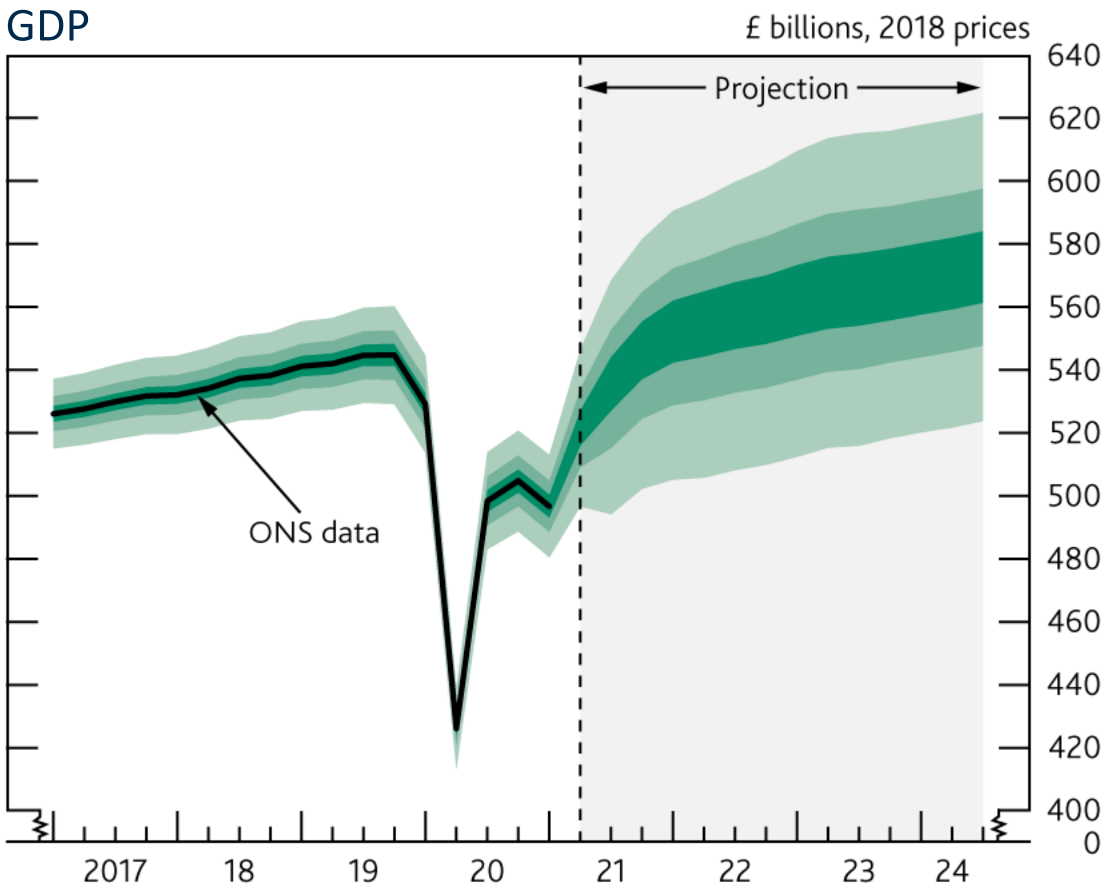
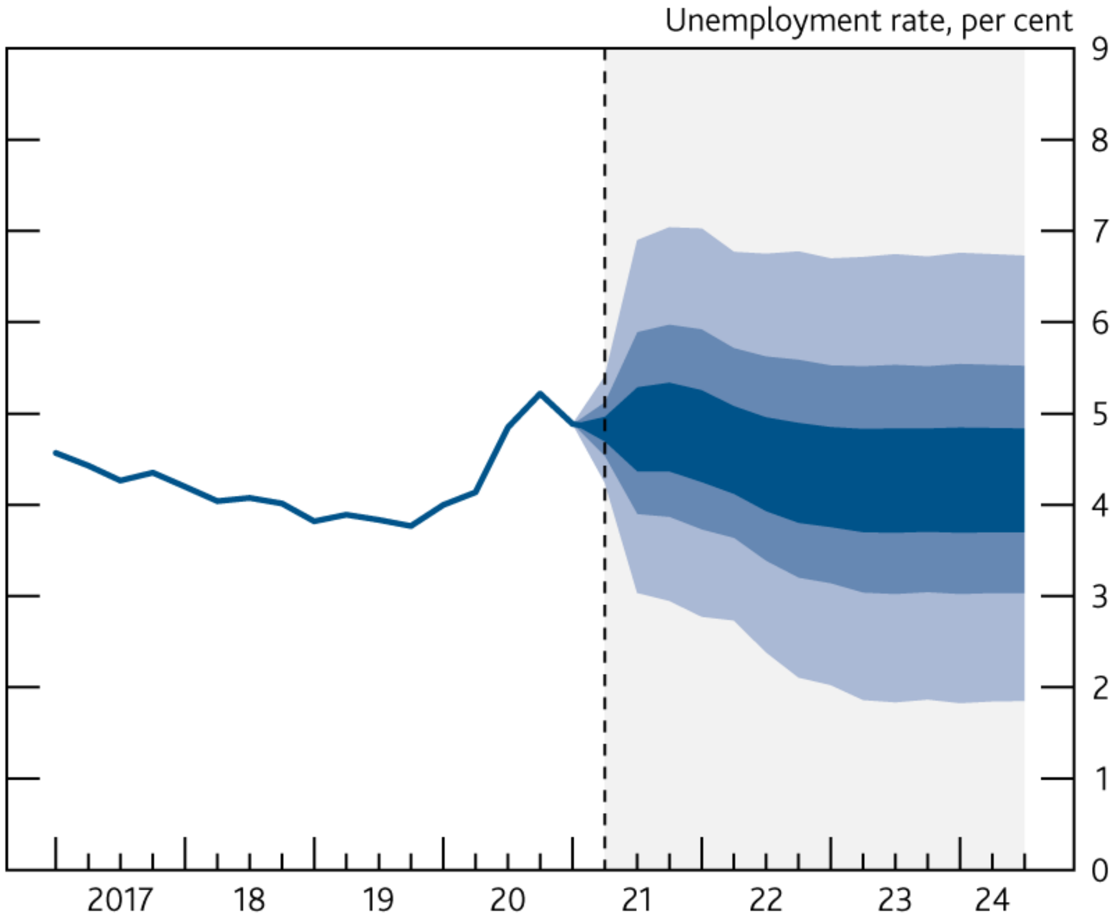
BANK OF ENGLAND

