021 Q3	2022 Q3	2023 Q3	2024 Q3
GDP ^(c)	7.7 (8.0)	4.0 (3.4)	1.3 (1.3)	1.3
CPI inflation ^(d)	2.7 (1.9)	3.3 (2.2)	2.1 (1.9)	1.9
LFS unemployment rate	4.7 (5.4)	4.4 (4.5)	4.2 (4.2)	4.2
Excess supply/Excess demand ^(e)	0 (-¾)	+½ (+¼)	0 (0)	-¼
Bank Rate ^(f)	0.1 (0.0)	0.2 (0.1)	0.4 (0.4)	0.5

Global activity continues to recover, but Delta worries have picked up. Overall global outlook similar to May



Sources: Refinitiv Eikon from LSEG, IMF *World Economic Outlook (WEO)*, National Bureau of Statistics of China, OECD, ONS and Bank calculations.

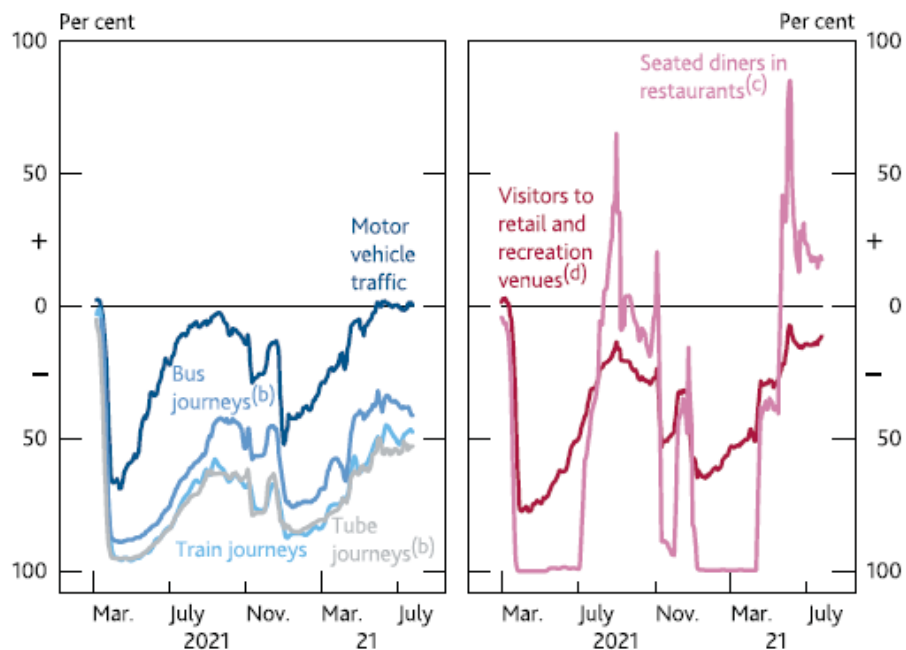
Ten-year nominal interest rates



Sources: Bloomberg Finance L.P., Tradeweb and Bank calculations.

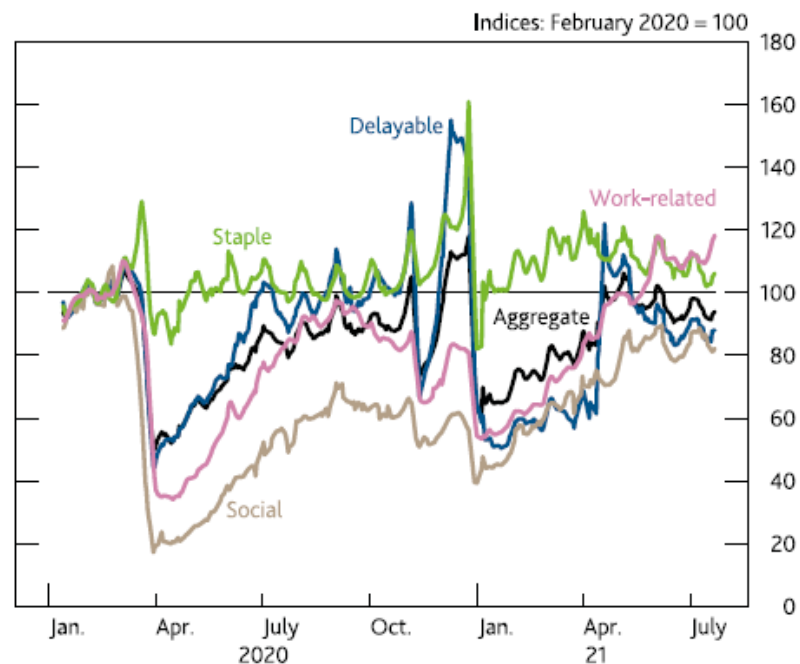
UK consumer spending has recovered with the lifting of restrictions, but signs of moderation in latest data

High-frequency indicators of economic activity^(a)



Sources: Department for Transport, Google Covid-19 Community Mobility Reports, OpenTable and Bank calculations.

