



BANK OF ENGLAND

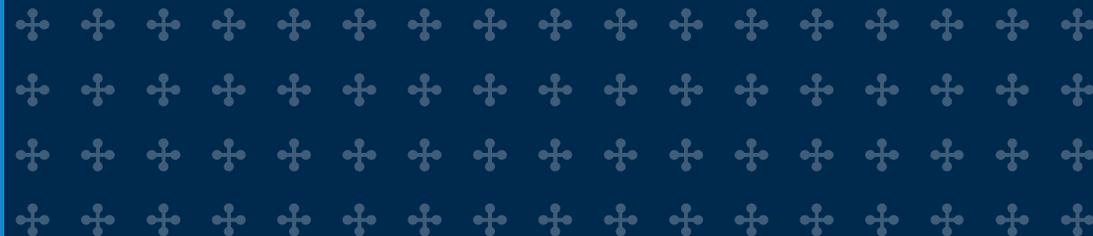
Our economy – the big issues now

for Nottingham Insurance Institute

10 September 2019

Rosie Smith

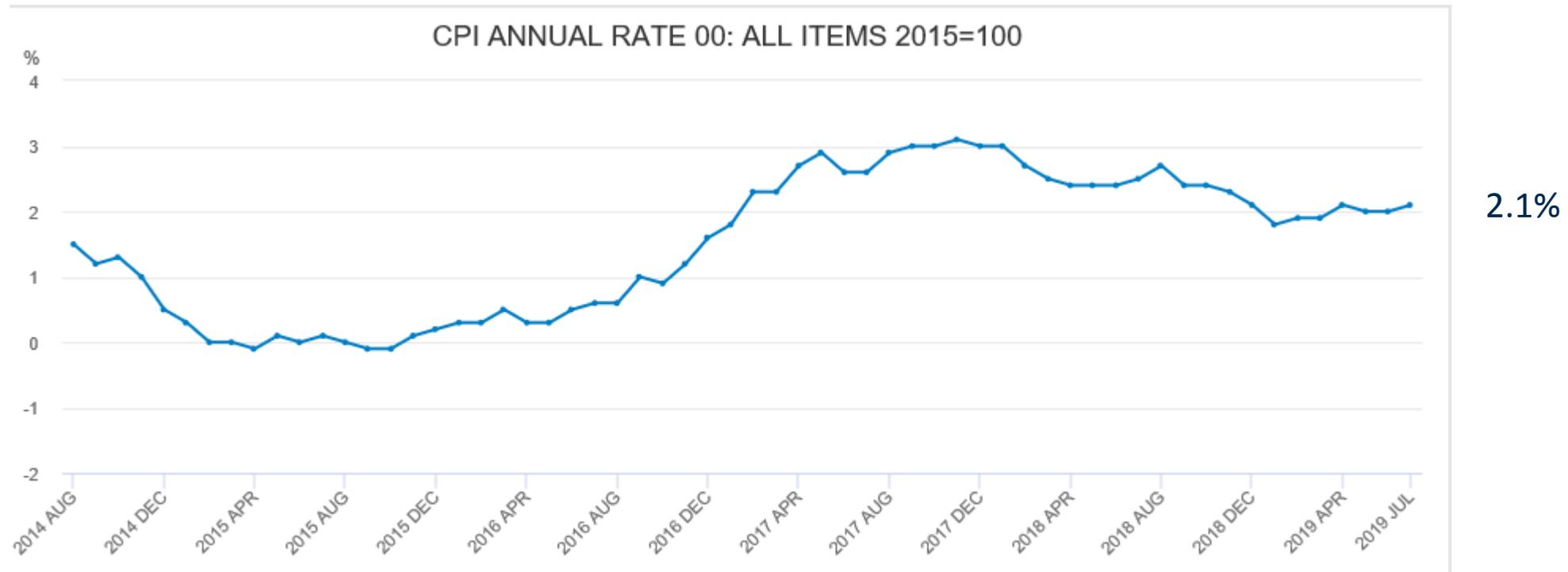
East Midlands Agent



The UK economy is currently close to equilibrium



Inflation is close to target