Economic Update

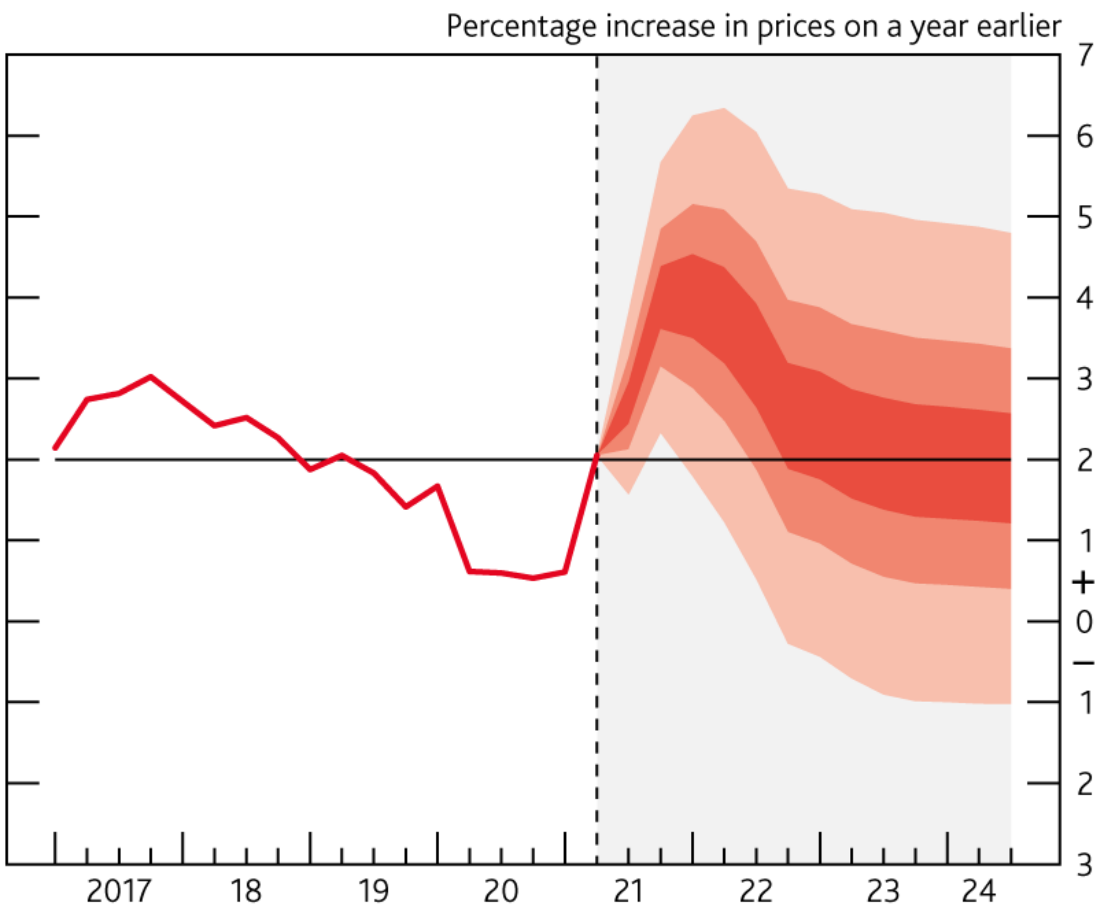
Paul Mount
Yorkshire and the Humber Agency

