



BANK OF ENGLAND

COVID-19 and Monetary policy

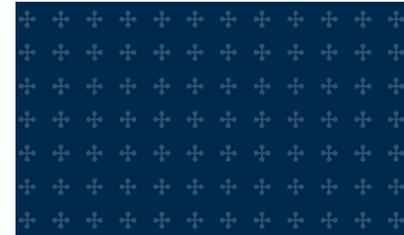
Professor Jonathan Haskel

External MPC member

@haskelecon

Slides to accompany [remarks](#) to Brighton Chamber of Commerce

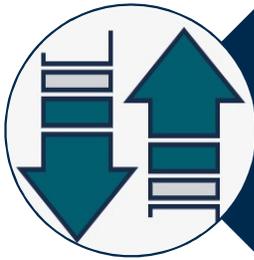
1st July 2020



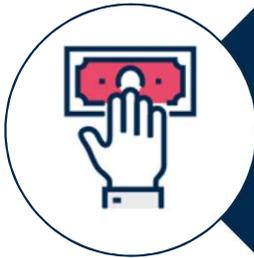
Main messages



Covid-19 and the associated social distancing measures represent a huge economic shock that has required a significant policy response.



In May we published a scenario and sensitivities that provide a framework to guide our policy actions



However the economic outlook evolves, the Bank will act as necessary to deliver monetary and financial stability

“We’ll always have Paris”: the pre-Covid-19 world

	1998– 2007 ^(c)	2008	2009	2010– 18 ^(c)	2019
UK GDP ^(d)	3	0	-4	2	1
LFS unemployment rate	5	6	8	6	4
CPI inflation ^(e)	1.6	3.6	2.2	2.3	1.8
Bank Rate ^(f)	5.1	4.7	0.6	0.5	0.8

Sources: Bank of England, IMF *World Economic Outlook (WEO)*, ONS and Bank calculations.

(a) The profiles in this table should be viewed as broadly consistent with the illustrative scenario for GDP, CPI inflation and unemploymen

(b) Figures show annual average growth rates unless otherwise stated. Calculations for back data based on ONS data are shown using ON

(c) Averages over the period.

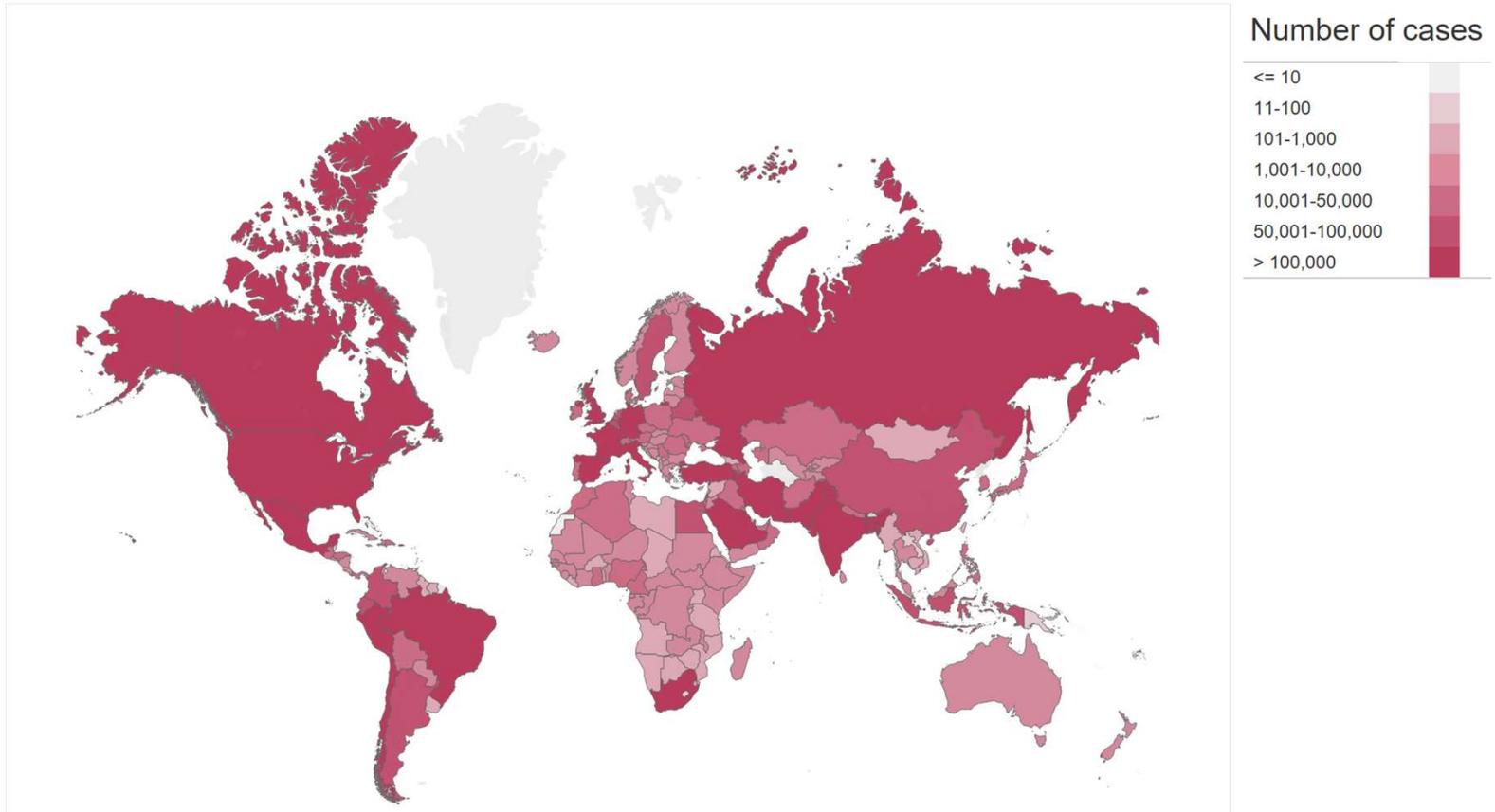
(d) Excludes the backcast for GDP.

(e) Annual average inflation rate.

(f) Average Bank Rate (data) or implied Bank Rate indicated by overnight index swaps (forecast).

The Covid-19 “shock”

Number of Covid-19 cases



Source: COVID-19 Dashboard by the Centre for Systems Science and Engineering (CSSE) at Johns Hopkins.

The Covid-19 world

	1998– 2007 ^(c)	2008	2009	2010– 18 ^(c)	2019	Illustrative scenario		
						2020	2021	2022
UK GDP ^(d)	3	0	-4	2	1	-14	15	3
LFS unemployment rate	5	6	8	6	4	8	7	4
CPI inflation ^(e)	1.6	3.6	2.2	2.3	1.8	0.6	0.5	2.0
Bank Rate ^(f)	5.1	4.7	0.6	0.5	0.8	0.2	0.1	0.2

Sources: Bank of England, IMF *World Economic Outlook (WEO)*, ONS and Bank calculations.

(a) The profiles in this table should be viewed as broadly consistent with the illustrative scenario for GDP, CPI inflation and unemployment.

(b) Figures show annual average growth rates unless otherwise stated. Calculations for back data based on ONS data are shown using ONS series identifiers.

(c) Averages over the period.

