



BANK OF ENGLAND

February 2021

Monetary Policy Report

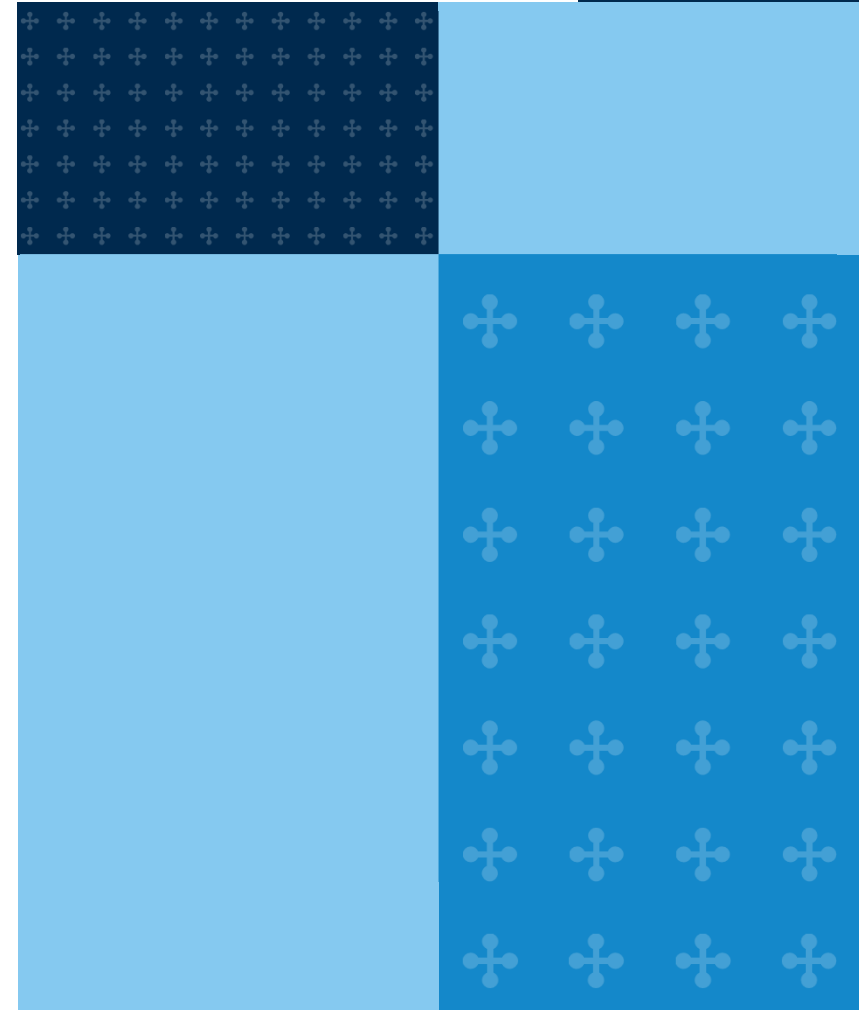
Andrew Bailey

Andy Haldane

Dave Ramsden

Becky Maule

Friday 5 February 2021





Plan for the session

Andrew will introduce the event

Andy will give you an overview of the *Monetary Policy Report*

Q&A session with Andrew, Dave and Andy

Please submit questions in the text box as we go and we'll put some to them

We're also running a couple of polls to get your input on the economic outlook – please do take part if you feel comfortable



Outline

- Economy
- Policy
- Policy Toolkit
- Q&A

Summary story

- GDP falls in the first quarter on account of restrictions
- But it recovers strongly after that
- Inflation picks up through this year, ending at target
- Unemployment peaks at 7 $\frac{3}{4}$ %, before falling back

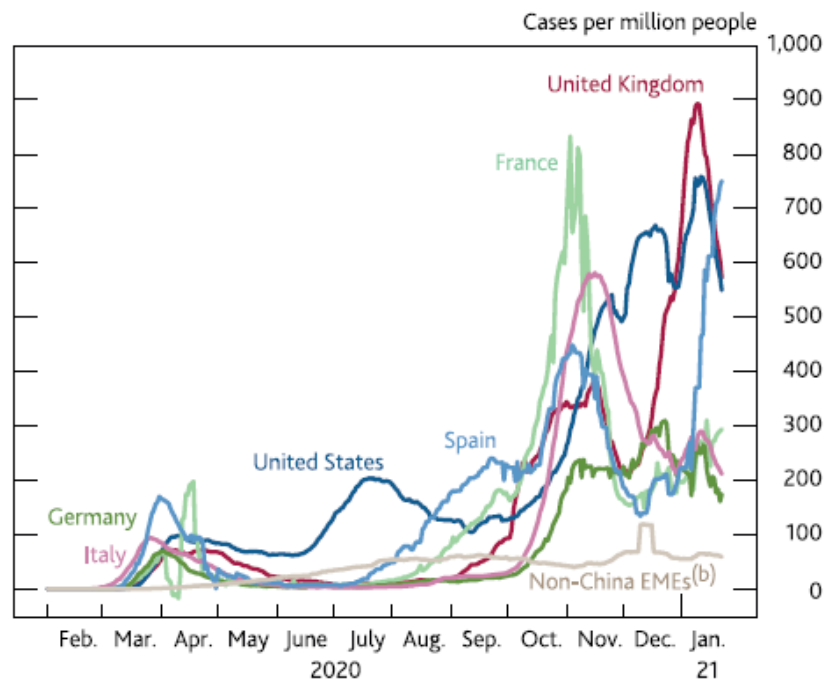
Table 1.A: Forecast summary^{(a)(b)}

	Projections			
	2021 Q1	2022 Q1	2023 Q1	2024 Q1
GDP ^(c)	-9.2 (-6.5)	14.2 (10.0)	1.3 (2.1)	1.3
CPI Inflation ^(d)	0.8 (0.7)	2.1 (2.1)	2.1 (2.0)	2.0
LFS unemployment rate	5.5 (6.7)	5.7 (6.1)	5.0 (4.7)	4.5
Excess supply/Excess demand ^(e)	-1 (-2)	+ $\frac{1}{4}$ (0)	+ $\frac{1}{4}$ (+ $\frac{1}{4}$)	0
Bank Rate ^(f)	0.1 (0.0)	-0.1 (-0.1)	-0.1 (-0.1)	0.0

Increasing Covid cases and restrictions...

