

Bank of England

Inflation Dynamics

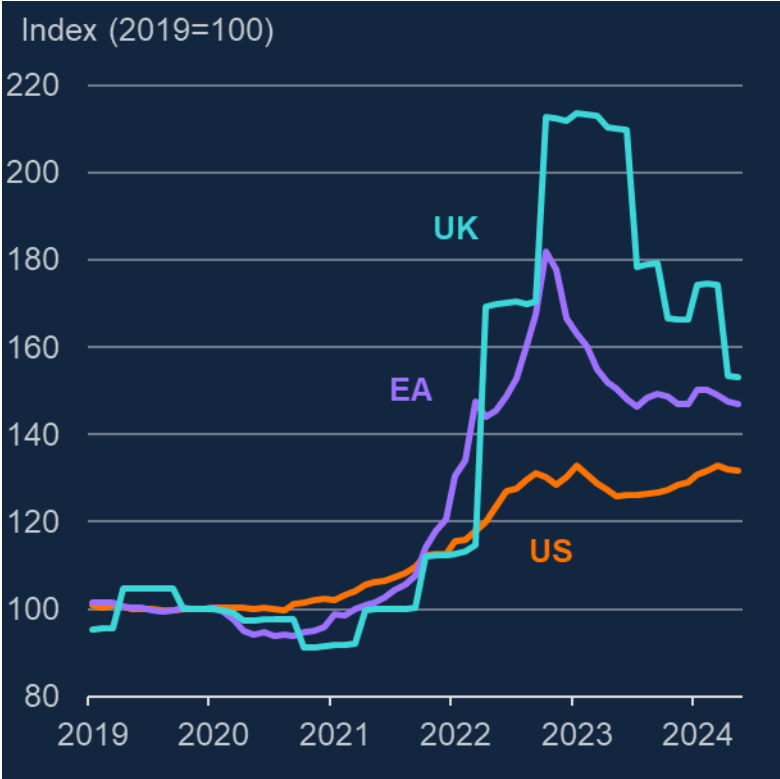
Bank of England Watchers
Conference, 25 November 2024