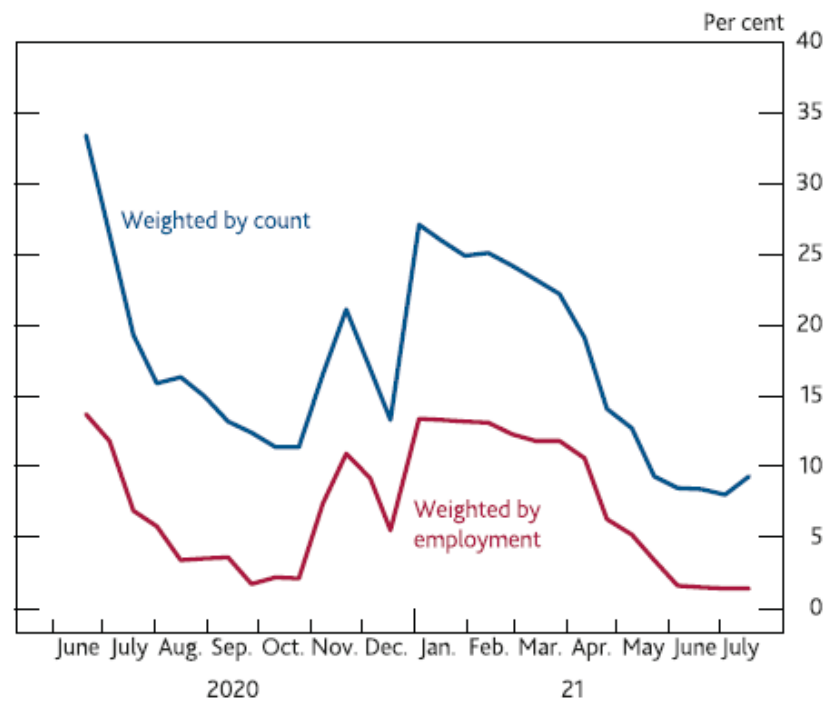
UK spending on debit and credit cards by consumption category^(a)



Sources: Bank of England and ONS.

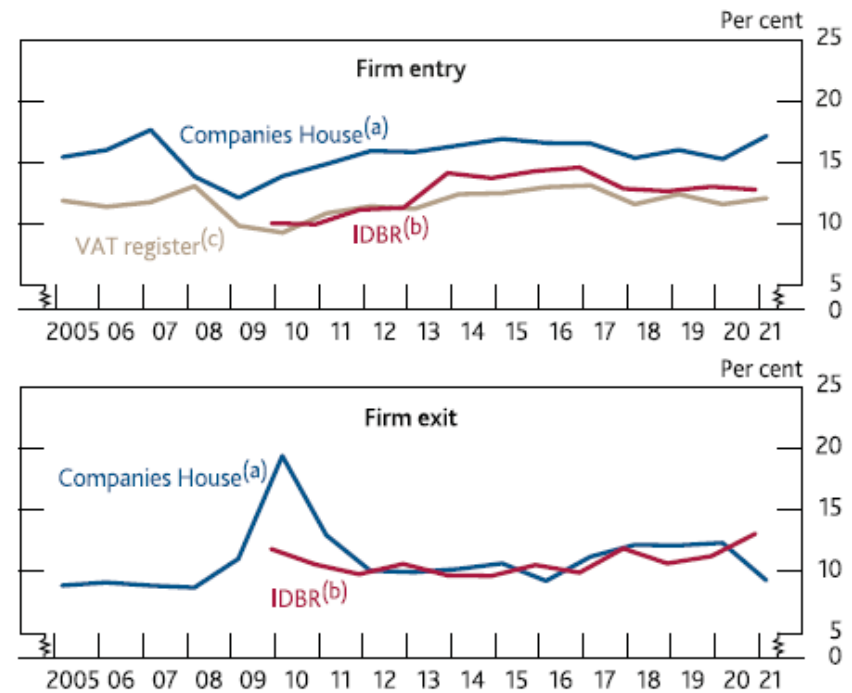
Policy support has helped most companies bridge the pandemic intact

Proportion of businesses which have paused trading^(a)