Chart 2.2: Confirmed Covid cases rose sharply in some countries over the past three months

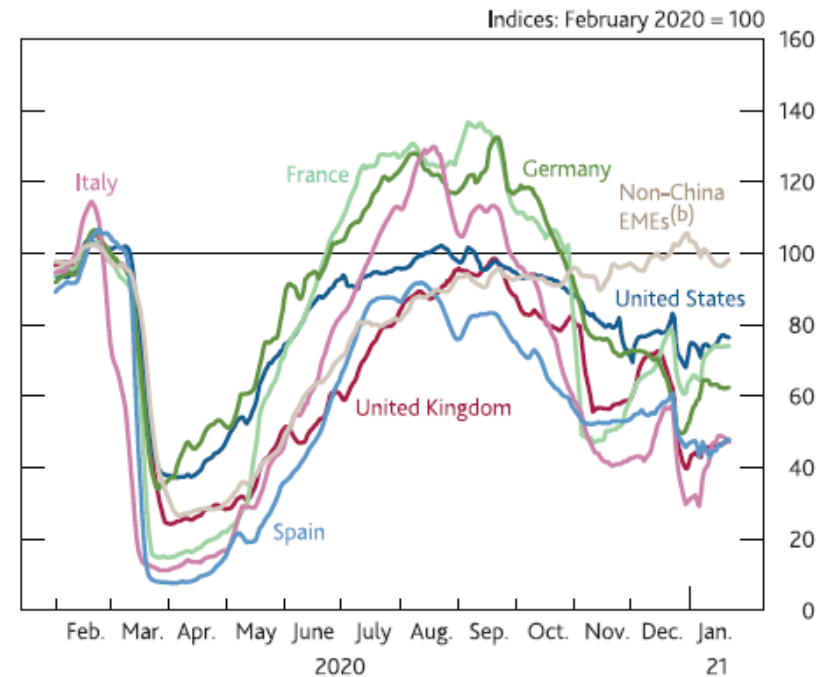
Daily new confirmed Covid-19 cases in selected countries^(a)



Sources: COVID-19 Data Repository by the Centre for Systems Science and Engineering (CSSE) at Johns Hopkins University, World Bank and Bank calculations.

Chart 2.3: Mobility has fallen, albeit to a slightly lesser extent than during the first wave of the pandemic

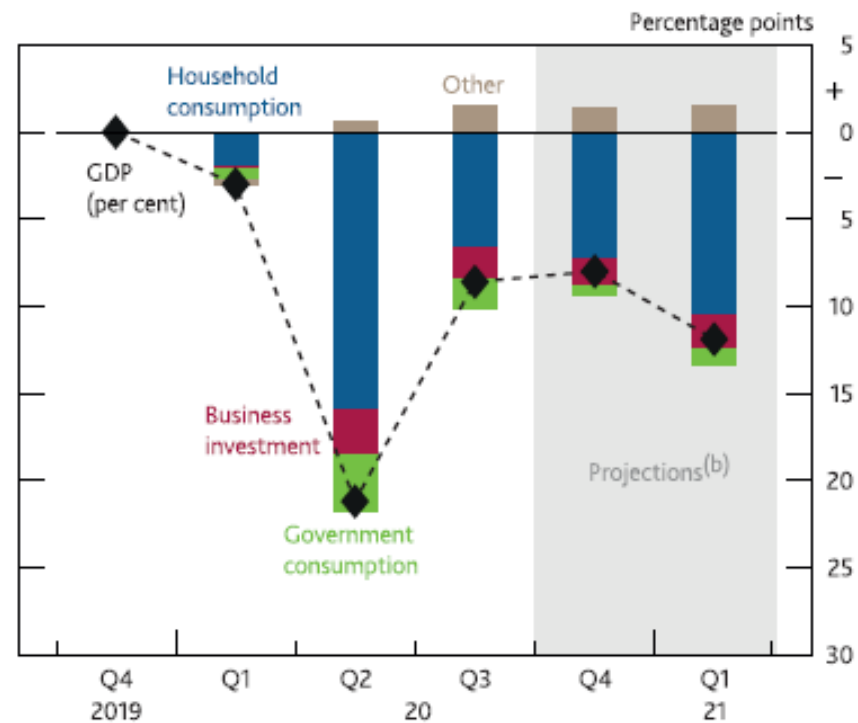
Apple mobility indices^(a)



Sources: Apple Mobility Index, IMF WEO and Bank calculations.

Near-term GDP falls...

Chart 2.15: GDP is expected to fall in 2021 Q1, but to a lesser extent than in 2020 Q2
Contribution to change in quarterly GDP since 2019 Q4^(a)



Sources: ONS and Bank calculations.

Activity falling in Q1...