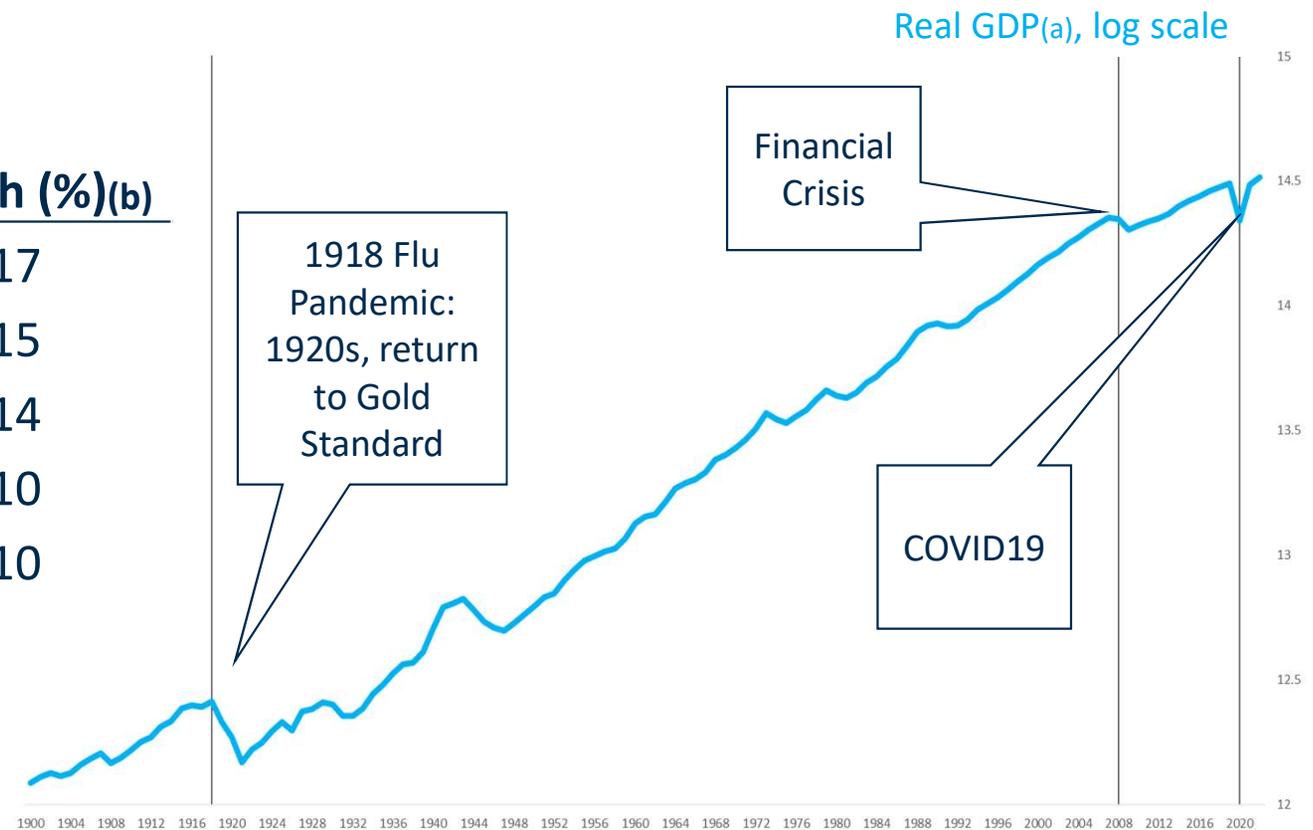
(d) Excludes the backcast for GDP.

(e) Annual average inflation rate.

(f) Average Bank Rate (data) or implied Bank Rate indicated by overnight index swaps (forecast).

The post-Covid-19 world

Ranking	Year	Growth (%) ^(b)
1st	1706	-17
2nd	2020 ^(c)	-15
3rd	1709	-14
4th	1921	-10
5th	1710	-10



Sources: [“A millennium of macroeconomic data for the UK”](#), Bank of England. Author calculations.

(a) Real UK GDP at market prices, geographically-consistent estimate based on post-1922 borders. £mn, Chained Volume measure, 2013 prices. From 2016 onwards it grows in line with MPC May 2020 MPR scenario. (b) Annual growth (%). (c) MPR scenario.

Monetary policy supporting households and businesses through economic disruption



Bank Rate cut from 0.75% to 0.1%

£300bn asset purchase programme (£200bn announced in March and further £100bn announced in June). Purchases to be completed by year end at a pace consistent with the effective transmission of monetary policy

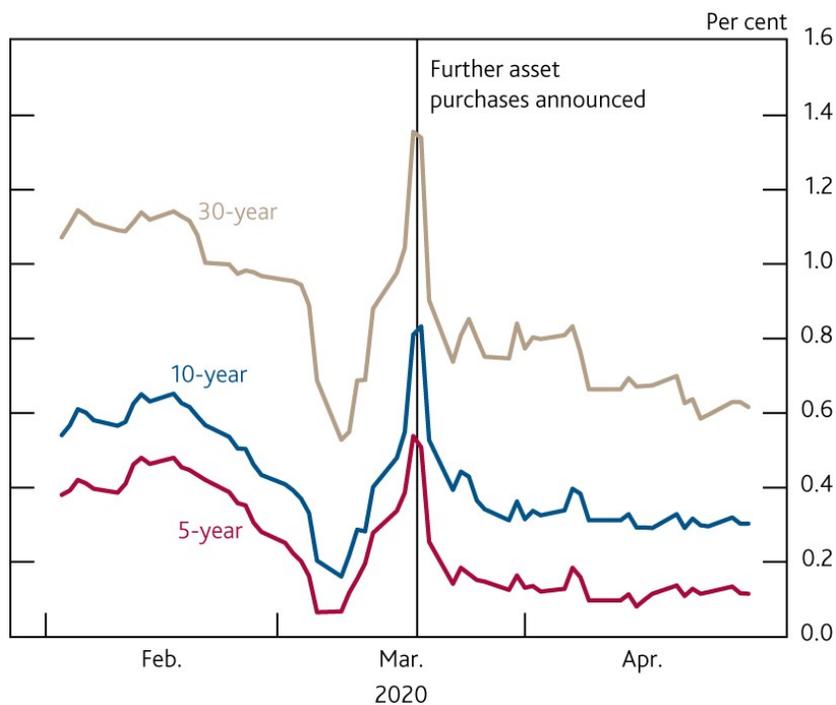


Term Funding scheme to support pass through of rate cut (with additional incentives to support lending to SMEs)

**Bank/HMT Covid Corporate Financing Facility launched.
£18 billion lent already to companies directly**

The financial system came under a great deal of stress in March that required a swift response from the MPC.

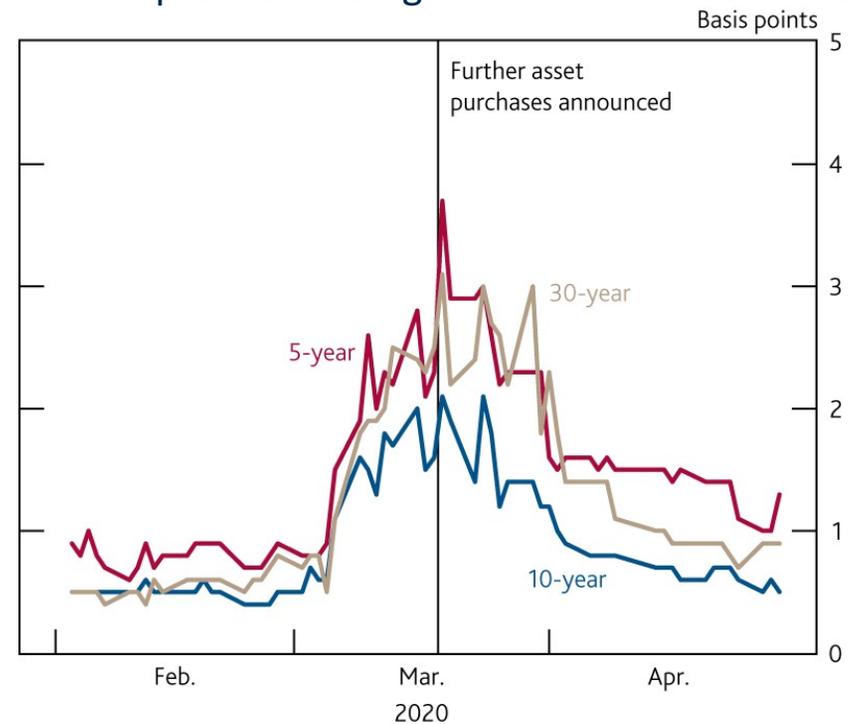
Spot yields on UK gilts at selected maturities^(a)



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

(a) Zero-coupon spot rates derived from government bond prices.