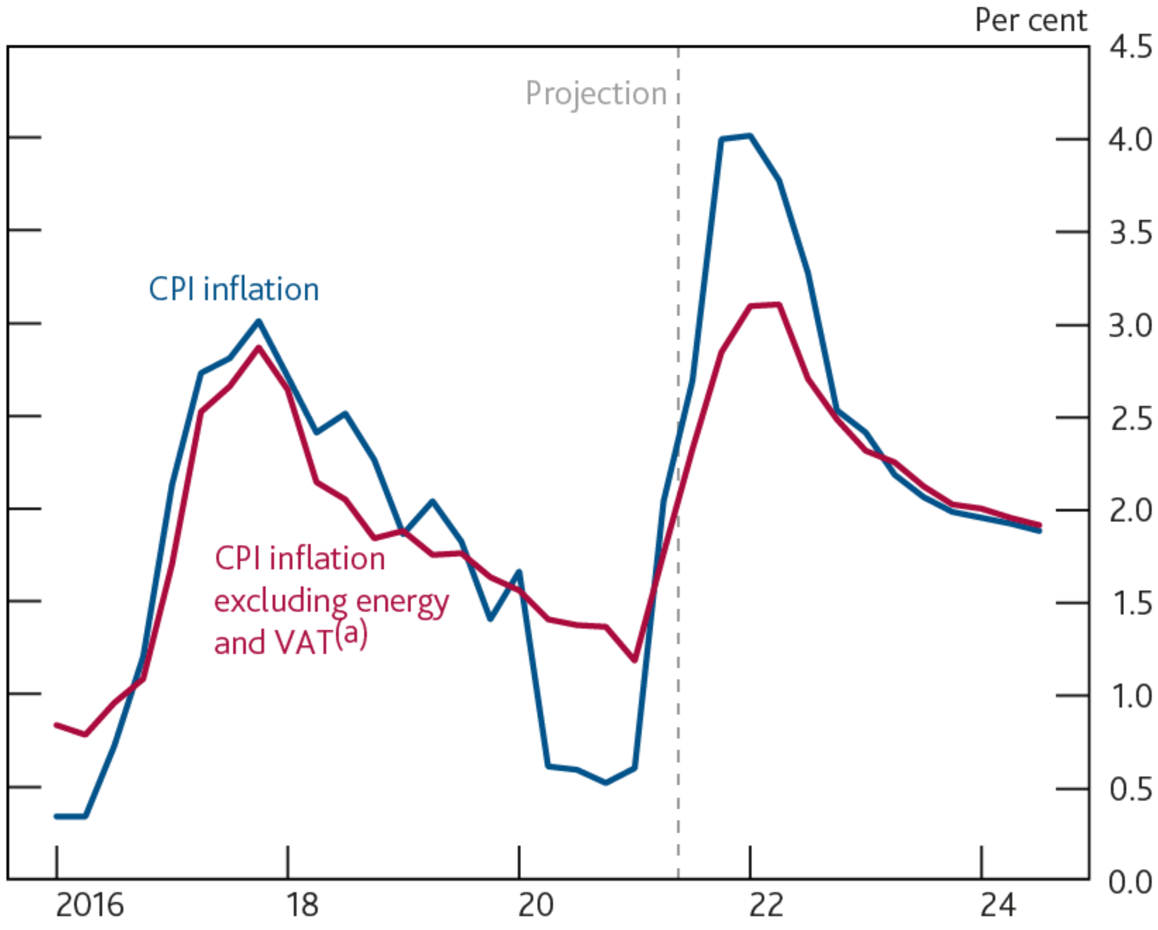
Outlook for GDP and Unemployment





Outlook for inflation





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