Swati Dhingra
External Member of the Monetary Policy Committee

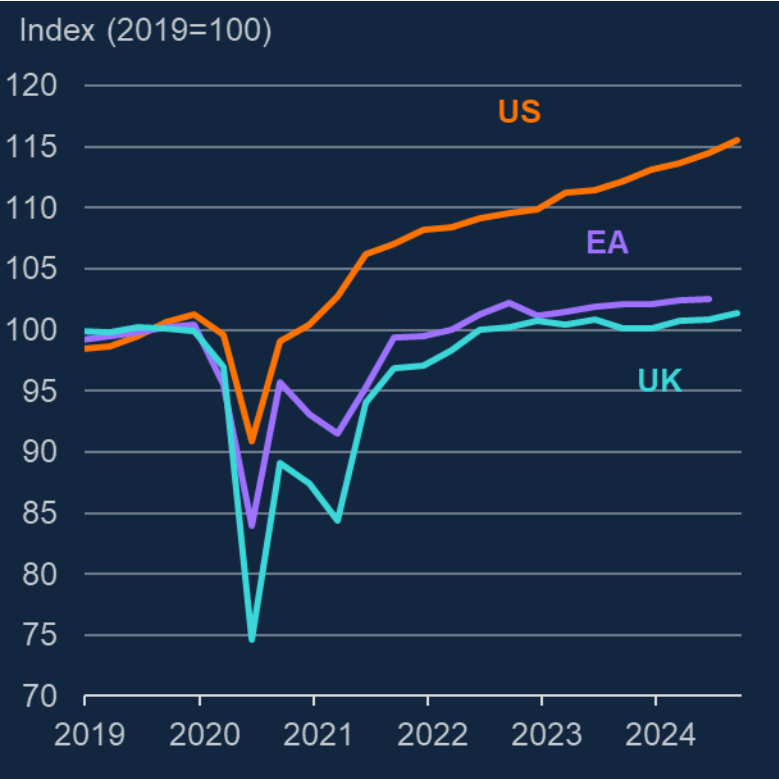


Shocks and adjustment to the pandemic differed across regions

