



BANK OF ENGLAND

Monetary Policy Report May 2021

Scotland Agency

Will Dowson, Agent for Scotland
Iain Duff, Deputy Agent for Scotland

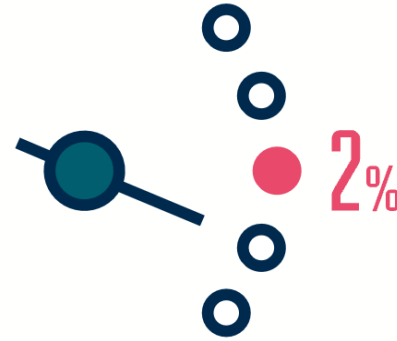




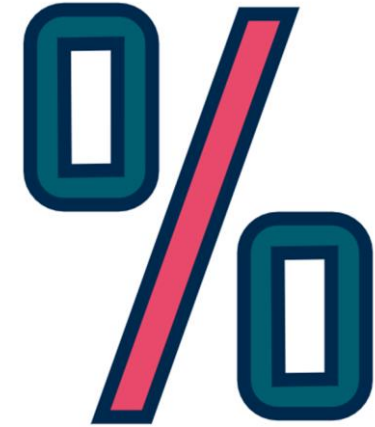
Covid weighed on activity at the start of the year



Vaccines are now helping the UK economy recover rapidly



Inflation is below our target, but we expect it to rise to around the target this year



We are keeping interest rates low to support households and businesses

.....

.....

.....

.....

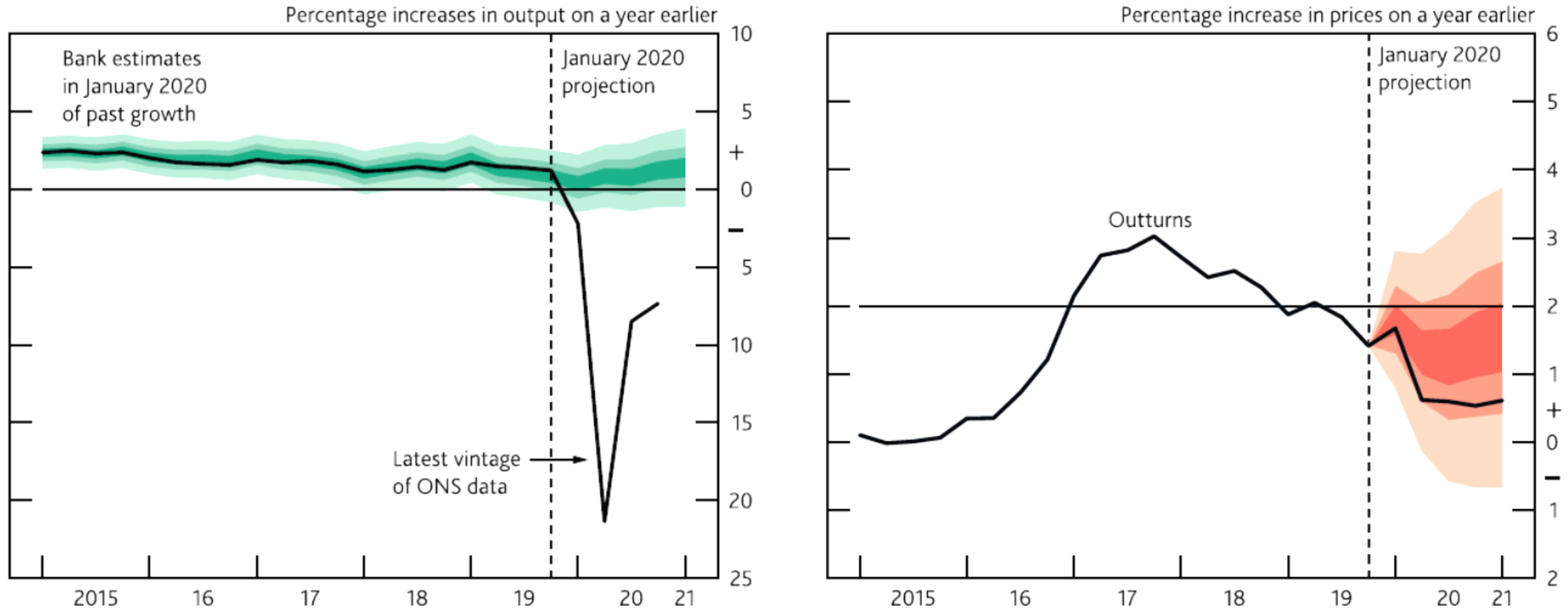
.....