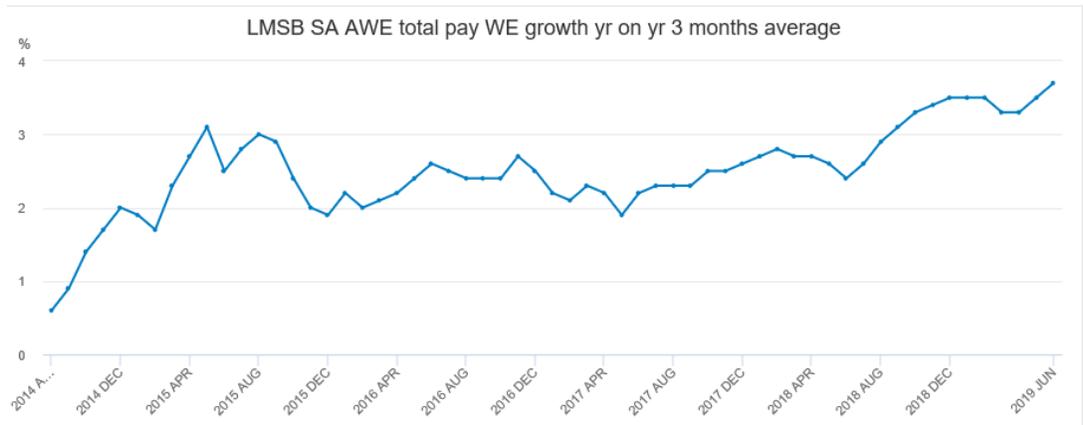
Source: ONS

Unemployment is probably a little below equilibrium, with pay recovering



3.9%

- Unemployment at historic lows



3.7%

- Pay rising above inflation

Source: ONS

There are two large, volatile forces that could push the UK economy far from balance