Energy price shock



Consumption trends

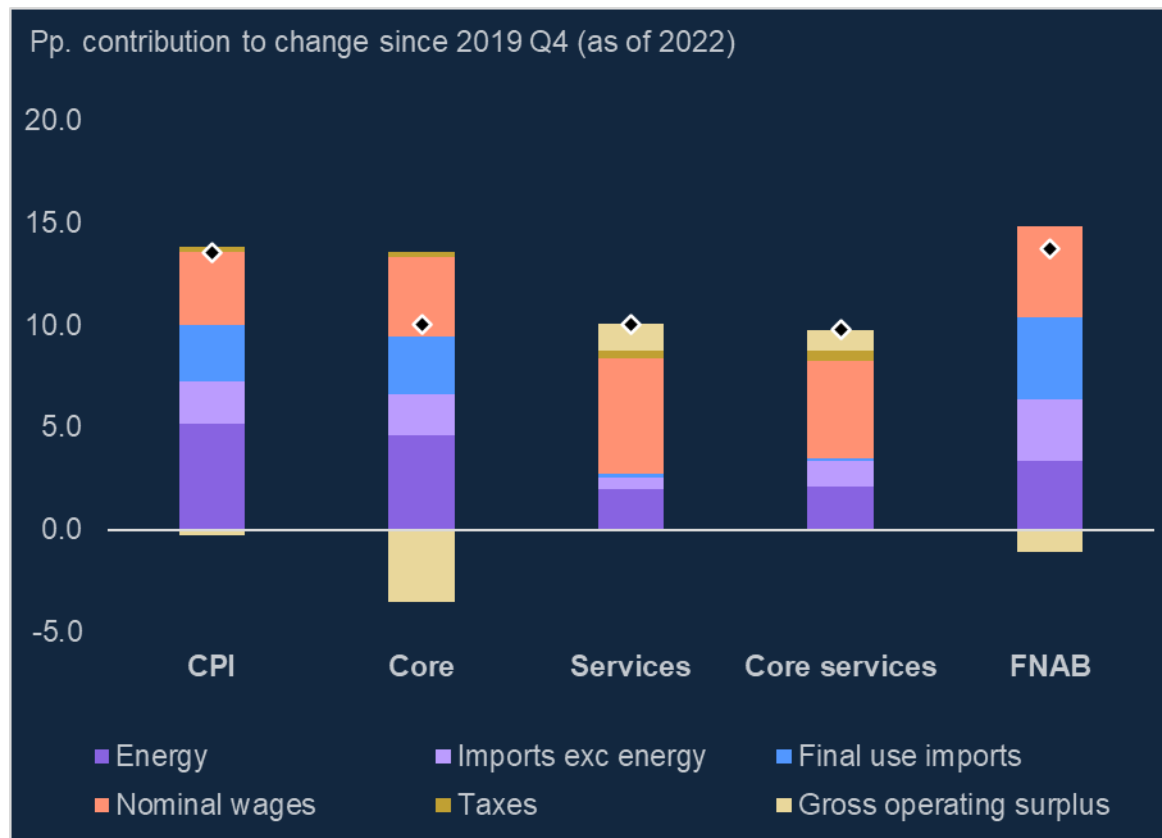
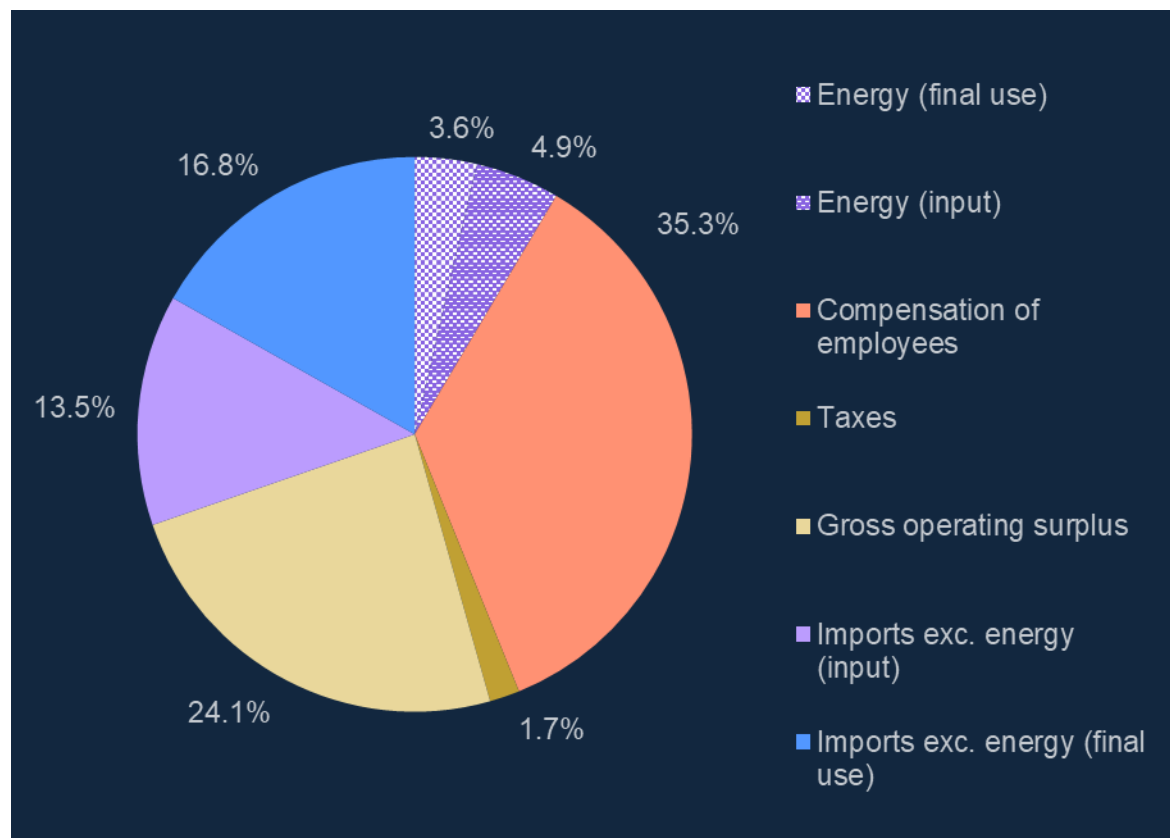