Chart 2.16: Indicators of activity have fallen sharply since December, although not as far as in April
Transport use relative to normal levels^(a)

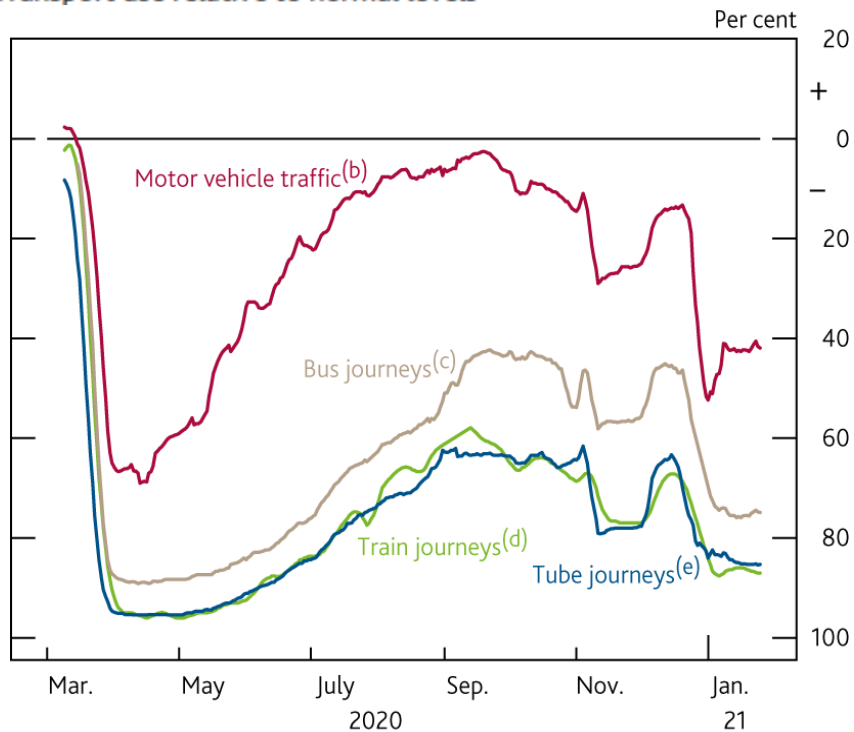
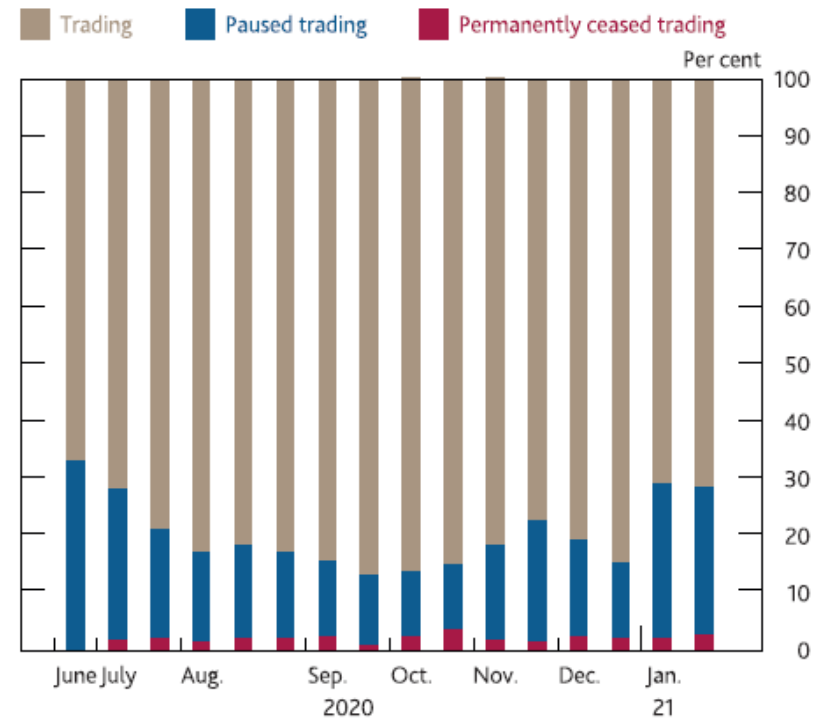


Chart 2.17: The proportion of businesses that have paused trading is broadly similar to June
Businesses by trading status^(a)

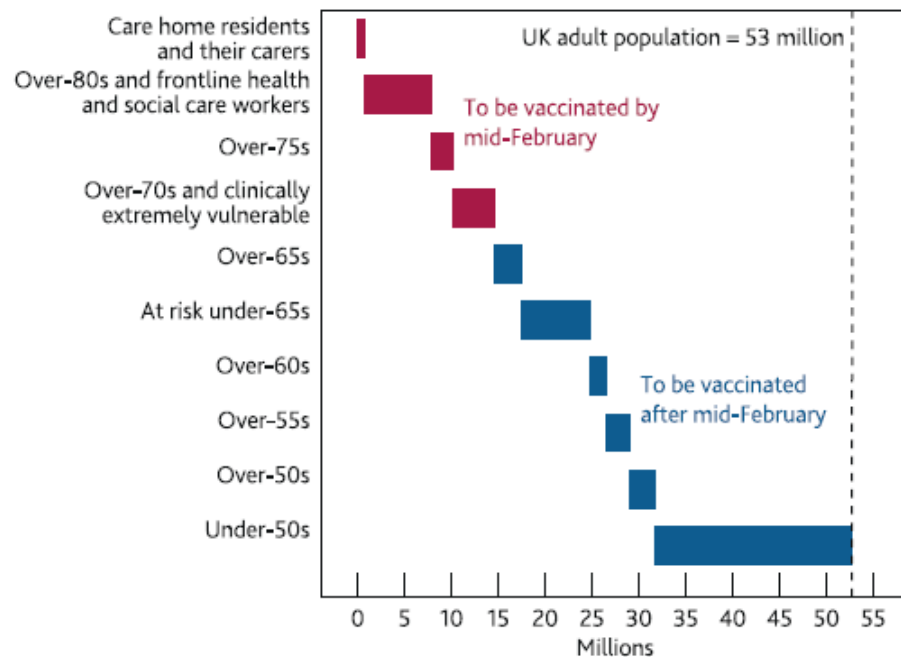


Sources: ONS and Bank calculations.