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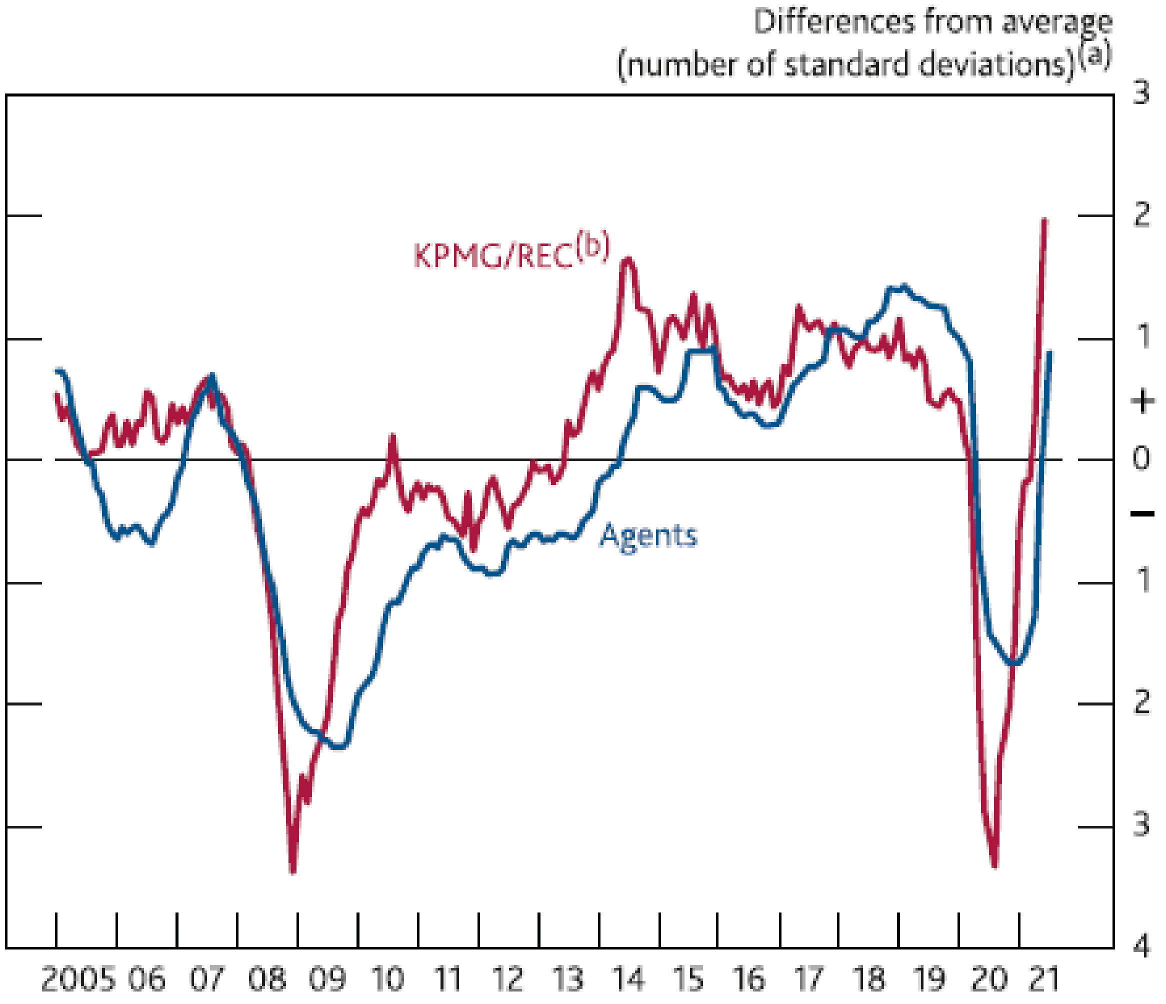
....and why should it be temporary?