Labour market dynamics



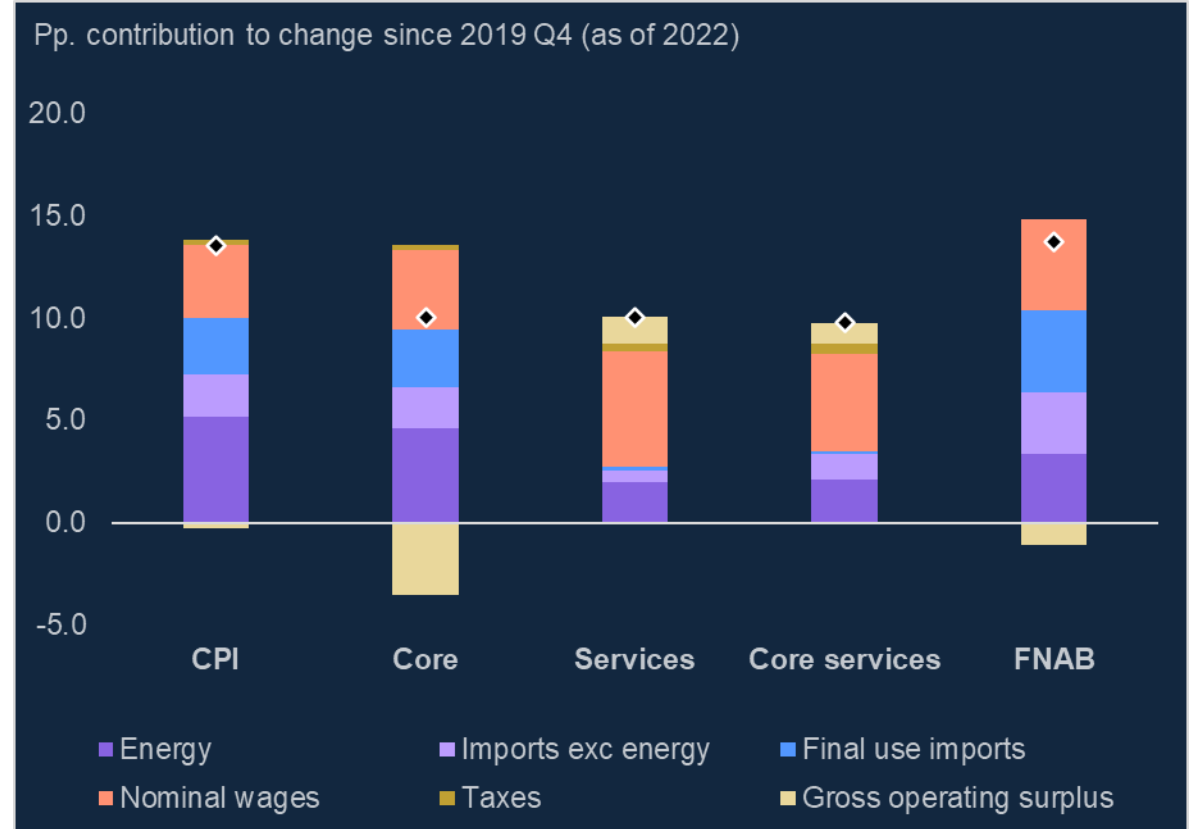
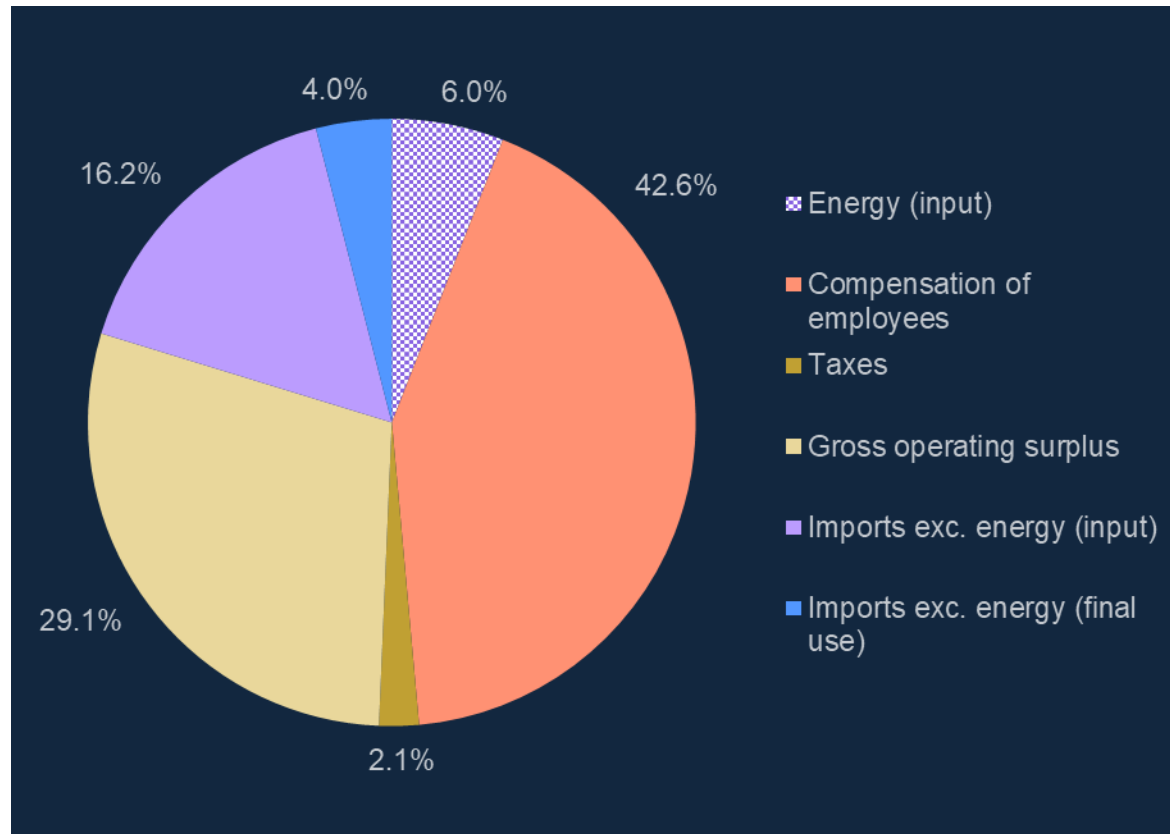
Huge terms of trade shock, 2022