But positive news on vaccines

Chart 3.1: The Government aims to offer a first vaccine dose to the 15 million people in the most vulnerable groups by mid-February

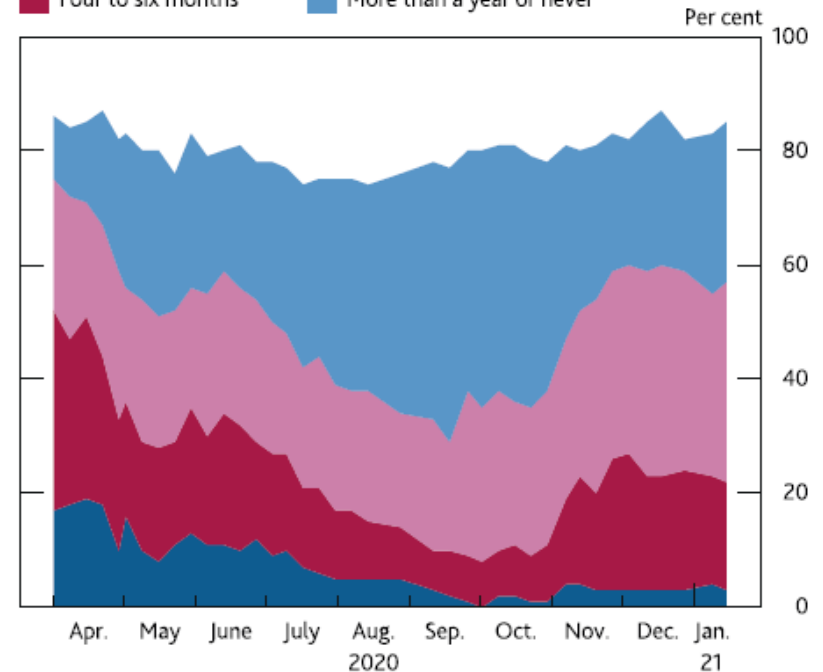
Number of people in vaccination groups^(a)



Source: Department of Health and Social Care.

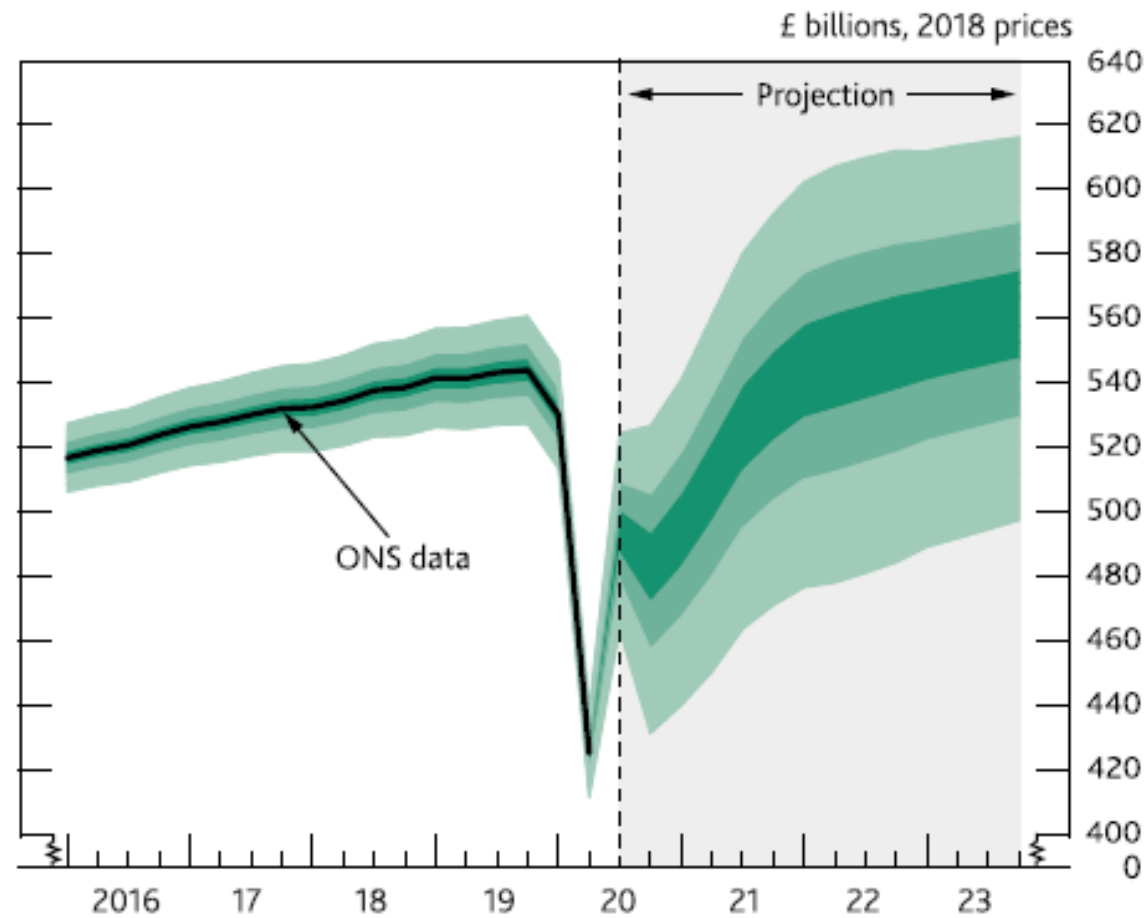
Chart 3.2: The share of people that believe it will take less than a year for life to return to normal has risen
Time expected for life to return to normal^(a)

■ Less than three months ■ Four to six months
■ Seven months to a year ■ More than a year or never



Sources: ONS Opinions and Lifestyle Survey and Bank calculations.