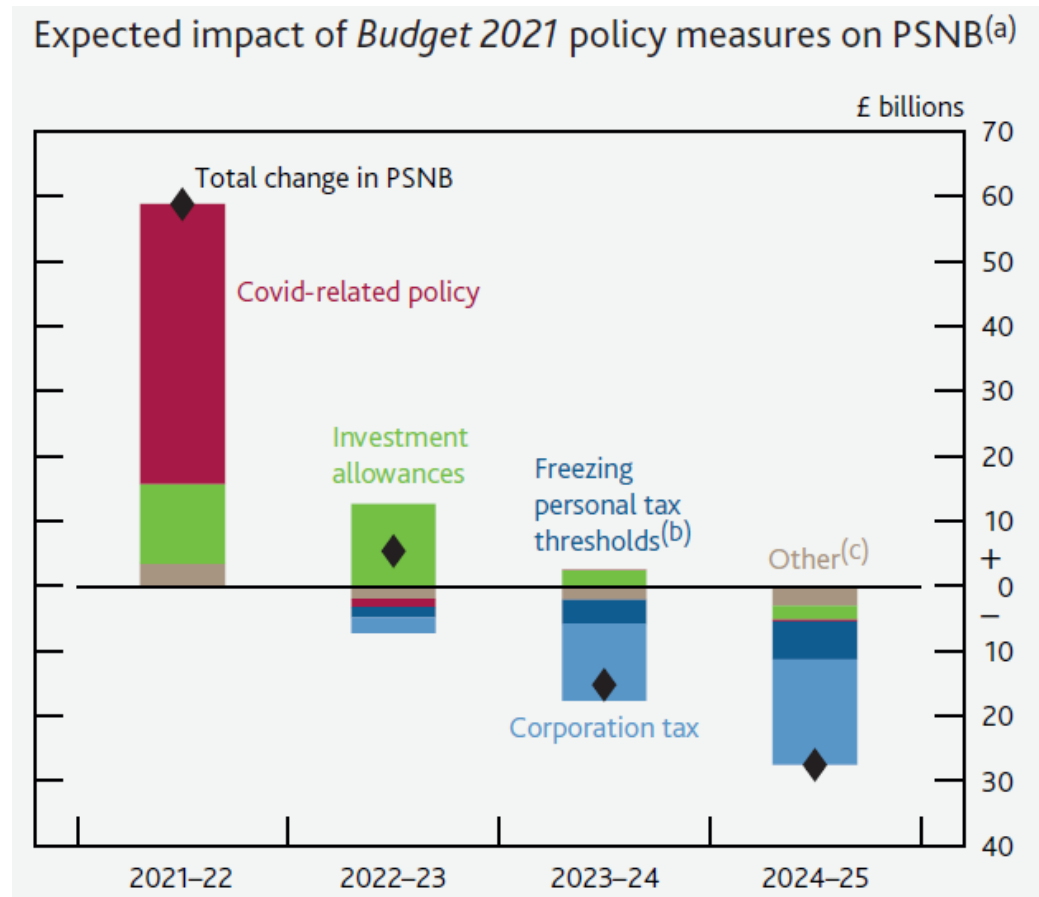
Sources: ONS and Bank calculations.

Measures of annual firm entry and exit rates in the UK



Sources: Companies House, HMRC, ONS and Bank calculations.

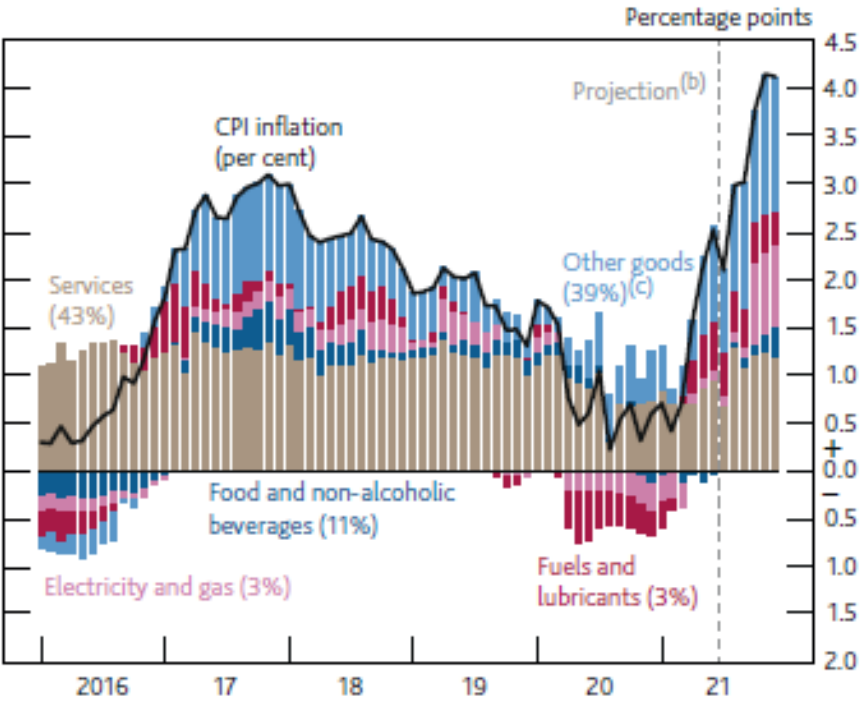
Reminder: fiscal support in the near term, but tightening further out