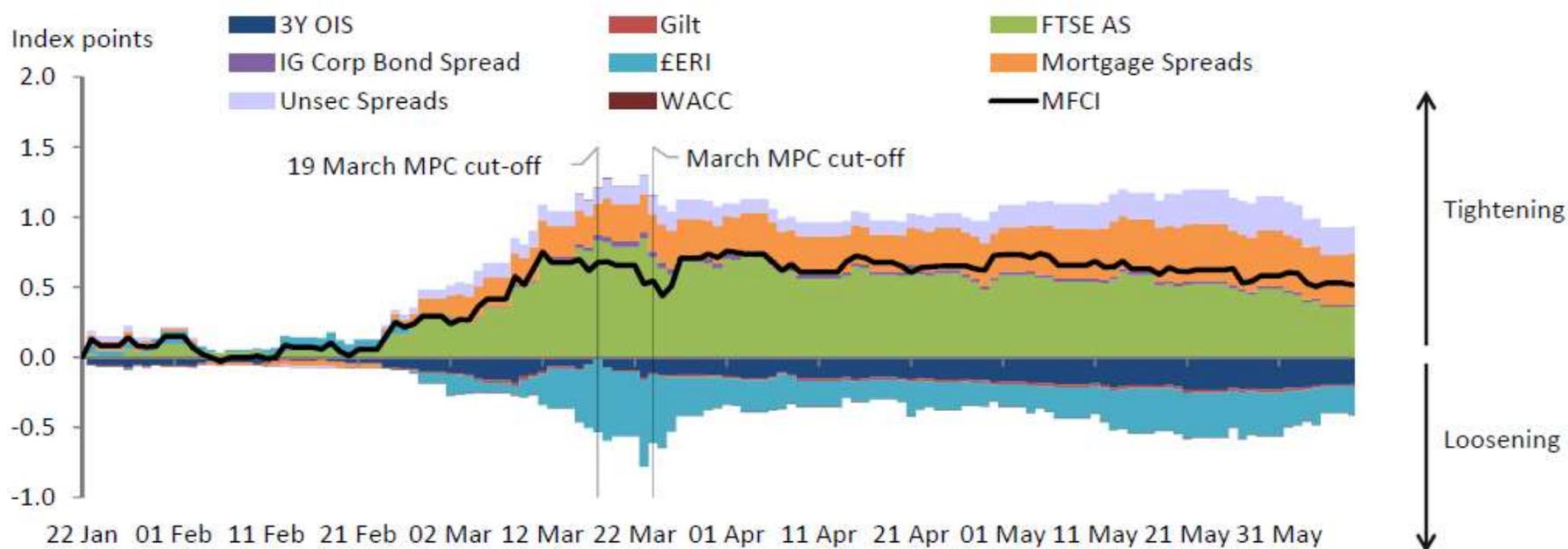
Bid-offer spreads on UK gilts at selected maturities



Sources: Eikon from Refinitiv and Bank calculations.

UK financial and credit conditions remain tight relative to Jan, which in part informed the vote to extend asset purchases in June

UK Monetary and Financial Conditions Index since January MPR

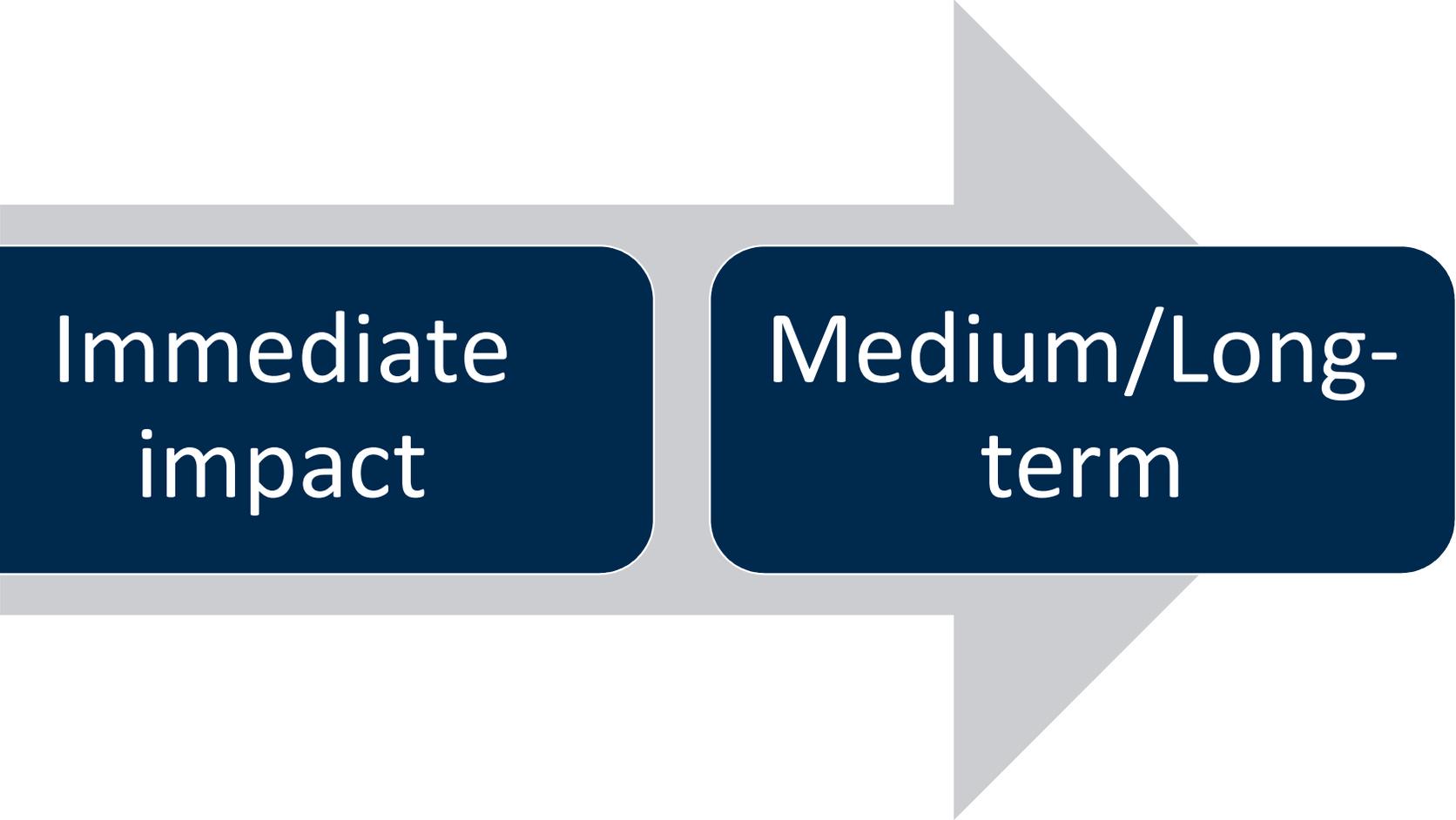


Sources: Bloomberg Finance L.P., Eikon from Refinitiv, ICE/BoAML Global Research and Bank calculations.