Boosts GDP later in 2021



Underpinned by household spending

Chart 3.5: Households have accumulated a significant stock of savings since March 2020
Monthly household savings^(a)

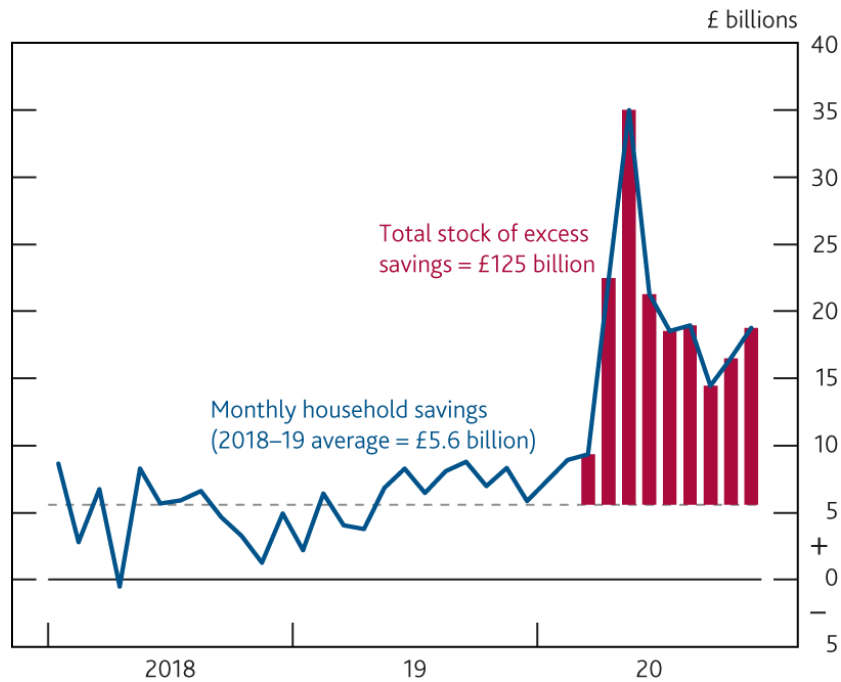
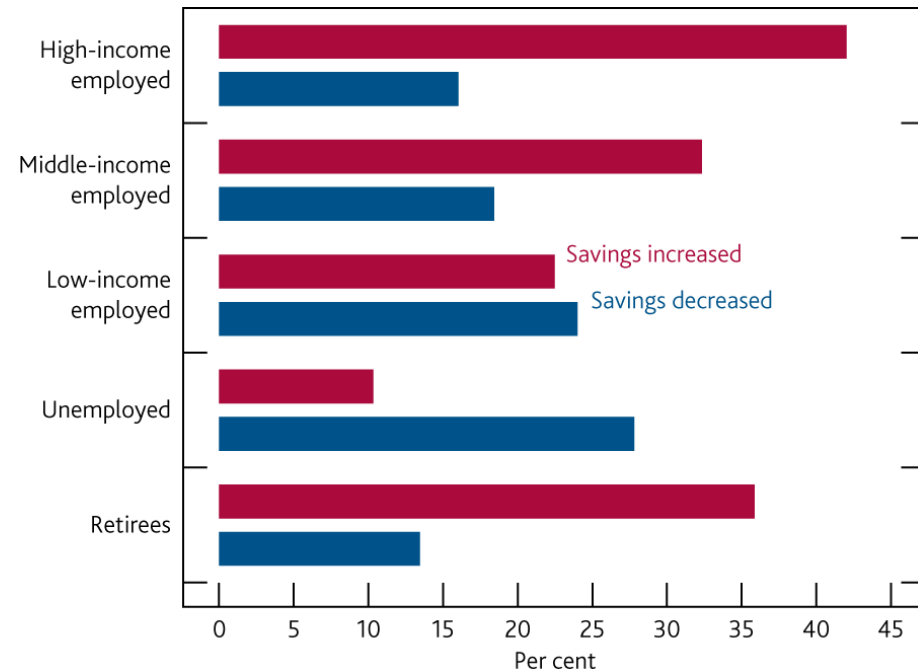


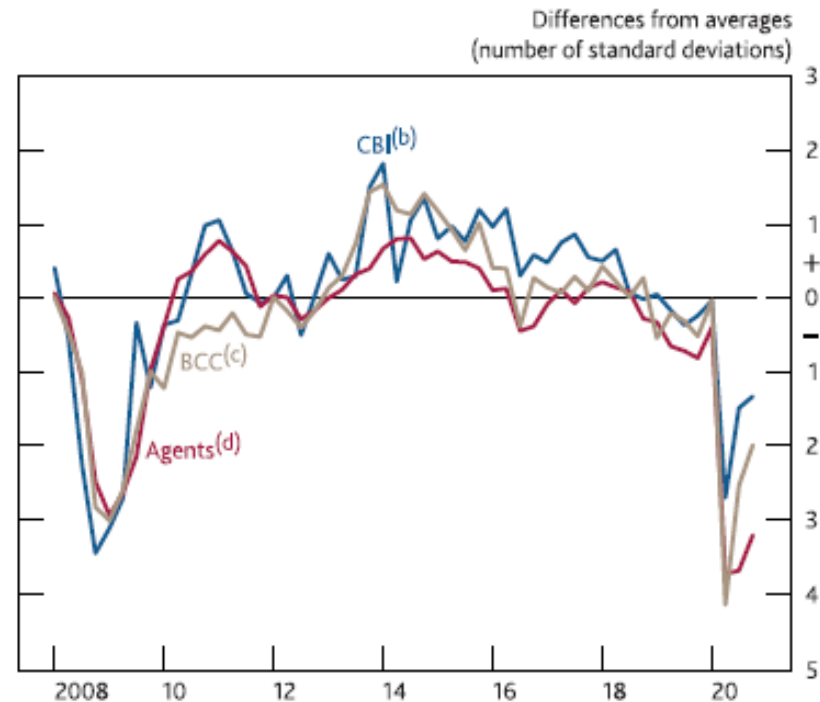
Chart 3.6: High-income and retired households are more likely than low-income households to have increased savings

Percentage of households reporting changes in their savings^(a)



Investment sentiment also picking up

Chart 2.20: Investment intentions have improved slightly in recent months, but remain historically weak
Survey indicators of investment intentions^(a)



Sources: Bank of England, BCC, CBI, ONS and Bank calculations.