- Underlying cost components and residual gross operating surplus (GOS) shares of consumption basket
- Compare energy's 8.5% share with 5.1% in the Euro Area
- Decomposing consumer price inflation and narrower price growth measures in terms of cost components and GOS
- Energy and imports contributed 10 of 13.5pp to CPI



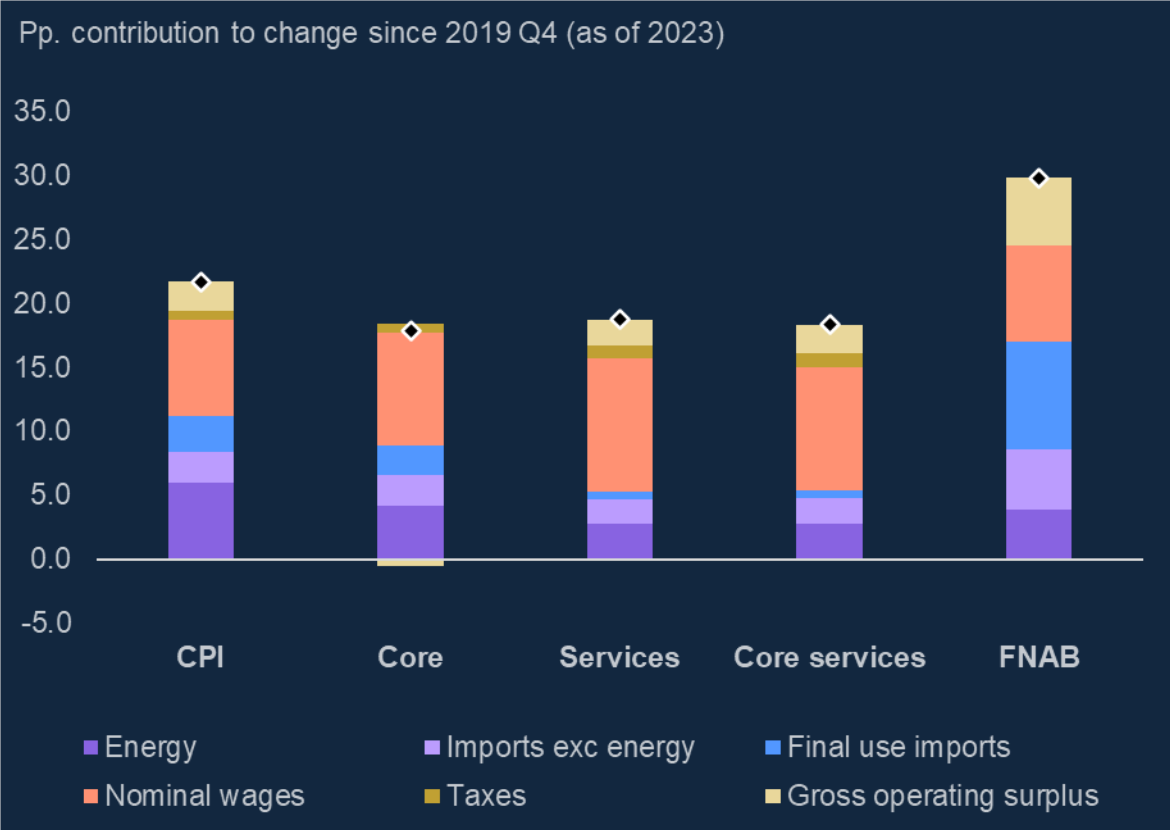
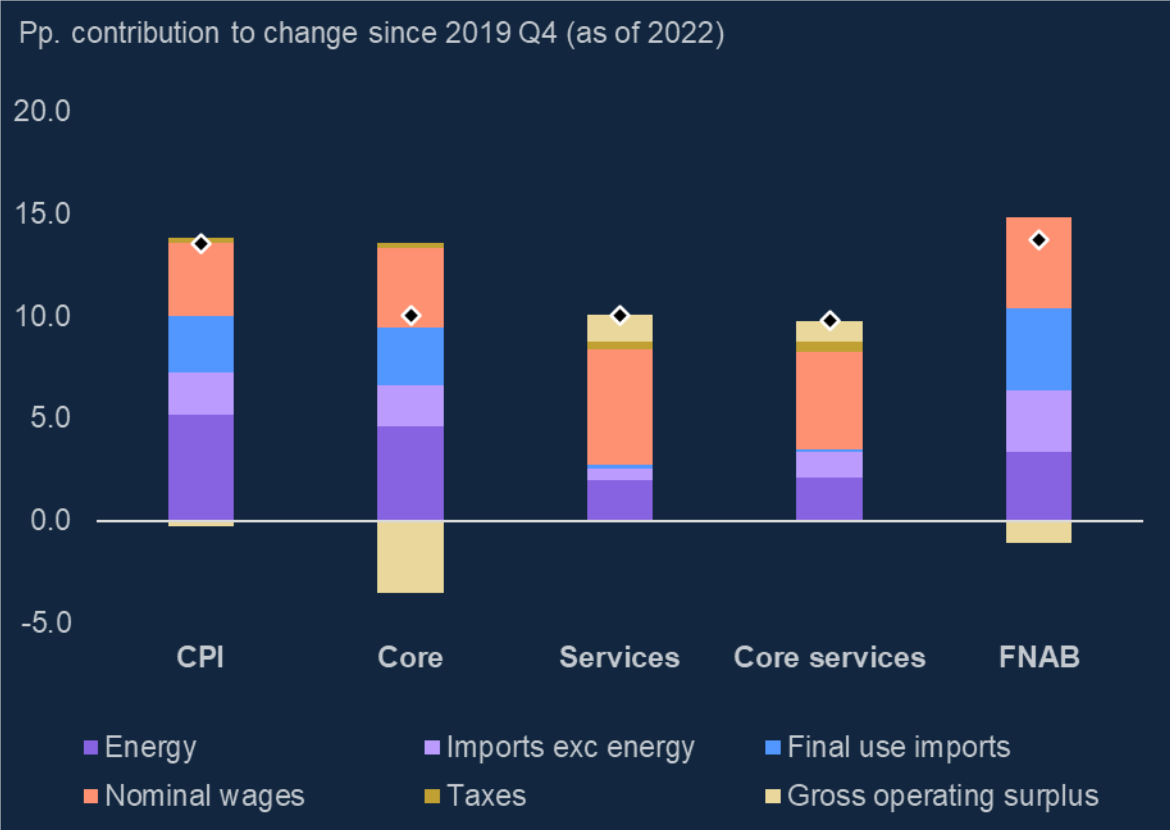
Huge terms of trade shock, 2022 – even in services excluding rent