.....



Reflecting the impact of Covid, GDP growth and CPI inflation were lower than in the MPC's January 2020 projections

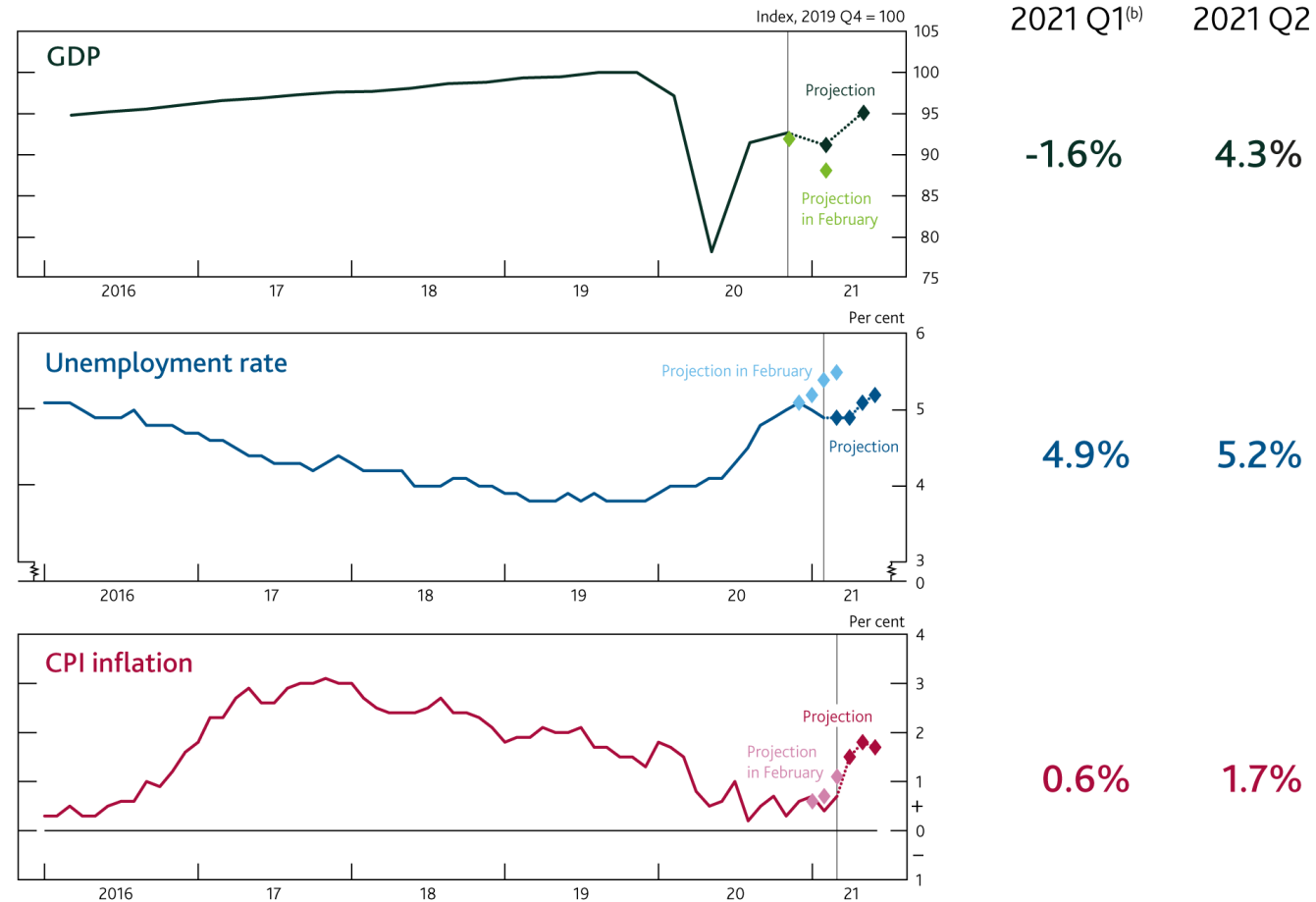
GDP and CPI inflation outturns and projections in the January 2020 *Report*^(a)



Sources: ONS and Bank calculations.