Labour market - furlough & redundancies

Chart 2.22: The percentage of employees furloughed has increased over the past few months
Furloughed employees

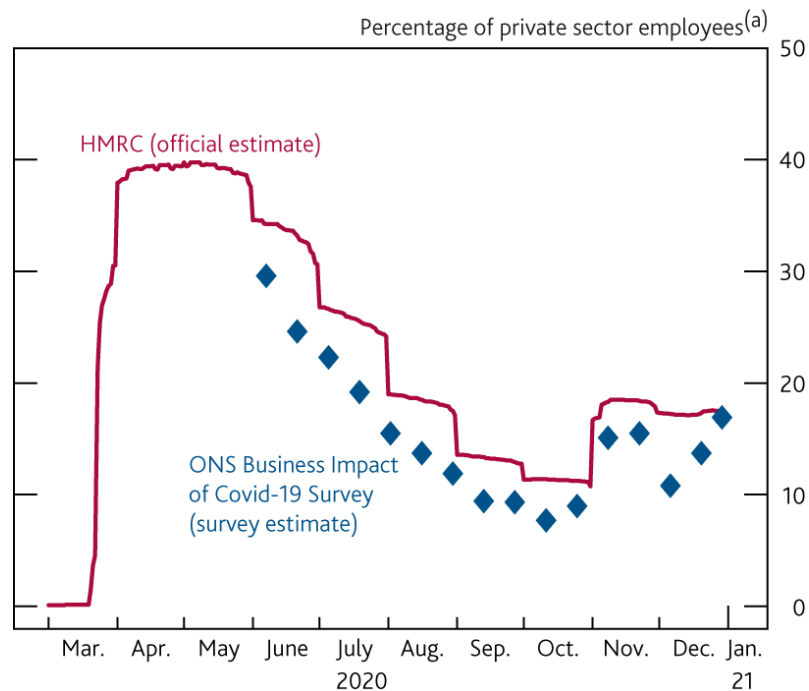
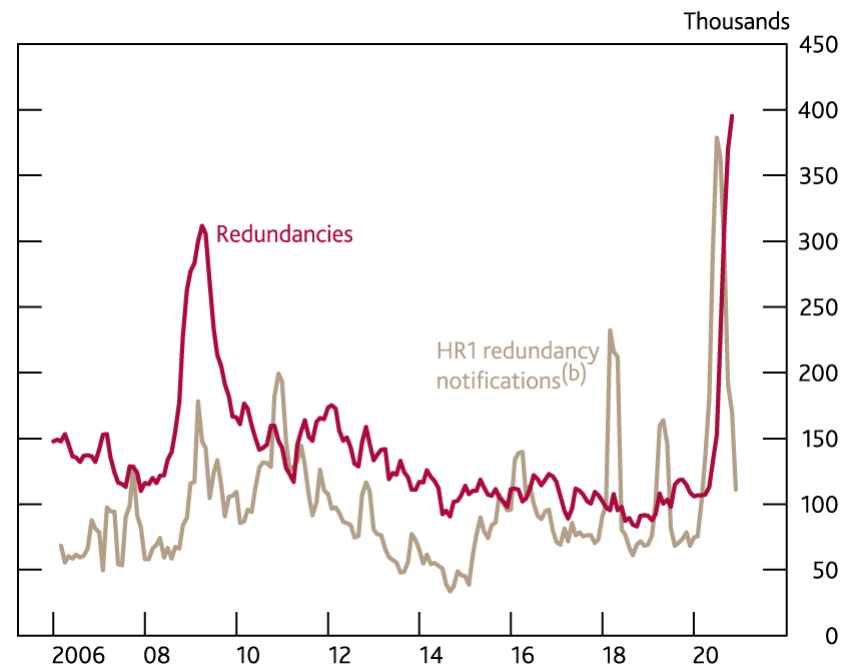
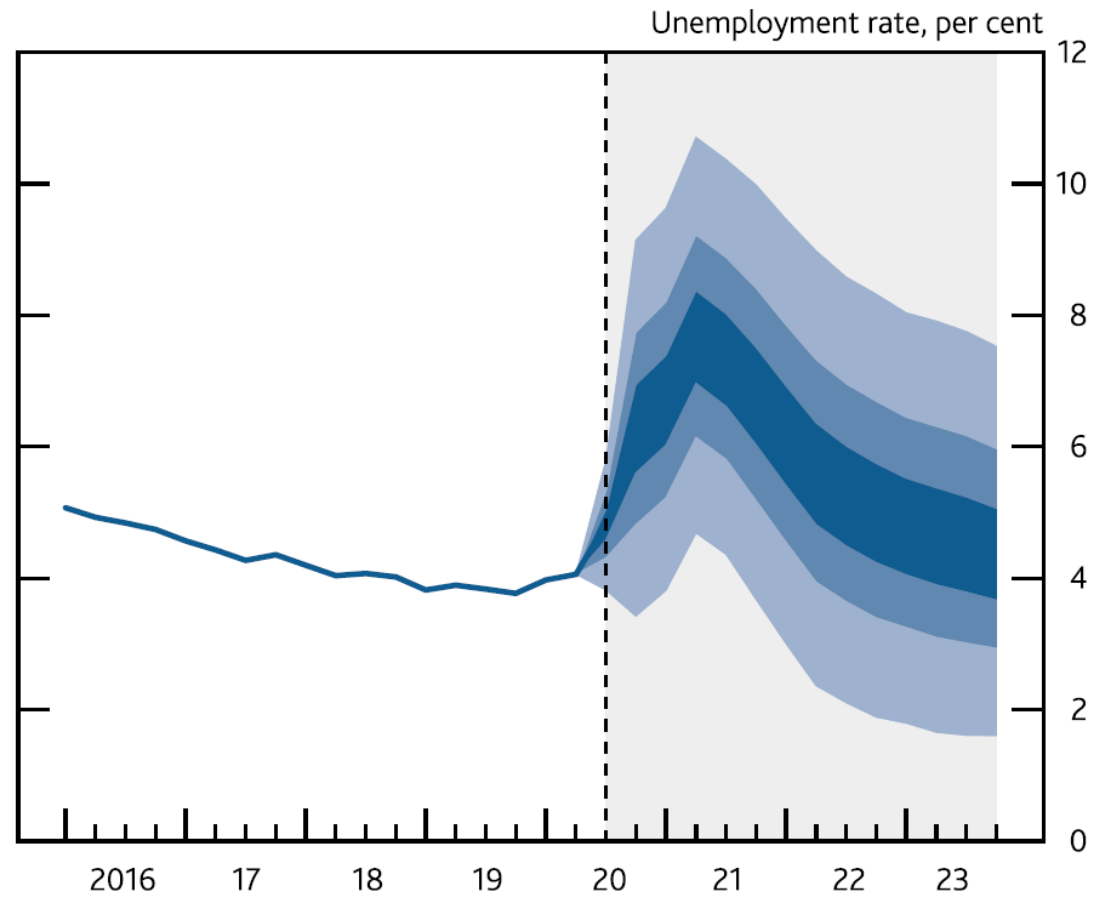