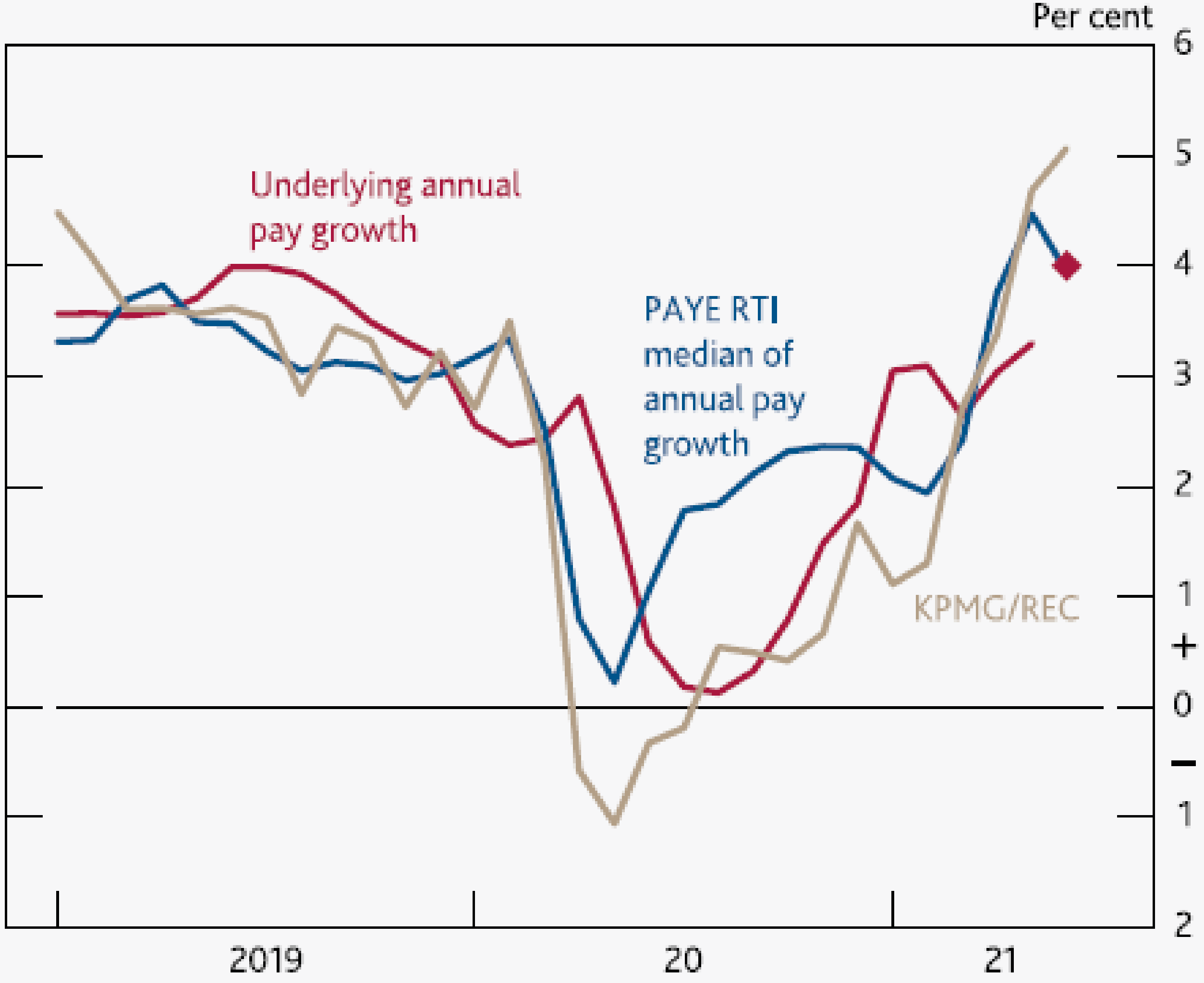
- Many commodity prices beginning to edge down and markets placing weight on lower prices from here, particularly for shipping costs
- Supply coming on-stream soon in capacity constrained sectors such as semiconductors. Pressure on UK import prices likely to ease
- Extent of fall back depends on demand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

Labour Market Uncertainty

Indicators of recruitment difficulties



Indicators of pay growth(a)



Monetary policy

Policy was unchanged at the August meeting

- Bank Rate of 0.1%
- Target stock of asset purchases (QE) of £895bn

MPC guidance updated

- 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