Note: The UK Monetary and Financial Conditions Index (MFCI) summarises information from the following series: short-term and long-term interest rates, the sterling ERI, corporate bond spreads, equity prices, and household and corporate bank lending spreads. The series weights are based on the estimated impact of each variable on UK GDP. The chart shows changes in the MFCI from the average level over the 15 working days to 22 January 2020. An increase in the MFCI signals tighter financial conditions and a decrease signals looser conditions. For more information, see the Bank Overground post [‘How can we measure UK financial conditions?’](#).

Fiscal policy measures have been designed to support different parts of the economy

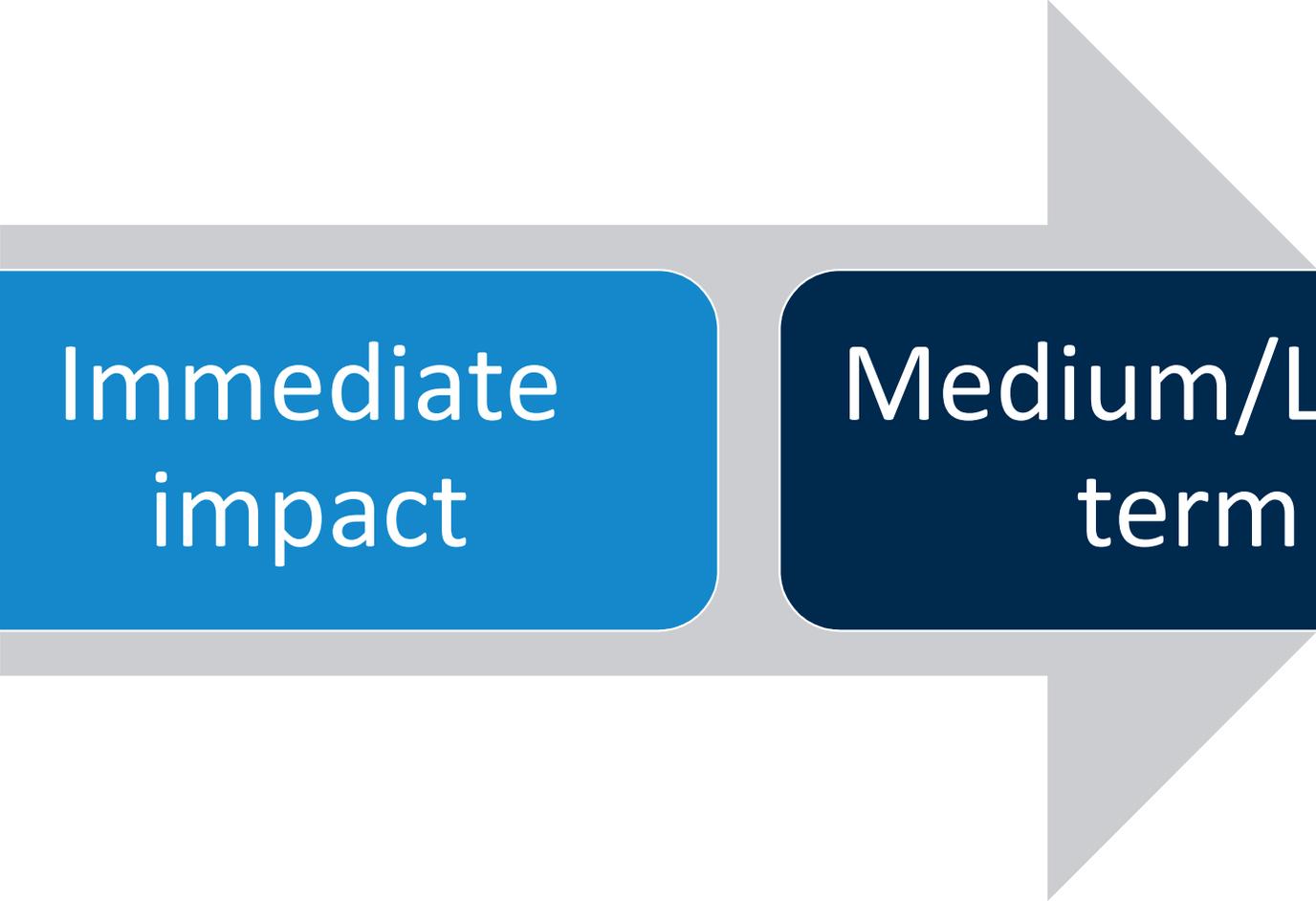
	Businesses		Households		
	Large businesses	SMEs	Employees	Self-employed	Unemployed
11 March 2020 — Budget 2020					
Statutory Sick Pay relief		✓			
Time To Pay tax support service	✓	✓		✓	
17 March 2020 — support to protect businesses					
Covid Corporate Financing Facility	✓				
Coronavirus Business Interruption Loan Scheme		✓			
Business rates holiday		✓			
Grant funding		✓			
20 March 2020 — workers' support package					
Coronavirus Job Retention Scheme	✓	✓	✓		
VAT payments deferral	✓	✓			
Income tax payments deferral				✓	
Welfare changes, including Universal Credit standard allowance			✓	✓	✓
26 March 2020 — support for self-employed					
Coronavirus Self-Employed Income Support Scheme				✓	
3 April 2020 — strengthening support for businesses					
Coronavirus Large Business Interruption Loan Scheme	✓				
20 April 2020 — helping high-growth businesses					
Coronavirus Future Fund		✓			
27 April 2020 — fast-track finance for small businesses					
Bounce Back Loan Scheme		✓			