Source: Office for Budget Responsibility.

Near-term peak in inflation likely to be around 4%

Contributions to CPI inflation^(a)



Sources: Bloomberg Finance L.P., Department for Business, Energy and Industrial Strategy, ONS and Bank calculations.



Why is inflation likely to reach 4%?...

- Base effects from weak inflation in 2020
- Higher commodity prices leading to higher retail energy prices
- Quickly recovering global demand running up against supply constraints in certain sectors – together pushing up costs for UK firms



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- Base effects from weak inflation in 2020
- Higher commodity prices leading to higher retail energy prices
- Quickly recovering global demand running up against supply constraints in certain sectors – together pushing up costs for UK firms

...and why should it be temporary?

- Many commodity prices beginning to edge down and markets placing weight on lower prices from here, particularly for shipping costs
- Supply coming on-stream soon in capacity constrained sectors such as semiconductors. Pressure on UK import prices likely to ease
- Extent of fall back depends on demand v supply in domestic economy

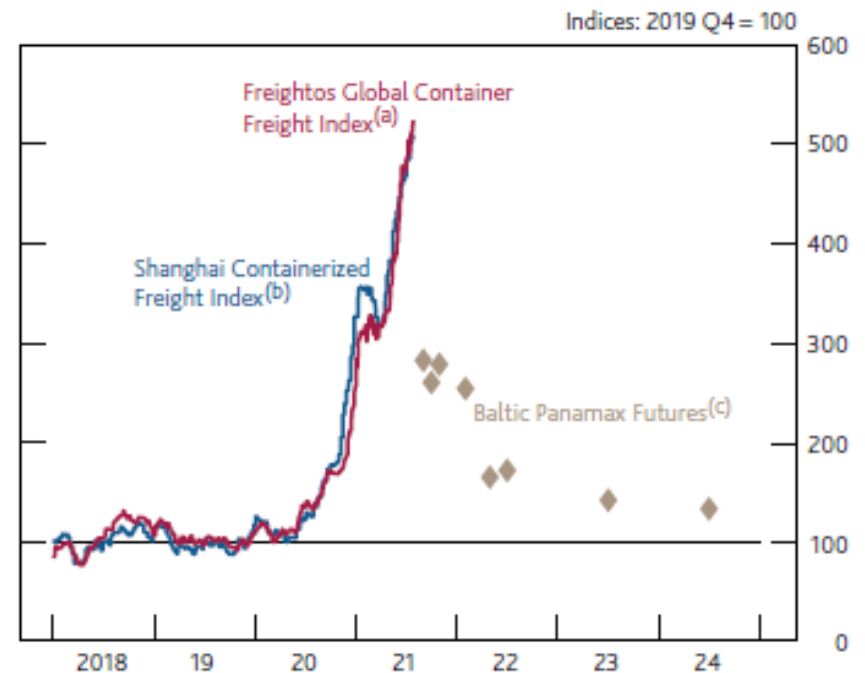
Further sharp rises in commodities and shipping costs. Markets placing weight on price falls

US dollar commodity prices



Sources: Bloomberg Finance L.P., Refinitiv Eikon from LSEG, S&P Indices and Bank calculations.