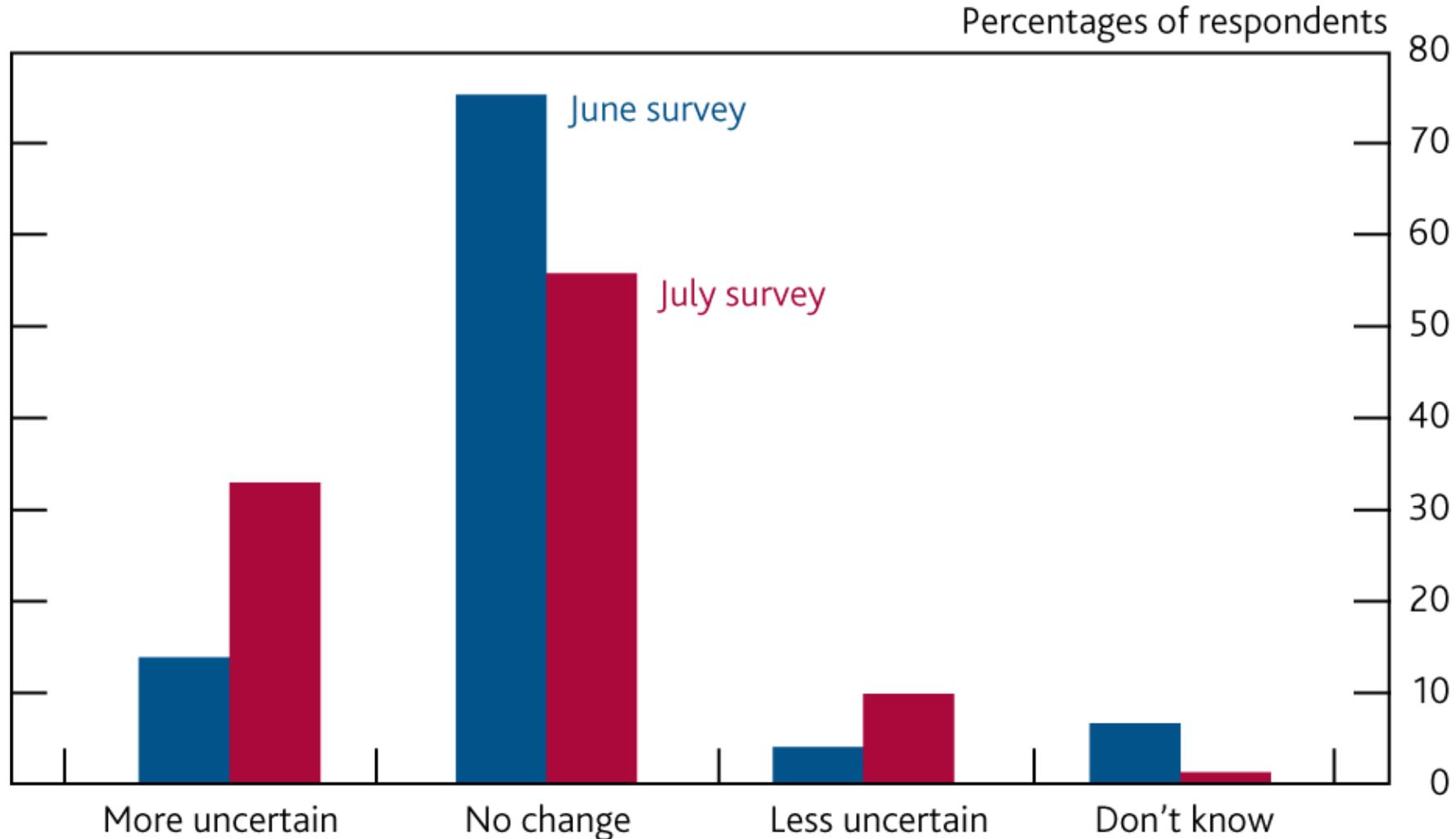
Intensification of
Brexit uncertainties



Weaker global
activity

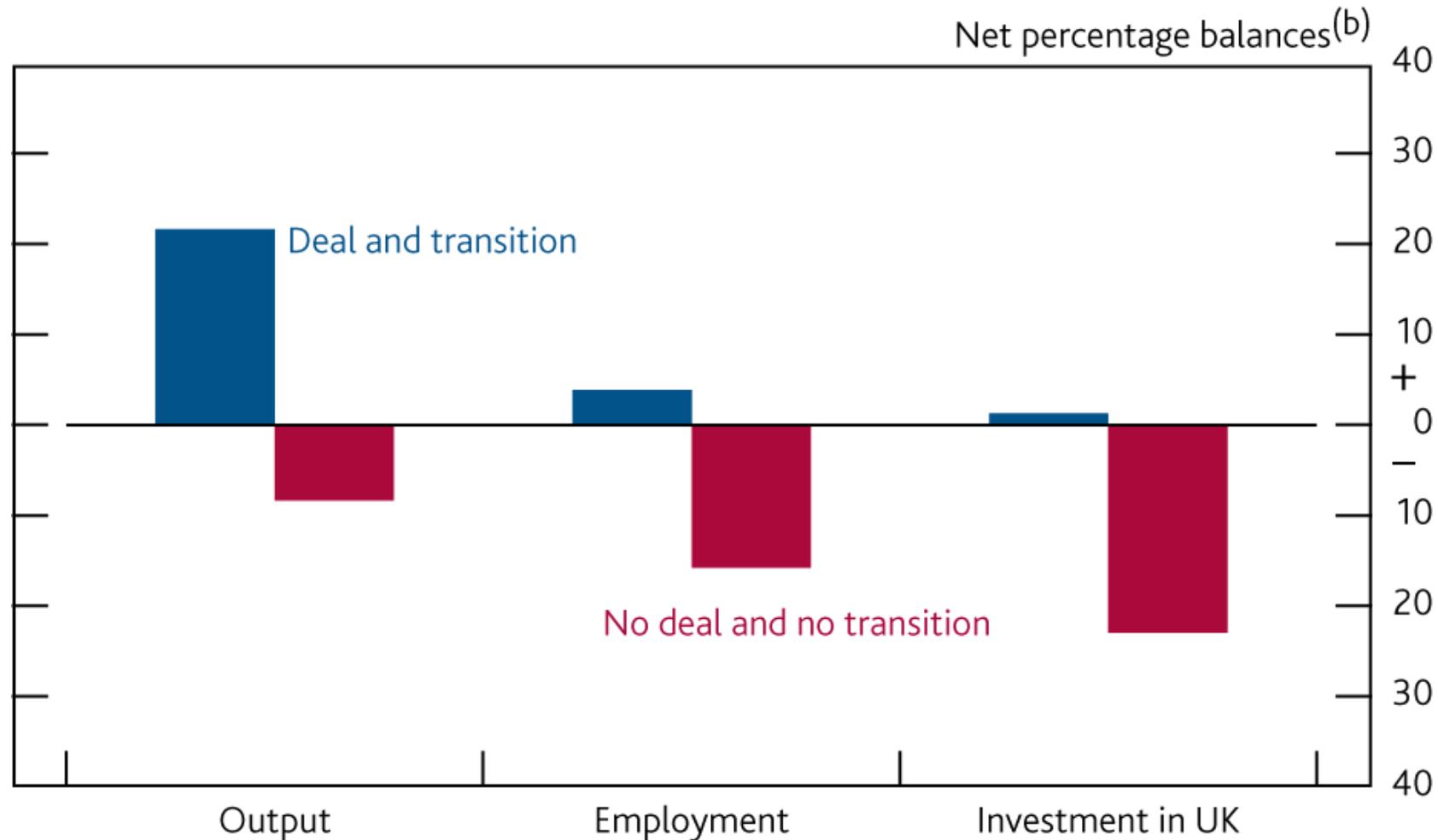
Companies speaking to the Bank's Agents are more uncertain about the outlook

Change in uncertainty since the Brexit deadline extension^(a)