GDP is expected to increase in 2021 Q2; unemployment is expected to rise a little; and inflation is expected to rise closer to the target

Near-term projections^(a)

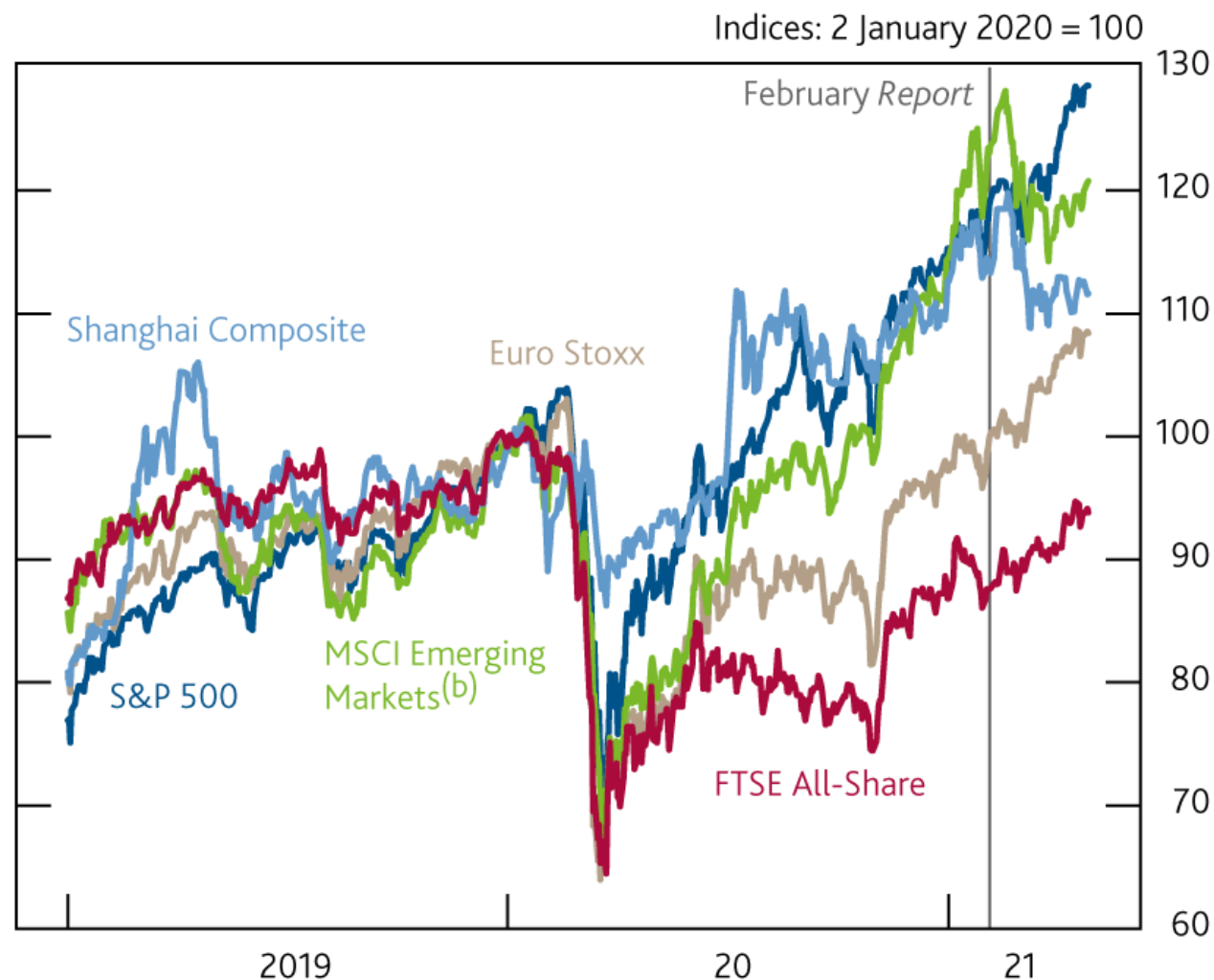


Sources: ONS and Bank calculations.