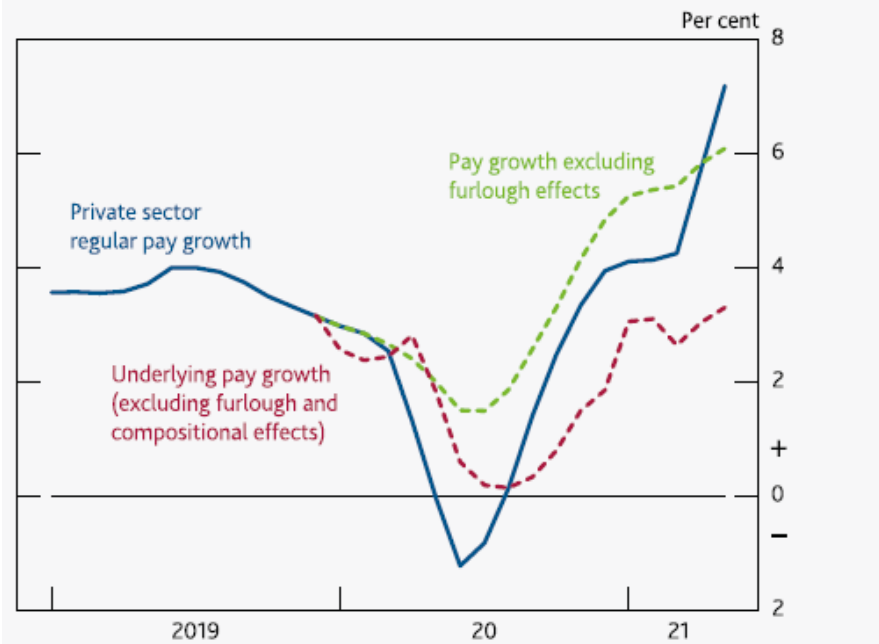
Shipping costs and forward freight agreement prices



Sources: Baltic Exchange, Freightos Baltic Index, Refinitiv Eikon from LSEG, Shanghai Shipping Exchange and Bank calculations.

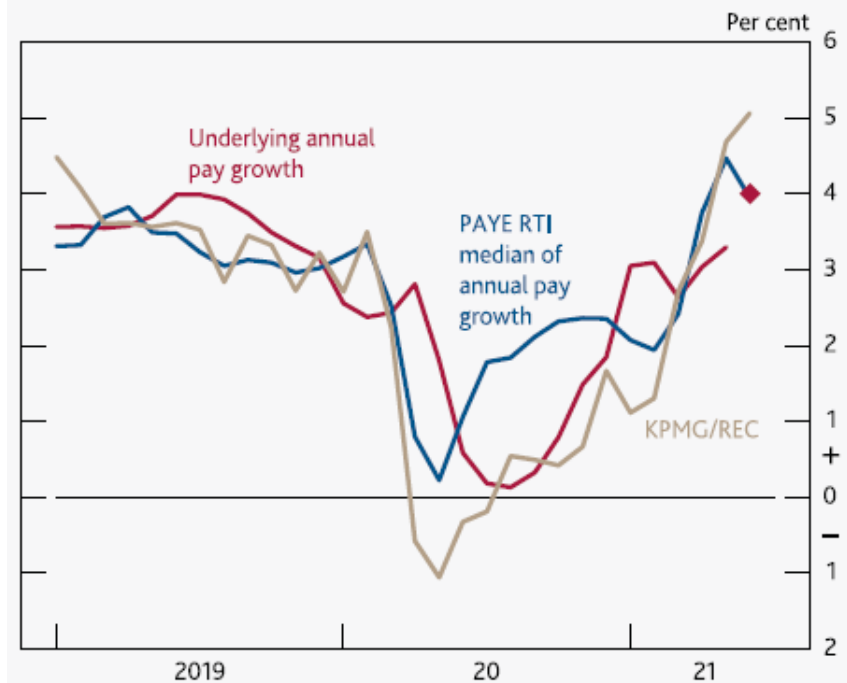
Headline pay likely to reach 8½%, but underlying earnings growing less rapidly

Annual growth in private sector regular pay and estimated impact of furlough and compositional effects^(a)



Sources: HMRC, ONS and Bank calculations.

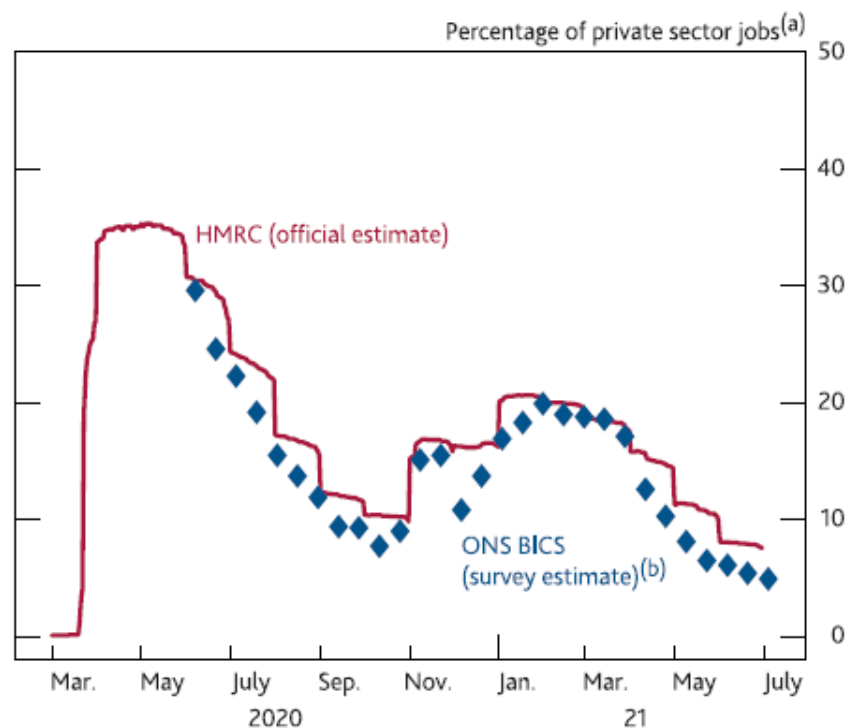
Indicators of pay growth^(a)