- Underlying cost components and residual gross operating surplus (GOS) shares of services inflation excluding rent
- Compare energy's 6.0% share with 4.5% in the Euro Area
- Decomposing consumer price inflation and narrower price growth measures in terms of cost components and GOS
- Energy and imports contributed 2.8 of 10.1pp to Services



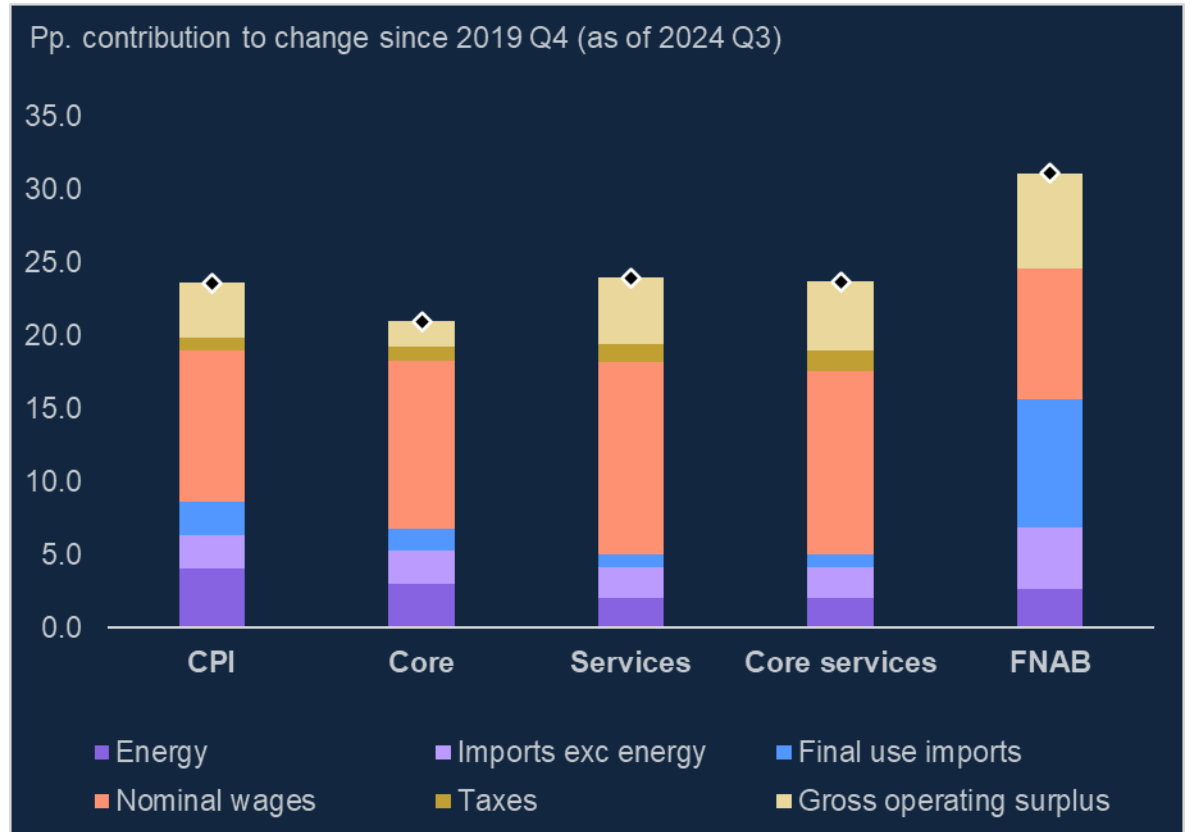
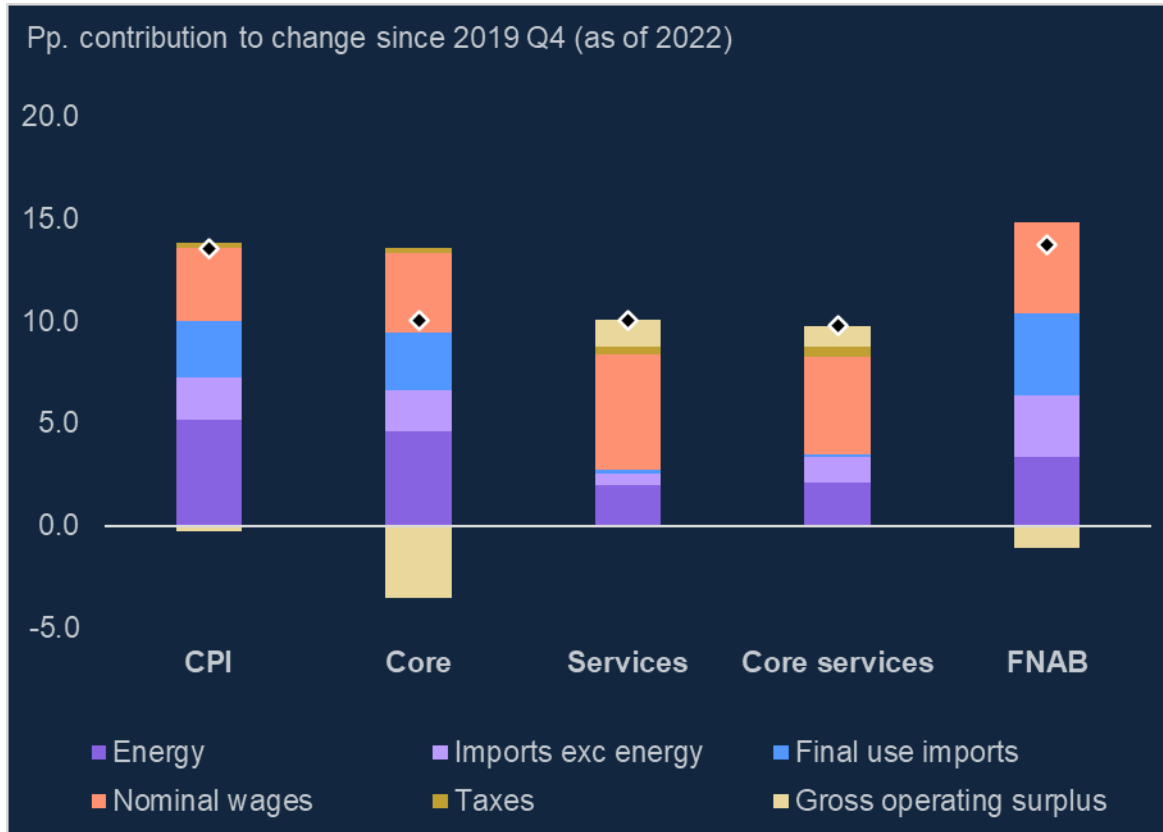
Huge terms of trade shock, 2023