Chart 2.23: Redundancies picked up sharply in 2020 H2, but are likely to fall back in the near term
Redundancies and HR1 redundancy notifications^(a)



Unemployment rises in short run, before falling

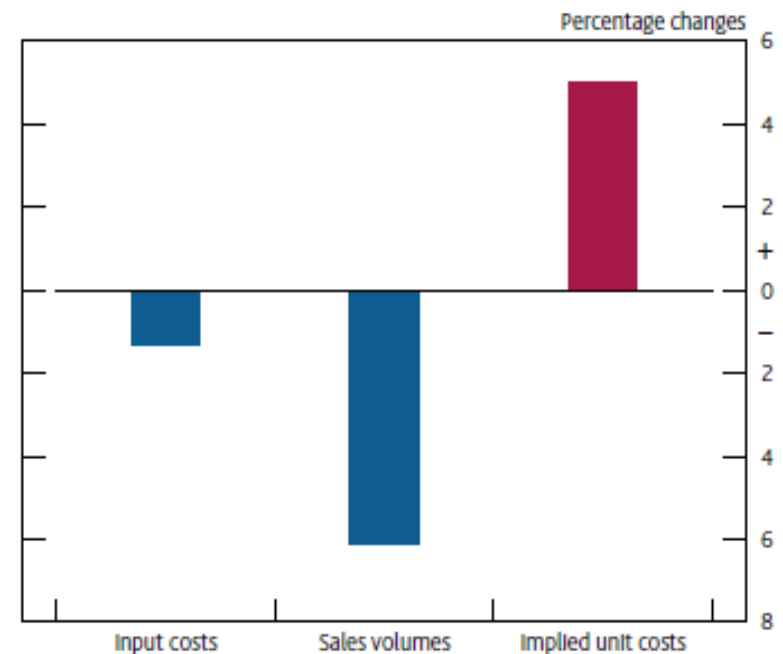


Business costs – mixed picture

Chart A Pay settlements are expected to be lower in 2021 than 2020
Pay settlements^(a)



Chart 4.7: Firms' input costs are reported to have fallen by significantly less than their sales volumes
Annual changes in costs and sales volumes^(a)



Inflation subdued in near-term...

Chart 4.8: Higher unit costs from Covid have partly offset the impact of lower demand on inflation
Contributions to changes in reported inflation^(a)