Sources: HMRC, KPMG/REC *UK Report on Jobs*, ONS and Bank calculations.

Numbers on furlough have fallen further, but sizeable fraction remains

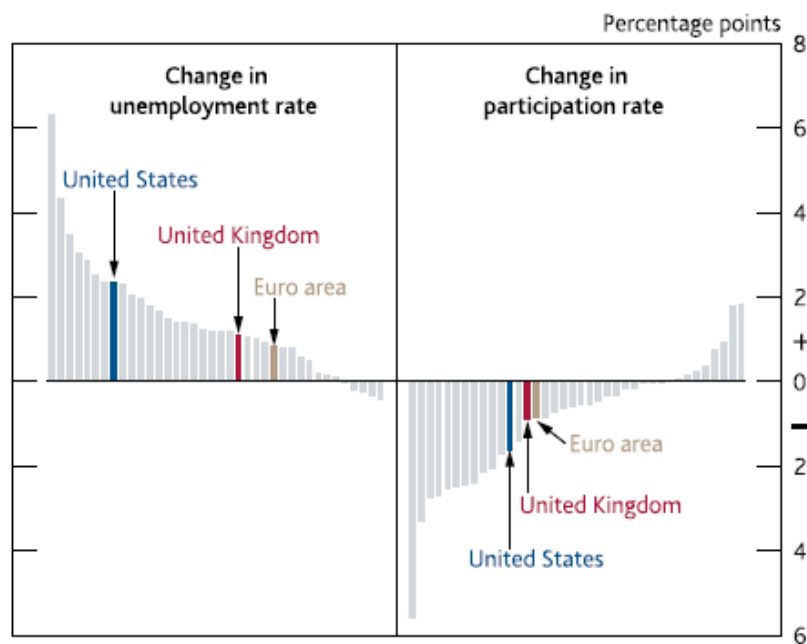
Furloughed jobs



Sources: HMRC, ONS and Bank calculations.

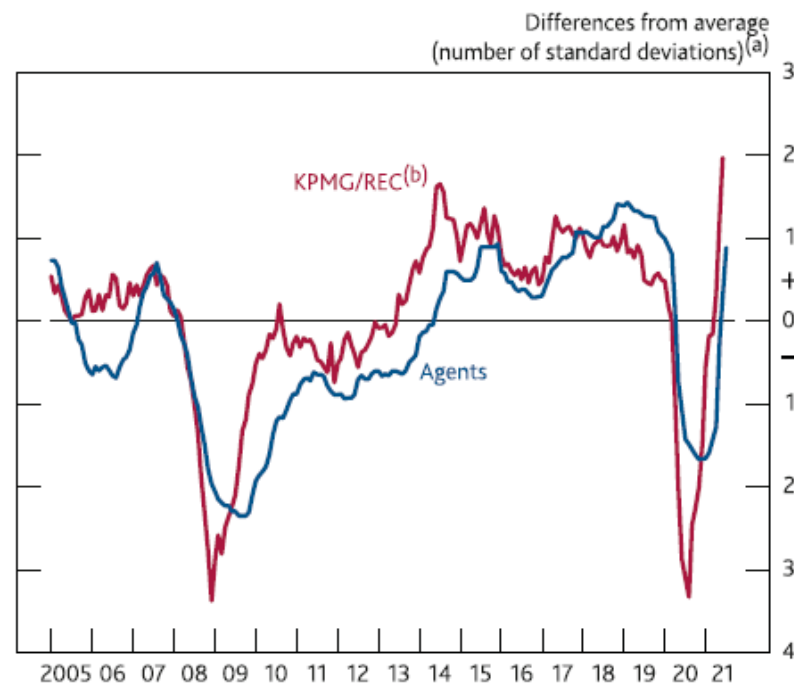
Unemployment remains higher and participation lower than pre-Covid, but recruitment difficulties rising

Changes in unemployment and participation rates since 2019 Q4^(a)



Sources: OECD and Bank calculations.