Immediate
impact

Medium/Long-
term

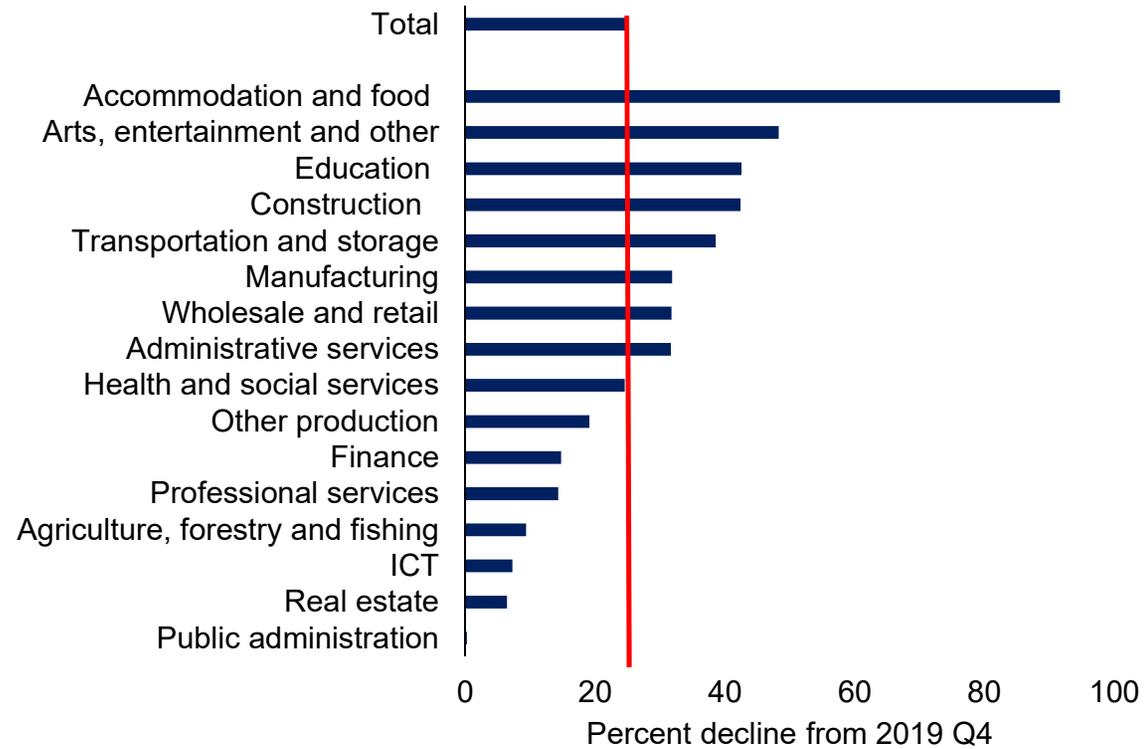
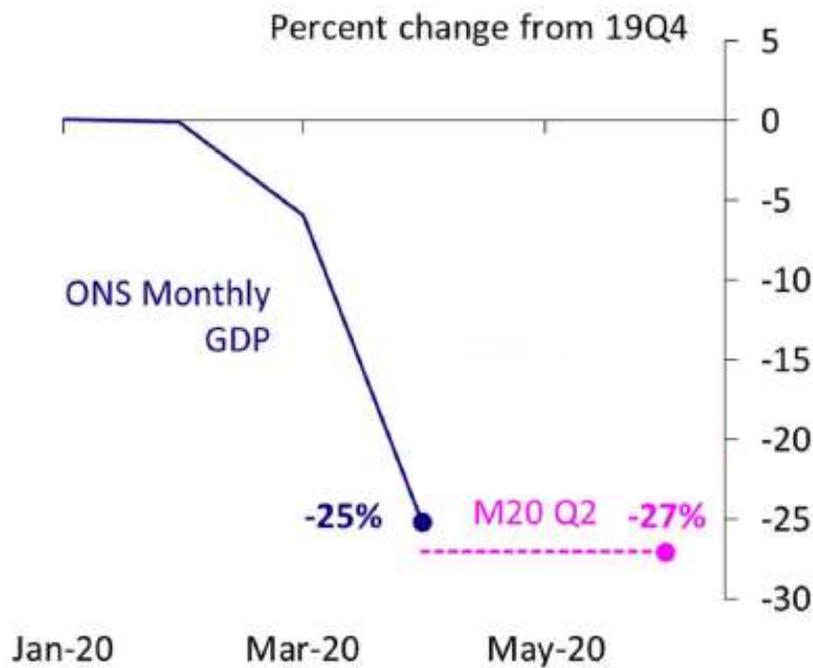




Immediate
impact

Medium/Long-
term

Consistent with our published scenario economic activity contracted significantly in March and April.

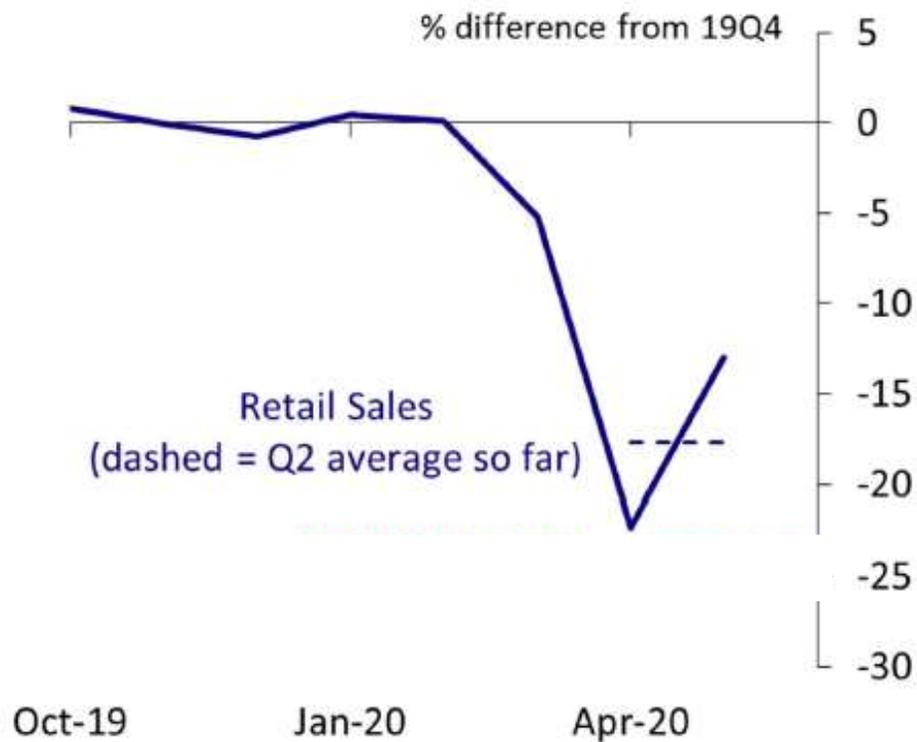


Sources: ONS and Bank calculations.

Note: Charts shows declines in output between the average level in 2019 Q4 and April 2020. M20 Q2 is the level implied in the scenario laid out in the May MPR.

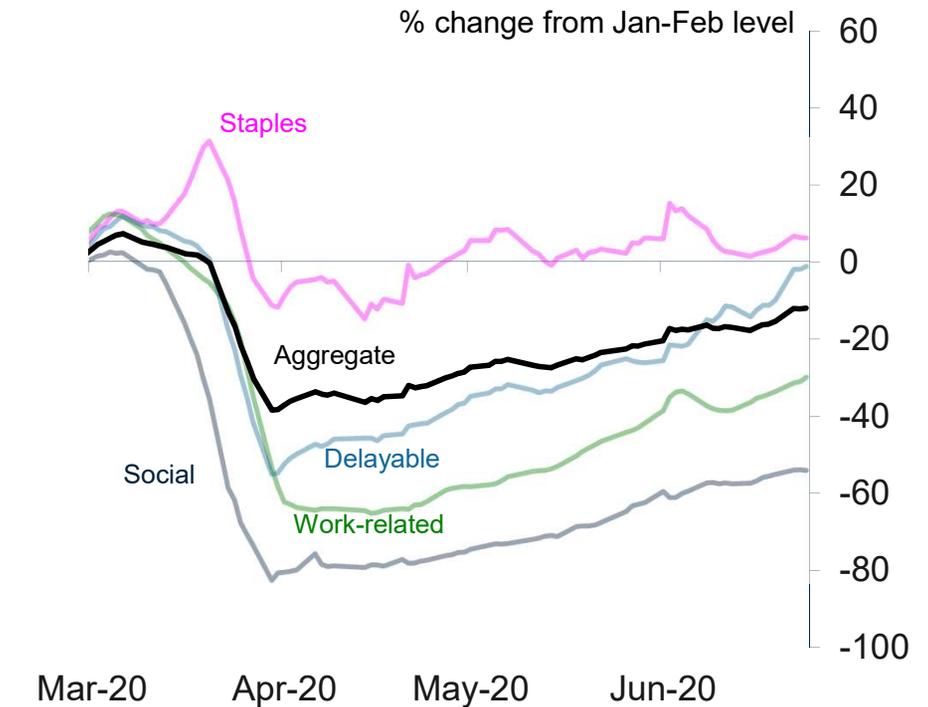
Have we reached the low point?

Retail sales through May 2020.