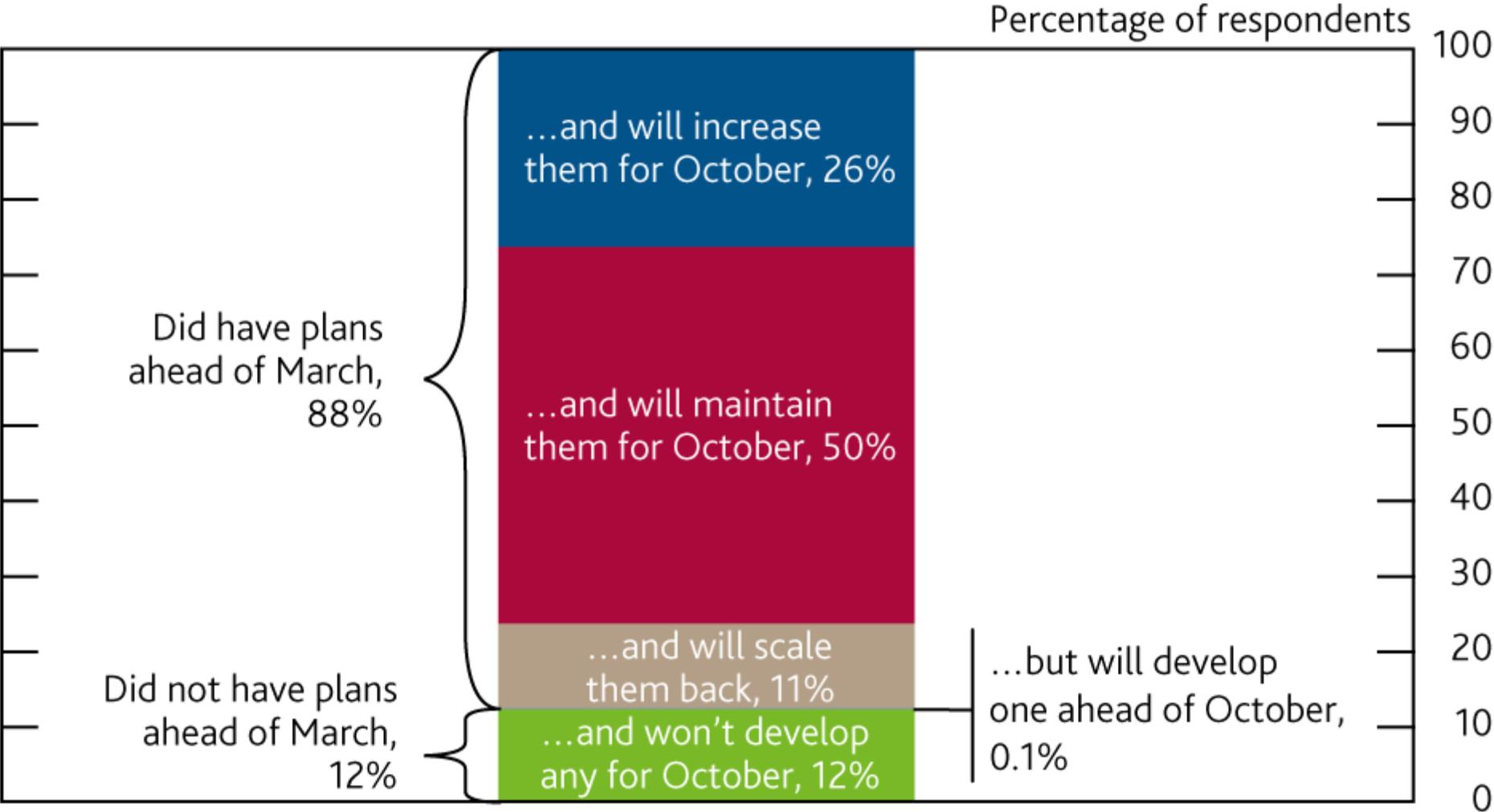
Companies speaking to the Bank's Agents expect output, employment and investment to be much lower in a no-deal Brexit

Expectations for the effect of Brexit^(a)