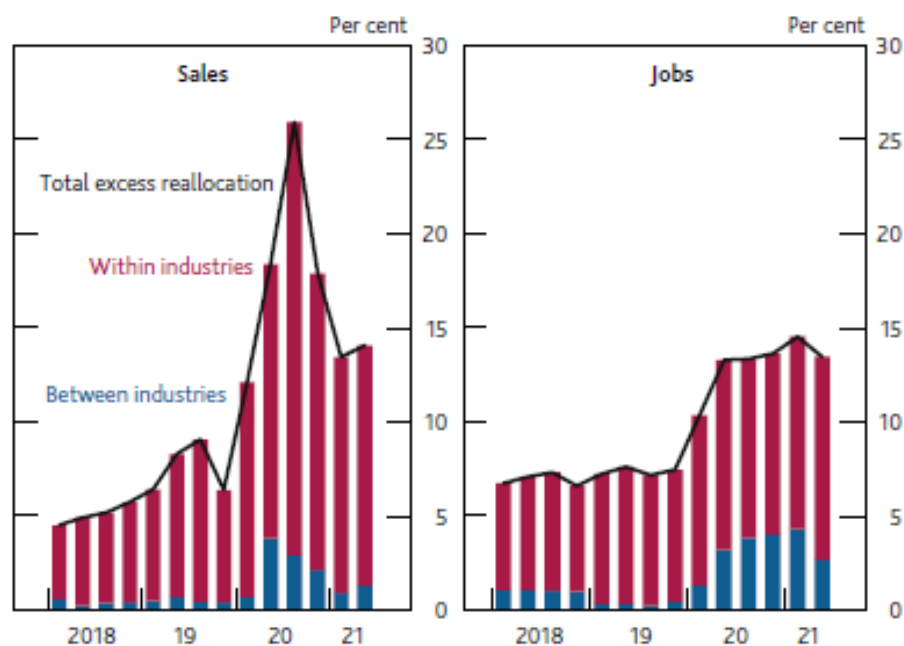
Indicators of recruitment difficulties



Sources: Bank of England, KPMG/REC *UK Report on Jobs* and Bank calculations.

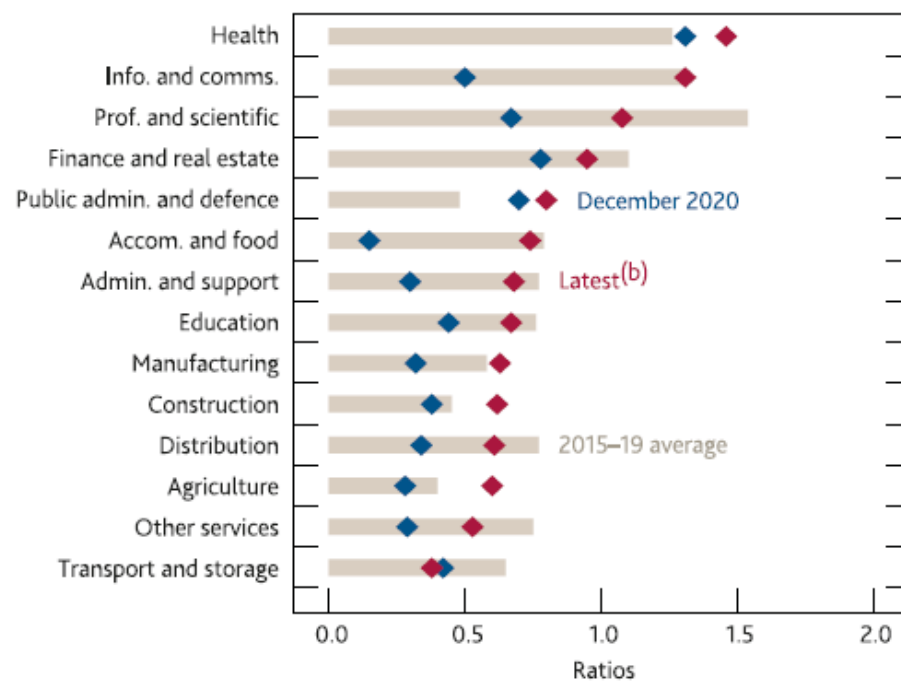
Evidence of temporary frictions in the labour market...

Three-year sales and employment reallocation^(a)



Sources: DMP Survey and Bank calculations.