Source: ONS

Note: CHAPS data is based on a sample of around 100 UK companies payments received from their merchant acquirers on a daily basis. These payments reflect the sales that companies make through debit and credit card purchases, which are summed to estimate rolling seven-day revenues. Social consumption includes corporate revenues from hotels, restaurants, air travel and cultural events. Delayable consumption includes household goods, clothing, vehicle purchases and recreational goods. Work related includes travel and fuel. Staples include housing, food and health. Spending data shown through June 24th.



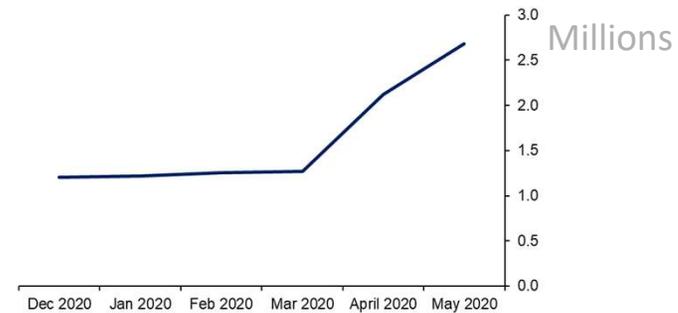
Source: Bank of England

Active employment has fallen...and expectations weak

Furlough scheme claims



Claimant count



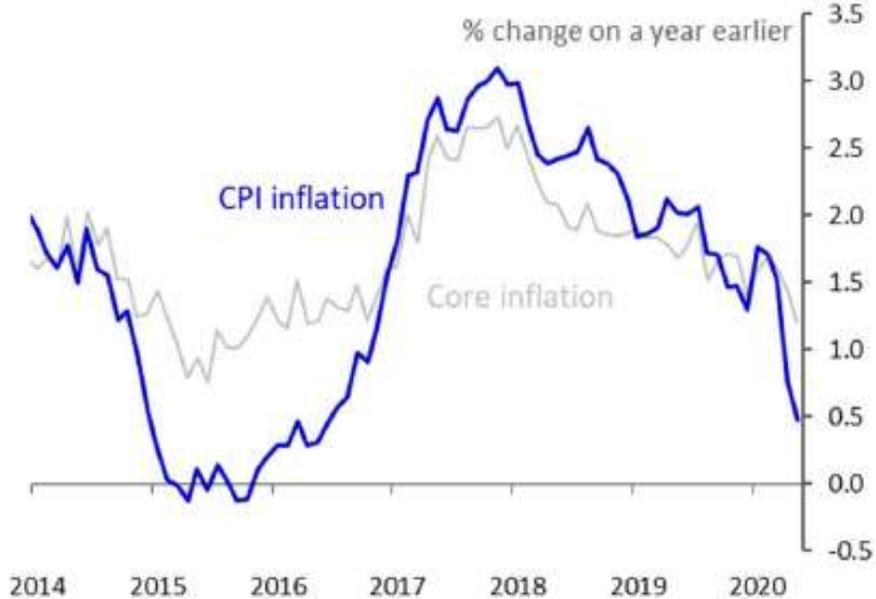
[2020H1 NMG survey](#): 30% of furloughed workers think it “quite likely” they will lose their job

Source: HMRC and ONS

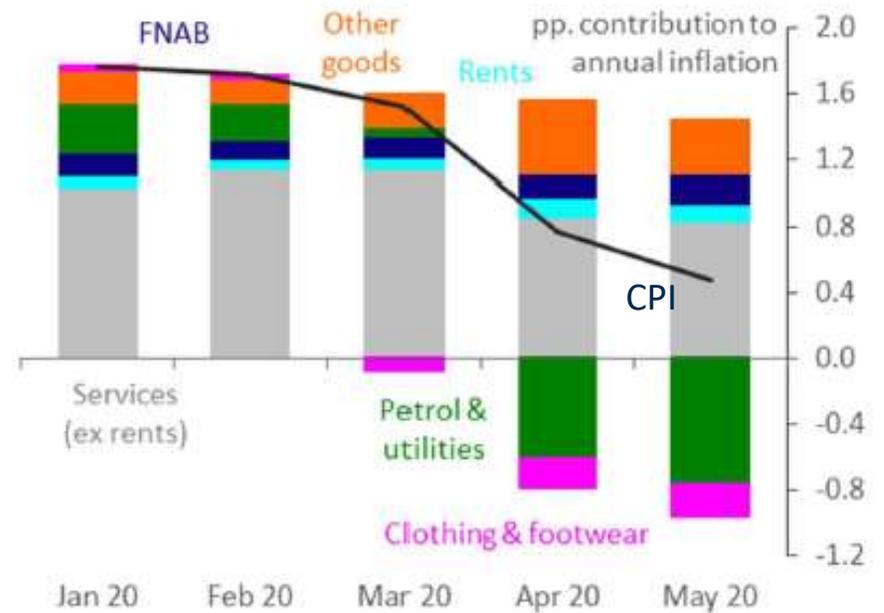
Note: The experimental Claimant Count consists of claimants of Jobseekers Allowance (JSA) and some Universal Credit (UC) Claimants. The UC claimants that are included are 1) those that were recorded as not in employment and those claimants of Universal Credit who are required to search for work, i.e. within the Searching for Work conditionality regime as defined by the Department for Work & Pensions (from April 2015 onwards). There were more than 34 million economically active individuals in the UK estimated in the most recent ONS labour market summary, covering the 3 month period Feb 2020 to Apr 2020.

CPI Inflation has fallen to 0.5% in May 2020 driven by falling energy prices

CPI inflation fell to a 4-year low in May...