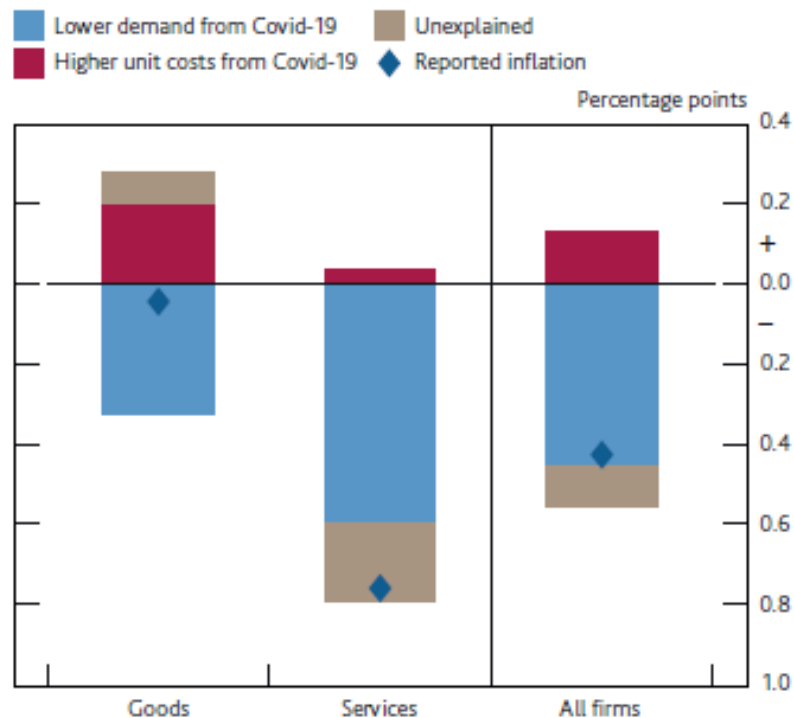
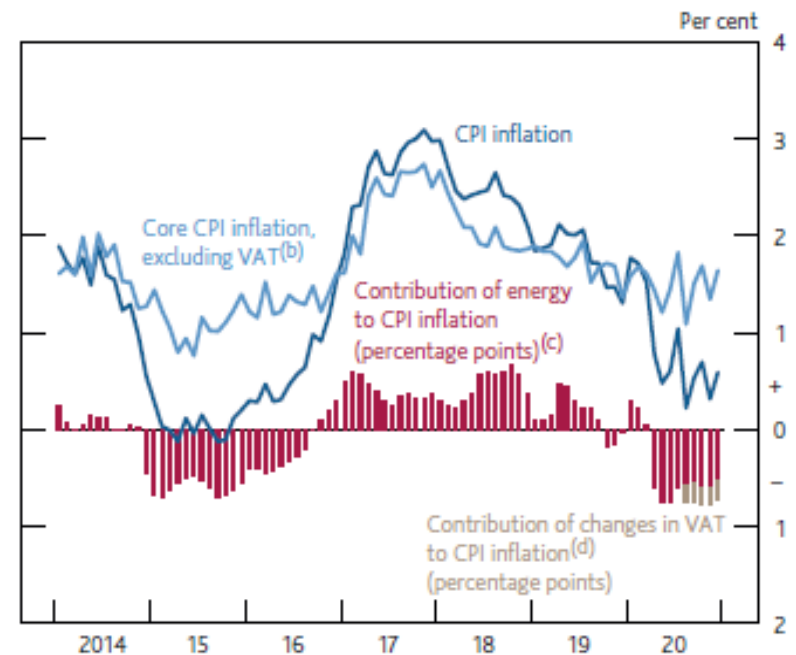
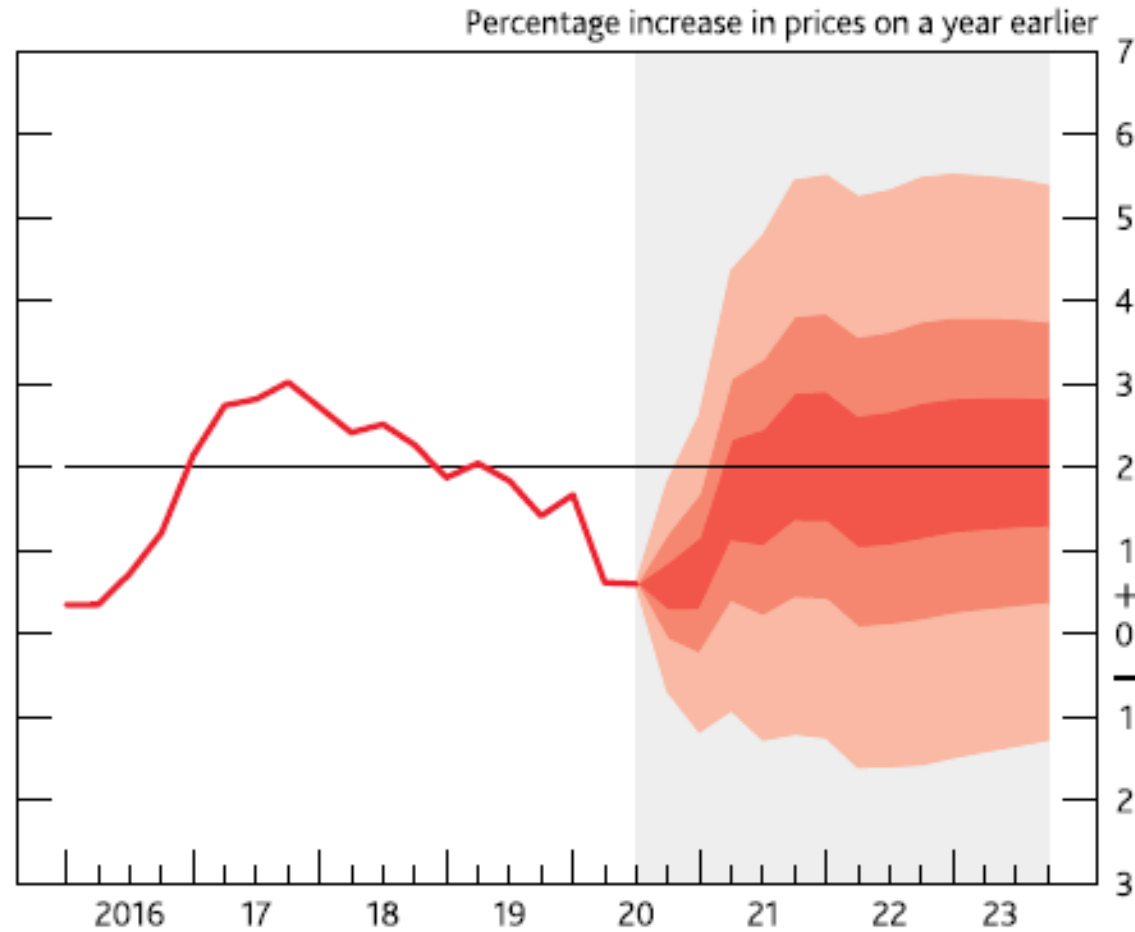


Chart 4.2: The fall in CPI inflation since February 2020 is mainly due to temporary Covid-related factors
CPI inflation, core CPI inflation and the contributions of energy prices and changes in VAT^(a)



Inflation rises to target by year end and stays there





Brexit

- Trade deal agreed in December very similar to assumptions in November (and previously). No noticeable impact on forecast.
- Near-term adjustment frictions assumed to reduce trade and GDP (by 1%) in Q1.
- Intelligence suggests reduced trade volumes, but too early to tell extent or length of disruption.



Policy

- Inflation expected to return to target, and output gap expected to close
- Risks to outlook are more balanced - vaccines
- MPC considers stance of policy currently appropriate:
 - Bank Rate at 0.1%
 - Programme of extra £150bn of gilt purchases underway
 - QE will reach £895bn by the end of the year
- Guidance around future policy unchanged



Policy Toolkit

- No signal about the stance of policy
- PRA to engage with regulated firms to ensure they are able to implement a negative Bank Rate at any point after six months, should that be required in the future
- Bank will also reconsider previous guidance on the appropriate strategy for tightening monetary policy, should that be required in the future



Q&A