Advanced-economy equity prices have risen further since the *February Report*

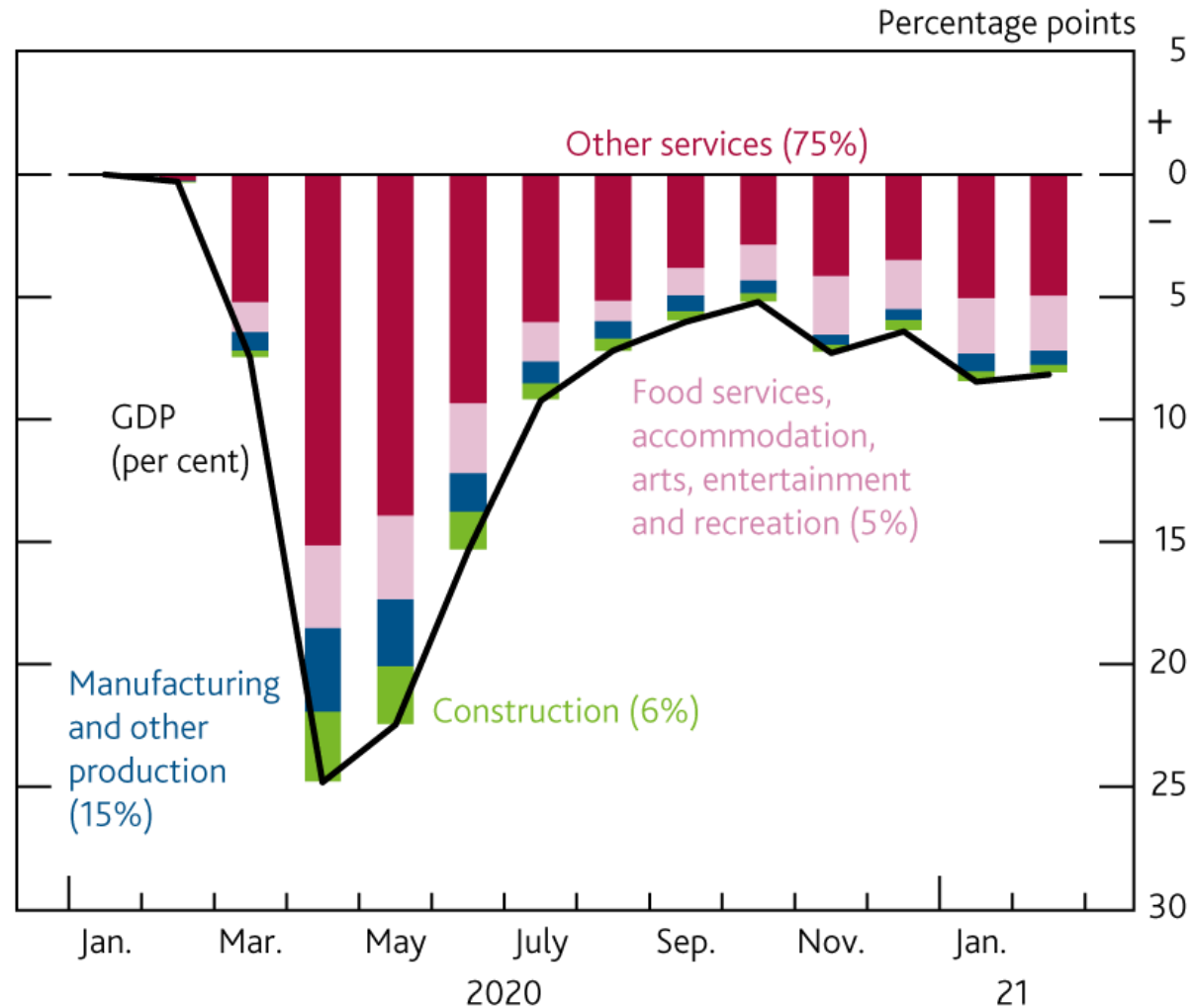
International equity prices^(a)



Sources: MSCI, Refinitiv Eikon from LSEG and Bank calculations.