Number of vacancies per person unemployed by industry^(a)



Sources: ONS and Bank calculations.

Period of excess demand, but economy returns to balance

	Projections			
	2020	2021	2022	2023
Excess supply/ Excess demand ^(s)	-2	-½ (-¾)	+½ (+¼)	+¼ (+¼)
Hourly labour productivity ^(t)	1	¾ (¼)	½ (½)	1 (¾)
Employment ^(u)	-2½	1½ (1¼)	1¼ (1¼)	½ (¾)
Average weekly hours worked ^(v)	30¼	32 (32¼)	32 (32)	32 (32)
Unemployment rate ^(w)	5¼	4¾ (5)	4¼ (4½)	4¼ (4¼)
Participation rate ^(x)	63½	63¾ (64)	64 (64)	64 (64)

Unemployment and inflation fans

Chart 1.3: Unemployment projection based on market interest rate expectations, other policy measures as announced

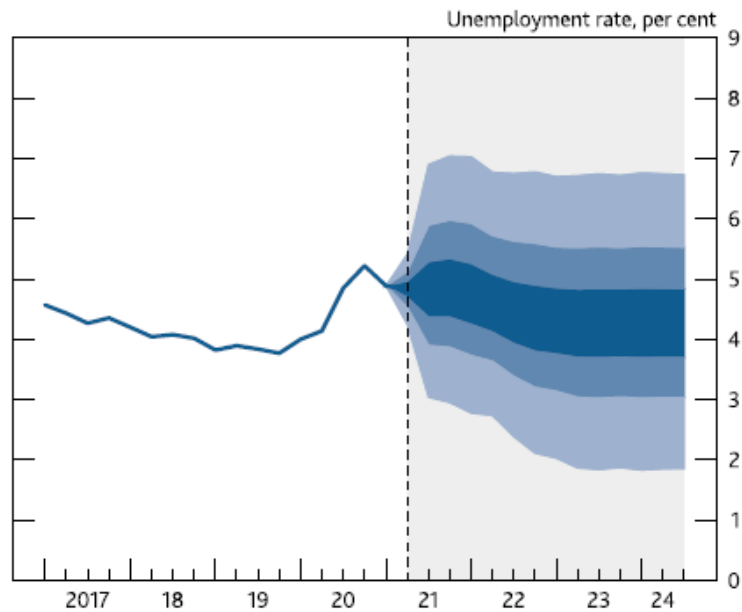
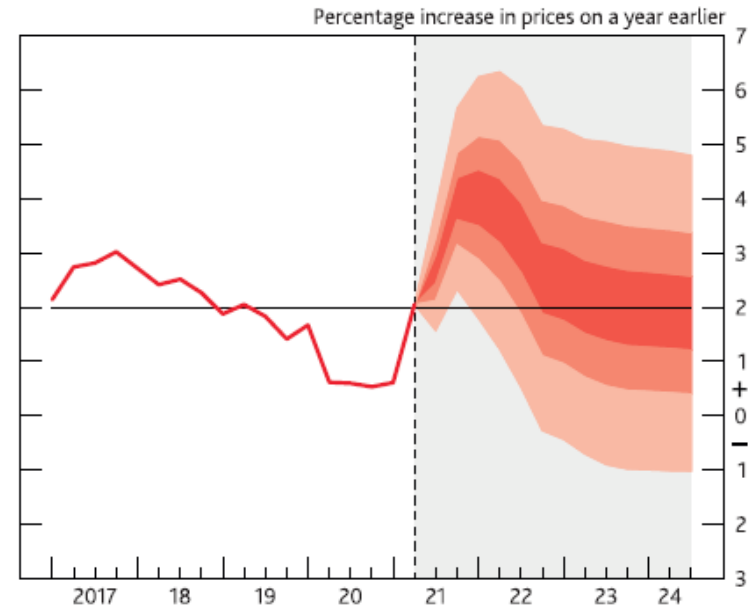


Chart 1.4: CPI inflation projection based on market interest rate expectations, other policy measures as announced





Guidance

- In judging the appropriate policy stance, the MPC will, as always, focus on the medium-term prospects for inflation
- The MPC judges that, should the economy evolve broadly in line with the central forecast, some modest tightening of monetary policy over the forecast period is likely to be necessary



Strategy for sequencing

- MPC will always ensure overall monetary conditions are appropriate for meeting remit, depending on economic circumstances at the time
- Bank Rate threshold for considering active sales now 1%, from 1.5%. In part reflects possibility of negative Bank Rate
- Threshold for stopping reinvestment now 0.5%.



Q&A