- Decomposing consumer price inflation and narrower price growth measures in terms of cost components and GOS
- 2022 to the left and 2023 to the right
- Energy and imports contributed 10 of 13.5pp to CPI in 2022 and 11.2 of 21.7pp in 2023



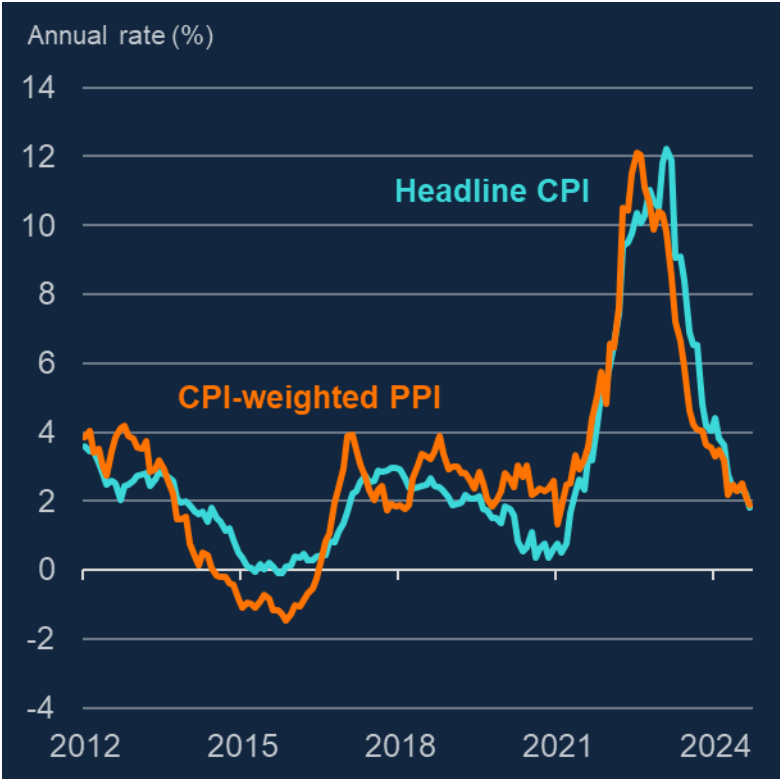
Huge terms of trade shock, 2024

- Decomposing consumer price inflation and narrower price growth measures in terms of cost components and GOS
- 2022 to the left and 2024 to the right
- Energy and imports contributed 10 of 13.5pp to CPI in 2022 and 11.2 of 21.7pp in 2023 and 8.6 of 23.7pp by 2024Q3