GDP fell in January, largely due to weaker services output, and only recovered a little in February

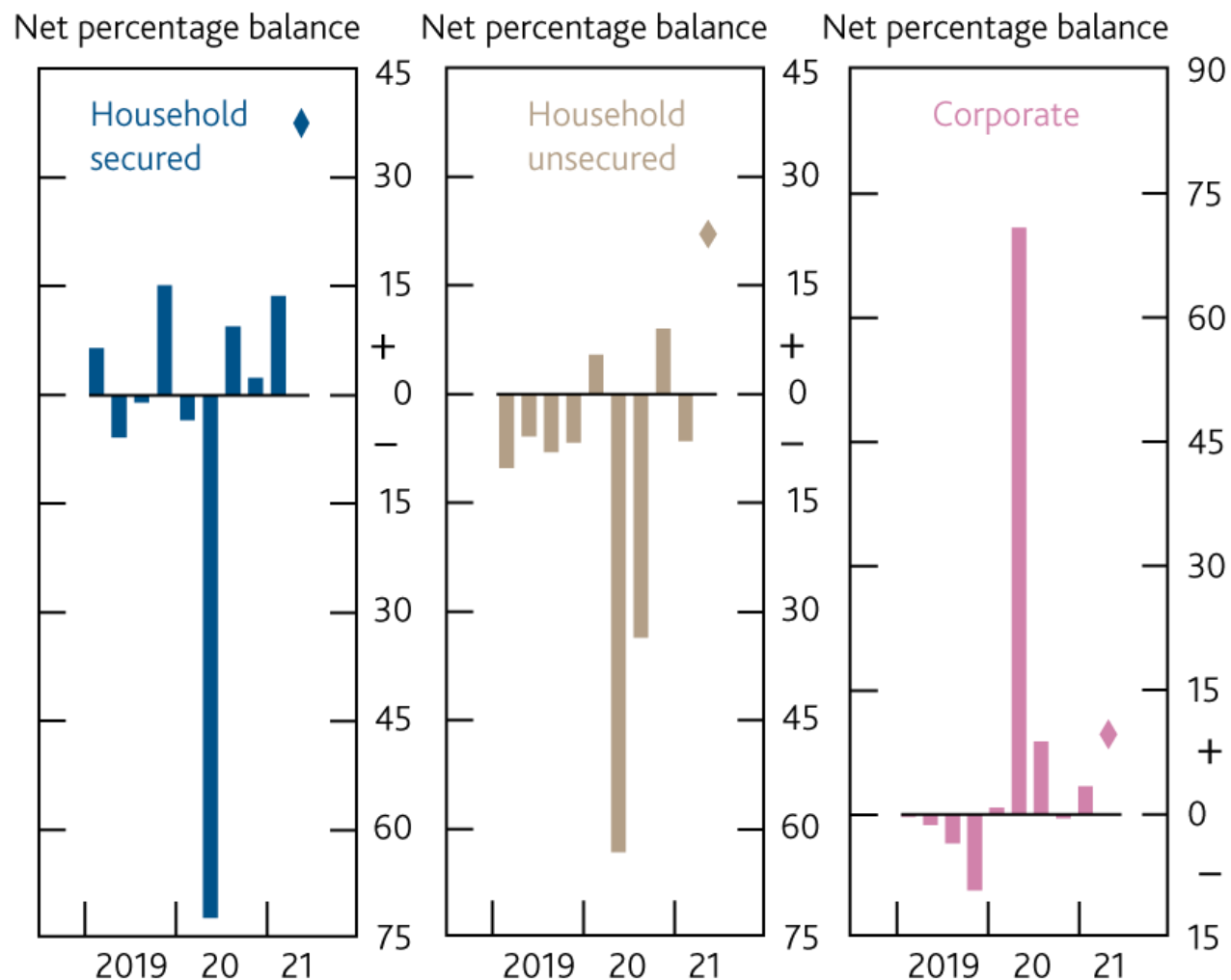
Contributions to change in monthly GDP since January 2020^(a)



Sources: ONS and Bank calculations.