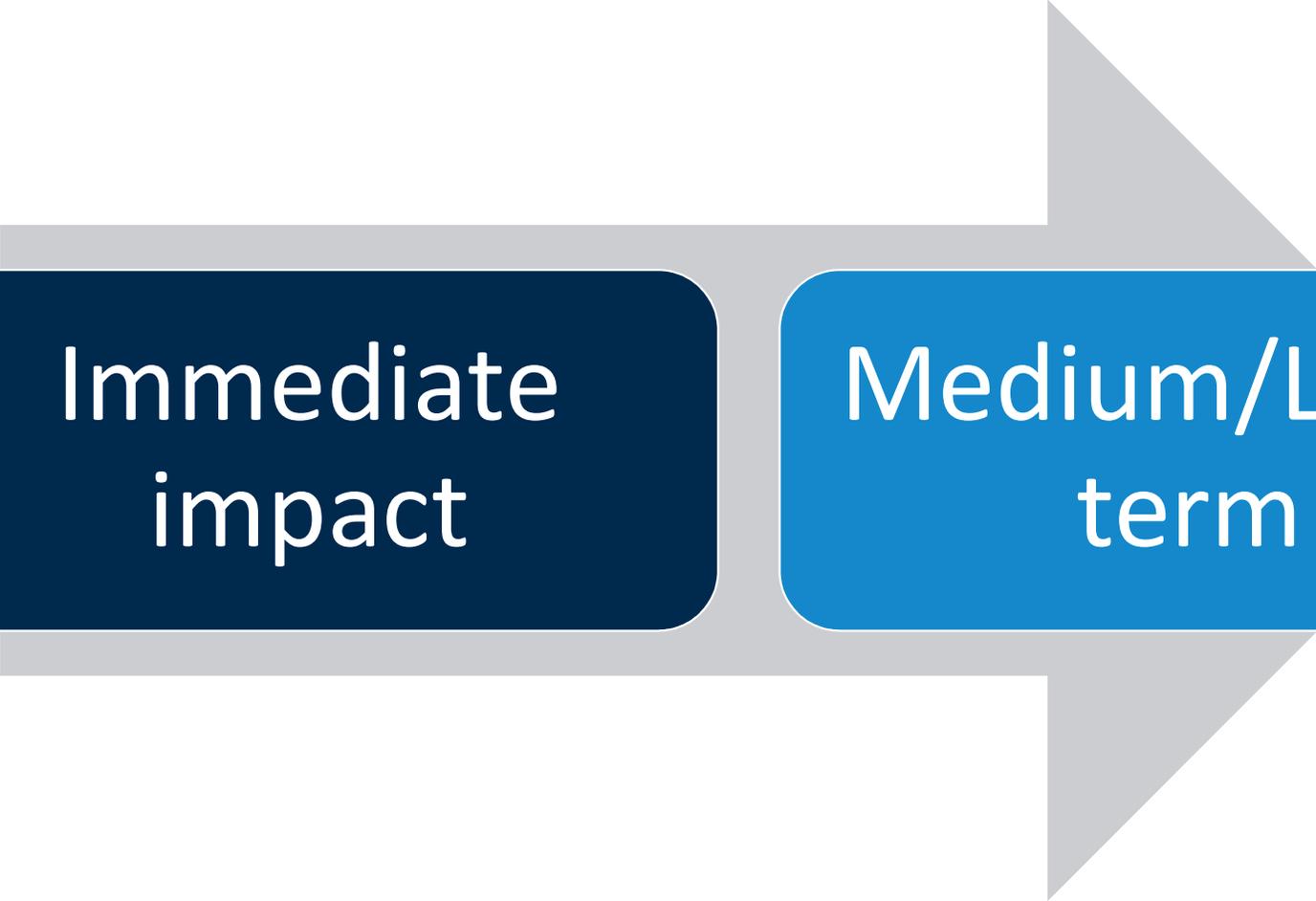


...with fuel prices the main drag since the start of the year



Source: ONS and Bank calculations.

Note: FNAB stands for food and non-alcoholic beverages. Core inflation is a measure of inflations that removes food, energy, alcohol and tobacco goods from the basket of prices measured.

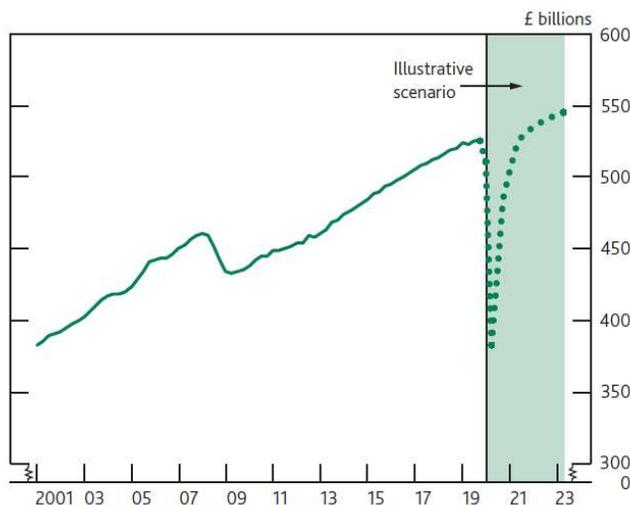


Immediate
impact

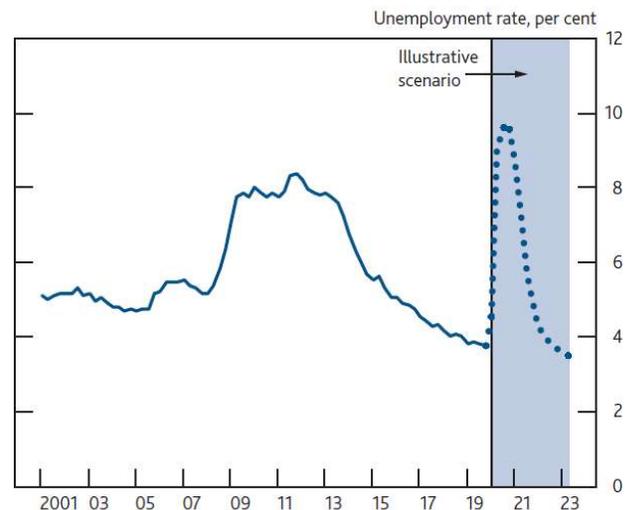
Medium/Long-
term

In the scenario, monetary policy supports a recovery in GDP and employment and inflation, by 2022.

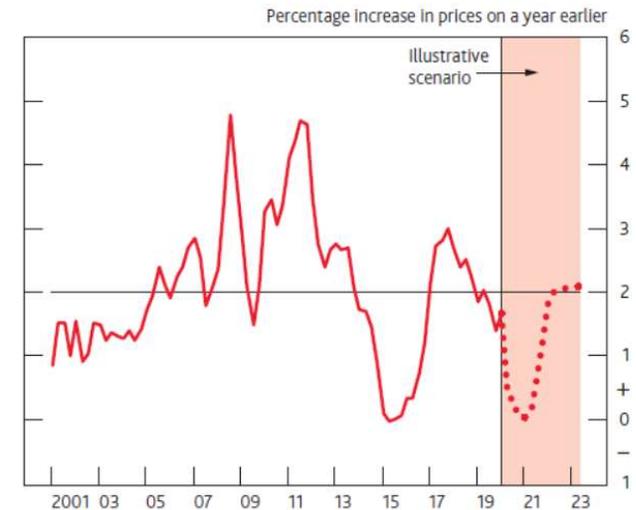
Level of GDP



Unemployment



CPI Inflation



Scenario assumptions

- Social distancing measures and support measures in UK and rest of the world remain as they are until early June, before being gradually unwound over Q3
- Some of the spending foregone while social distancing measures are in place is made up, but lower confidence and higher uncertainty persist for some time
- The scenario is sensitive to assumptions around social distancing measures and assumptions surrounding the long term productivity implications of protracted spells of high unemployment (See May MPR Table 1.B for more details)



But, the outlook and economic policy will depend on the extent of the temporary and permanent economic adjustment induced by Covid-19

- The speed of the recovery of discretionary household demand and its composition
 - The extent to which furloughed workers will return to their previous jobs
 - The permanent changes resulting from social distancing measures
 - More working from home and less travel?
 - More retail online?
-

Example: Working from home...what's not to like?



Or...

Example: Working from home...what's not to like?



Example: Working from home

**The
Guardian**

Yahoo chief bans working from home

Charles Arthur, *technology editor*

🐦 @charlesarthur

Mon 25 Feb 2013 18:30 GMT



Yahoos,

Over the past few months, we have introduced a number of great benefits and tools to make us more productive, efficient and fun. With the introduction of initiatives like FYI, Goals and PB&J, we want everyone to participate in our culture and contribute to the positive momentum. From Sunnyvale to Santa Monica, Bangalore to Beijing — I think we can all feel the energy and buzz in our offices.

To become the absolute best place to work, communication and collaboration will be important, so we need to be working side-by-side. That is why it is critical that we are all present in our offices. Some of the best decisions and insights come from hallway and cafeteria discussions, meeting new people, and impromptu team meetings. Speed and quality are often sacrificed when we work from home. We need to be one Yahoo!, and that starts with physically being together.

Beginning in June, we're asking all employees with work-from-home arrangements to work in Yahoo! offices. If this impacts you, your management has already been in touch with next steps. And, for the rest of us who occasionally have to stay home for the cable guy, please use your best judgment in the spirit of collaboration. Being a Yahoo isn't just about your day-to-day job, it is about the interactions and experiences that are only possible in our offices.