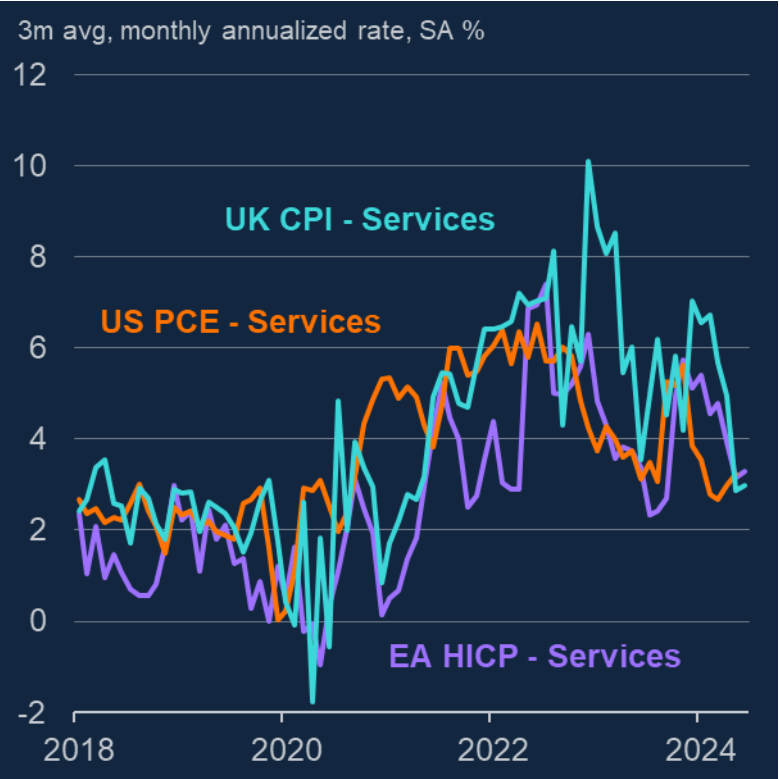


Waning pipeline cost pressures have accompanied headline disinflation, and services inflation is normalising slowly

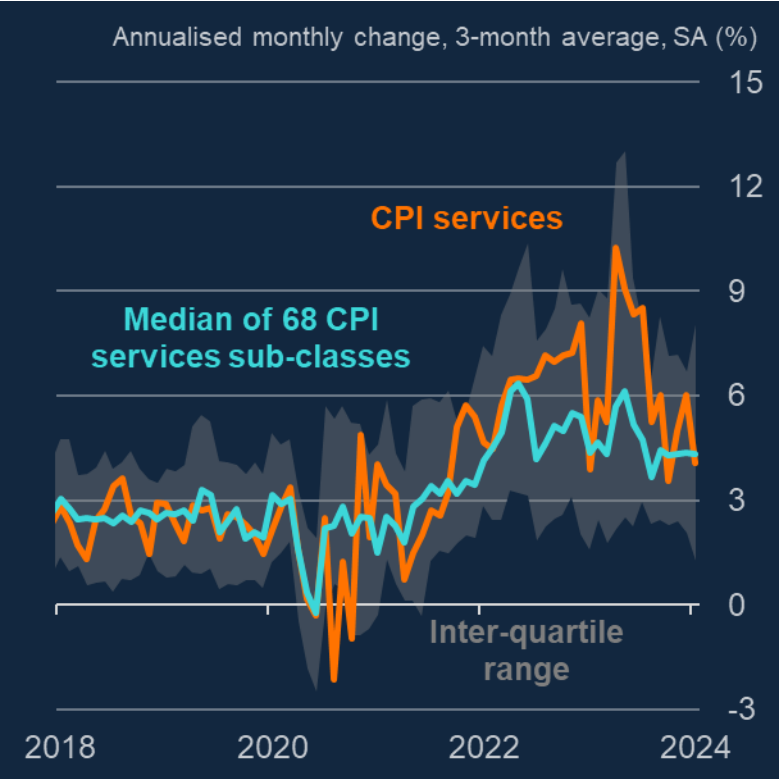
Supply chains



Services inflation



Sub-class dispersion



Risks to the outlook are uncertain and difficult to gauge



Restrictive policy

Higher rates and waning effects of pandemic support weigh on investment and living standards.



Geopolitical tensions

Escalating conflict or economic fragmentation could threaten to derail global disinflation.



Inadequate data

Monitoring the state of the economy in real time has been complicated by a lack of reliable data.