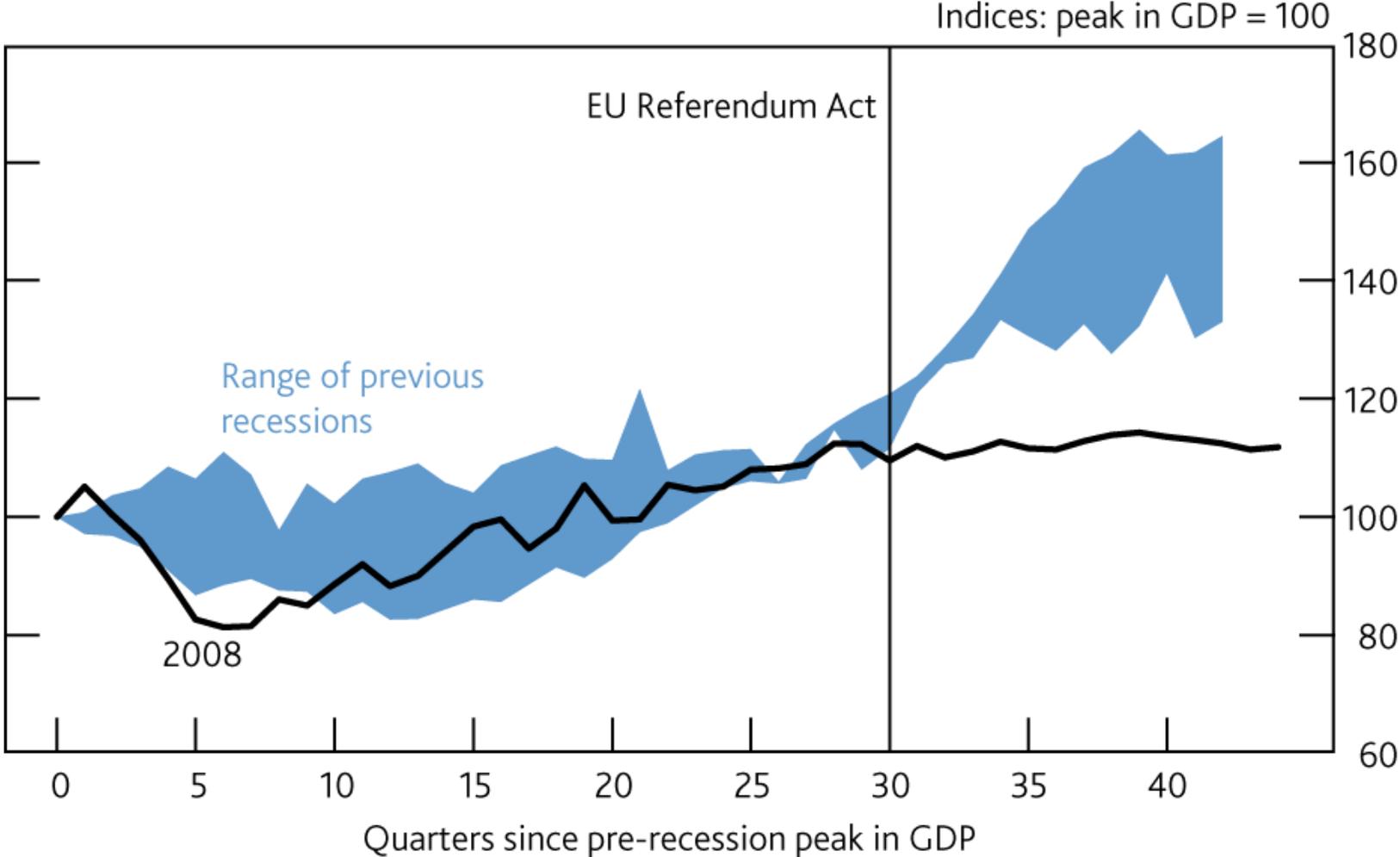
Most companies speaking to the Bank's Agents have contingency plans for Brexit

Brexit contingency plans^(a)