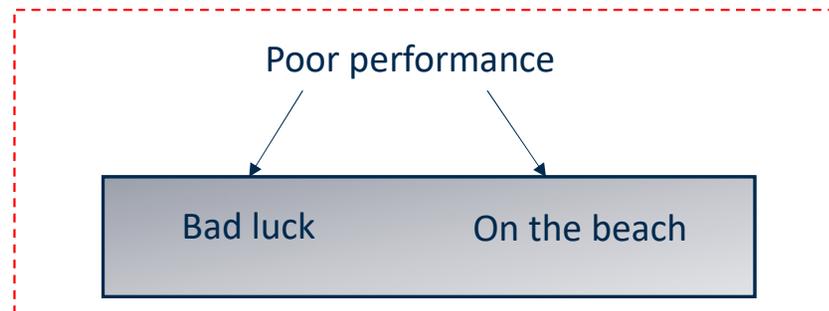
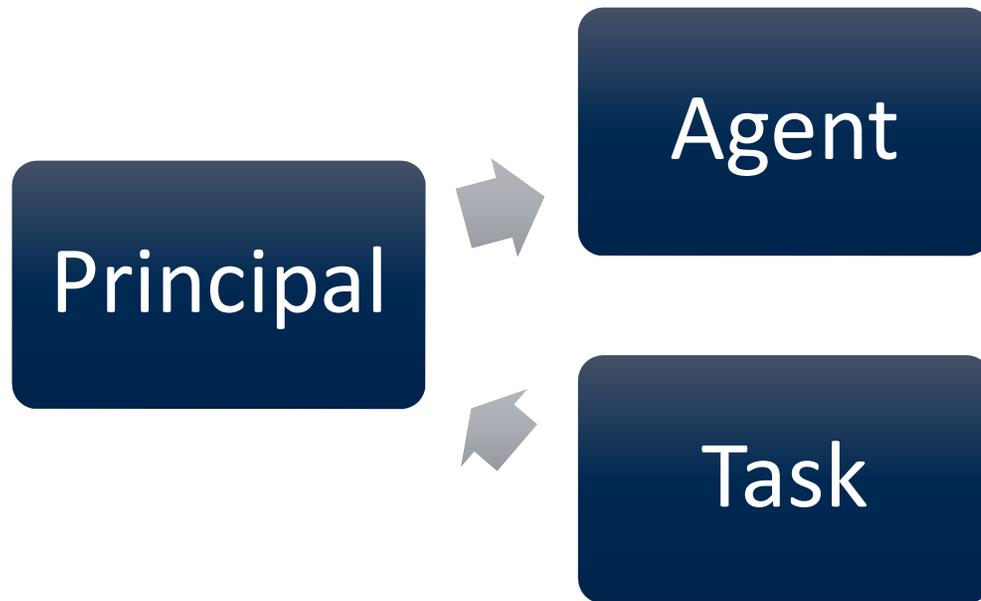
Thanks to all of you, we've already made remarkable progress as a company — and the best is yet to come.

Jackie

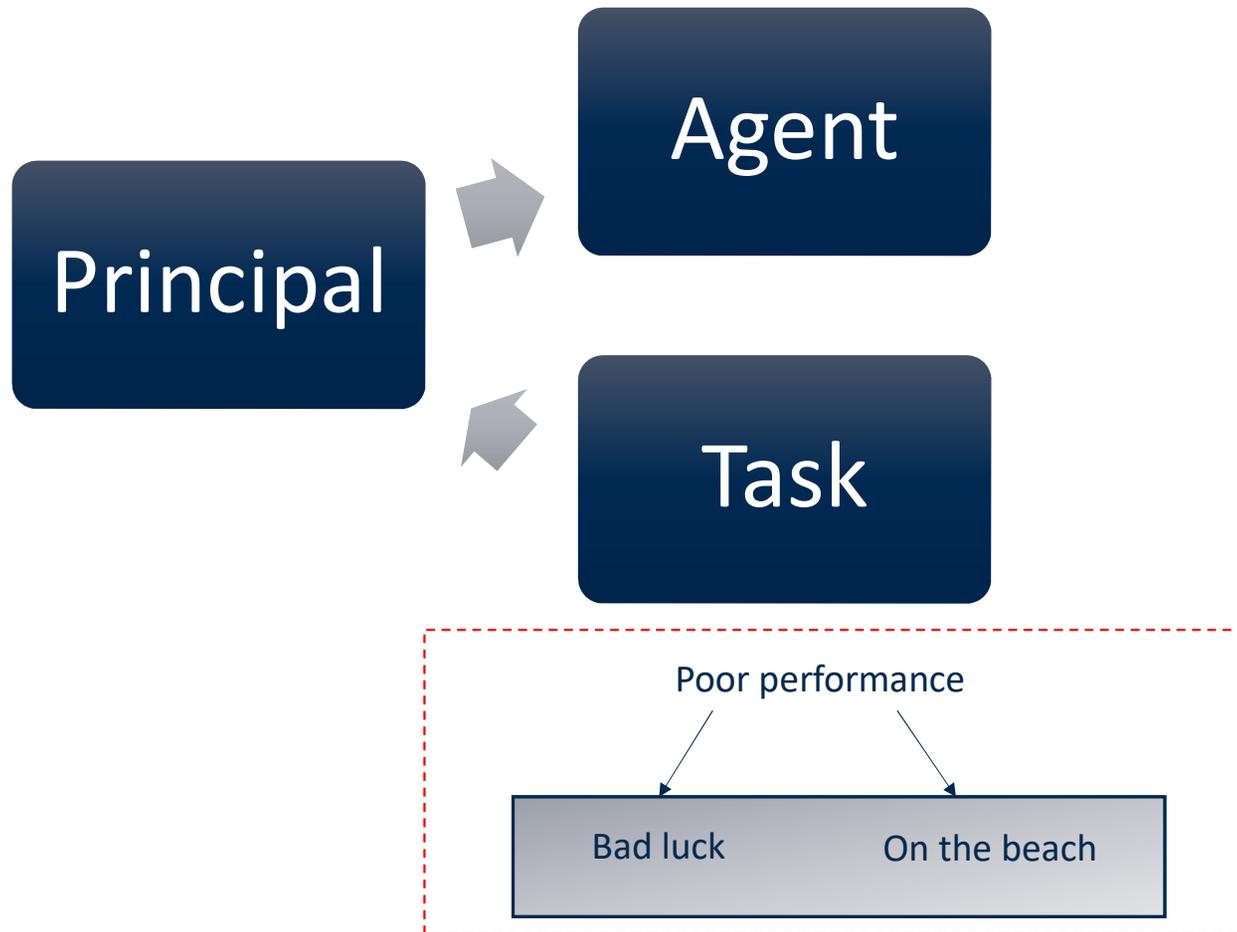
Example: Working from home...what could possibly go wrong?



Example: Working from home...what could possibly go wrong?



Example: Working from home...what could possibly go wrong?



Example: Consequence of working from home

- More performance-based contracts.
Riskier?
More cautious consumers?
- More need to screen workers.
Returns to “soft” skills rise?
Harder for younger workers?
- More need for business process re-engineering.
Returns to well-run businesses rise?
Returns to commercial property fall?



Conclusion

- Policy has responded to unprecedented times, I view the current stance as appropriate, but risks are to the downside e.g. fear of ill-health ([Goolsbee/Syverson](#)) and unemployment.
- Future policy contingent on the longer run implications of the downturn and permanent adjustments required of the economy e.g. work patterns
- Words in the accompanying published note on QE and monetary financing.
- The Bank will act as necessary to deliver monetary and financial stability



Consumption spend to June 24th