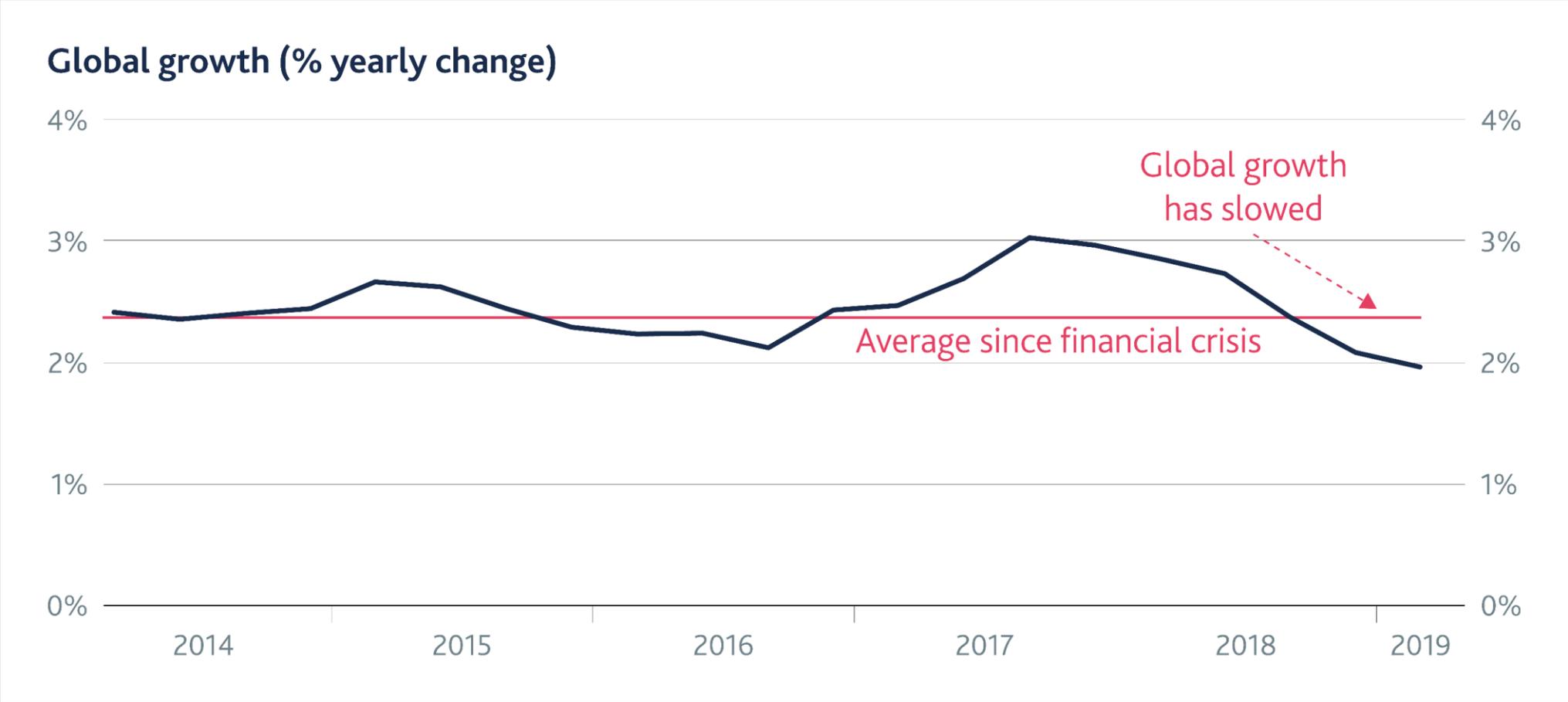
Business investment has stalled since the referendum

Business investment after previous recessions^(a)



Sources: ONS and Bank calculations.

Global growth is slowing



Trade tensions are expected to have a modest direct effect on GDP, but the indirect effects could be larger

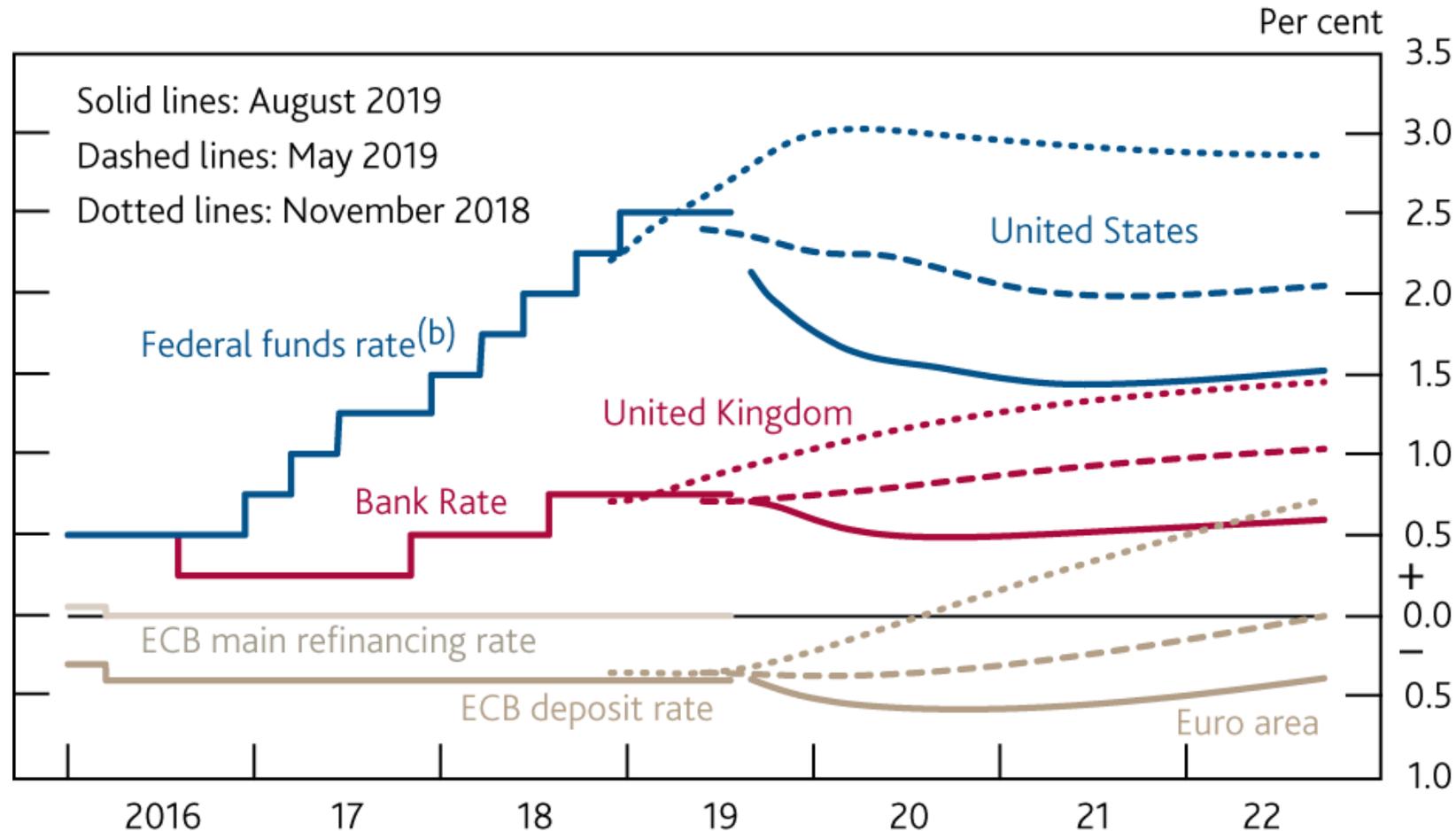
Estimated impacts on the levels of GDP^(a)

Per cent

	Direct effect of tariffs implemented to date ^(b)	Effect of severe shock to business confidence in US and China
US	-0.5	-1.8
China ^(c)	-0.4	-1.8
Euro area	-0.2	-0.7
UK	-0.1	-0.7
World (PPP-weighted)	-0.2	-0.9

Market-implied paths for interest rates have fallen since November

International forward interest rates^(a)



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

The UK economy could follow multiple possible paths, depending upon how Brexit progresses.



There are material implications for monetary policy (the outlook for interest rates & quantitative easing).



1. Potential outcome from No Deal Brexit

- £ would probably fall
 - Inflation would then rise
 - Demand would weaken due to
 - *Lost trade access*
 - *Heightened uncertainty*
 - *Tighter financial conditions*
- &
- A large immediate hit to supply



Monetary policy response would depend on the balance of these effects on medium term inflationary pressures

2. Potential outcome from a prolonged period of uncertainty

- Growth remaining below potential
- Domestic inflation relatively softer
- Imported inflation if £ stays weak



Monetary Policy
Committee would need
to weigh opposing forces
when setting interest
rates

3. Potential outcome from a deal

As details of the future relationship emerge:

- Business investment recovers
- Household spending picks up
- Excess demand emerges
- Inflationary pressures build





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Questions & comments please

Rosie Smith

East Midlands Agent