Lenders expect an increase in household and corporate credit availability in Q2

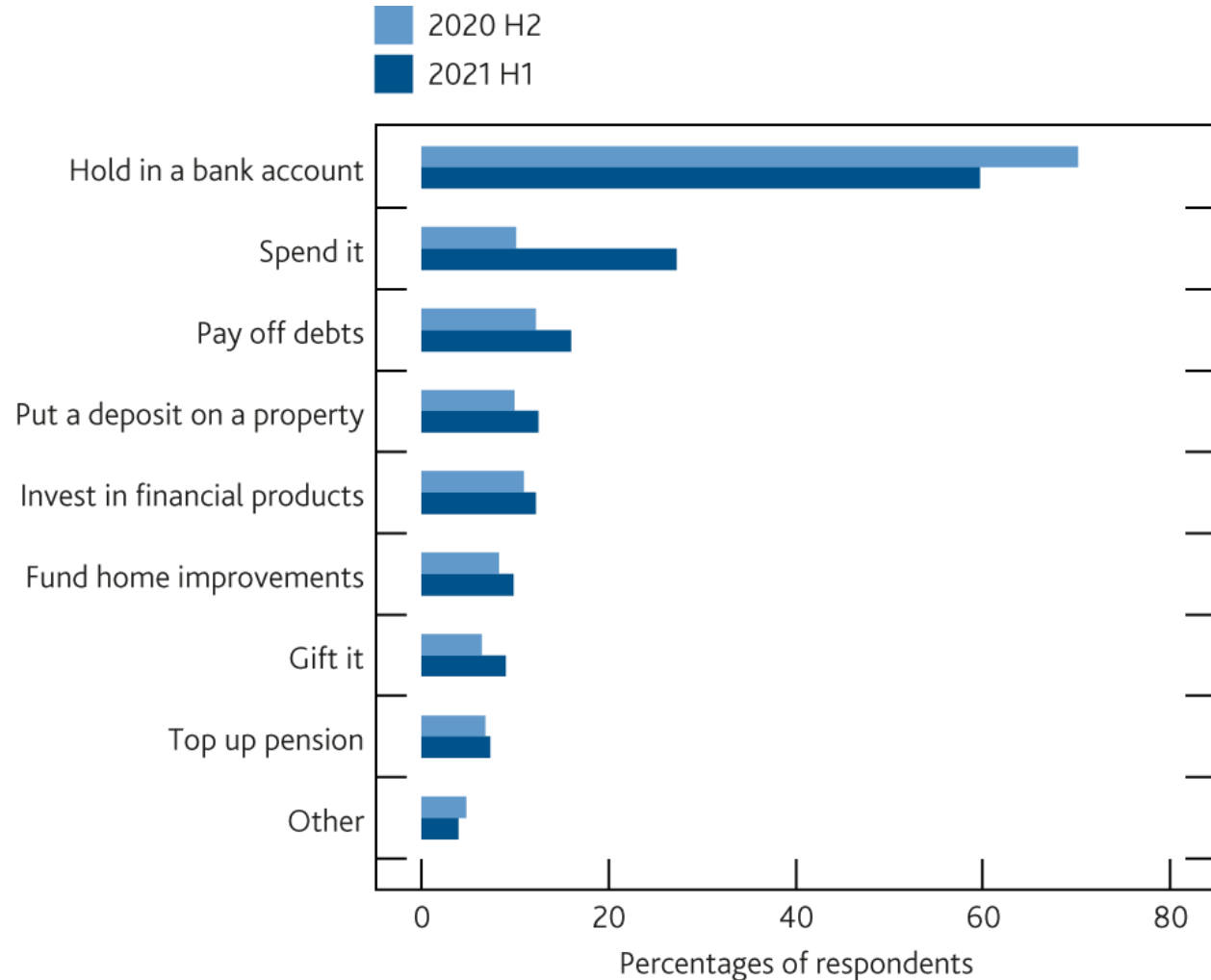
Household and corporate credit availability^(a)



Source: Bank of England Credit Conditions Survey.

Of the households that have increased their savings, around a quarter say they will spend at least some part

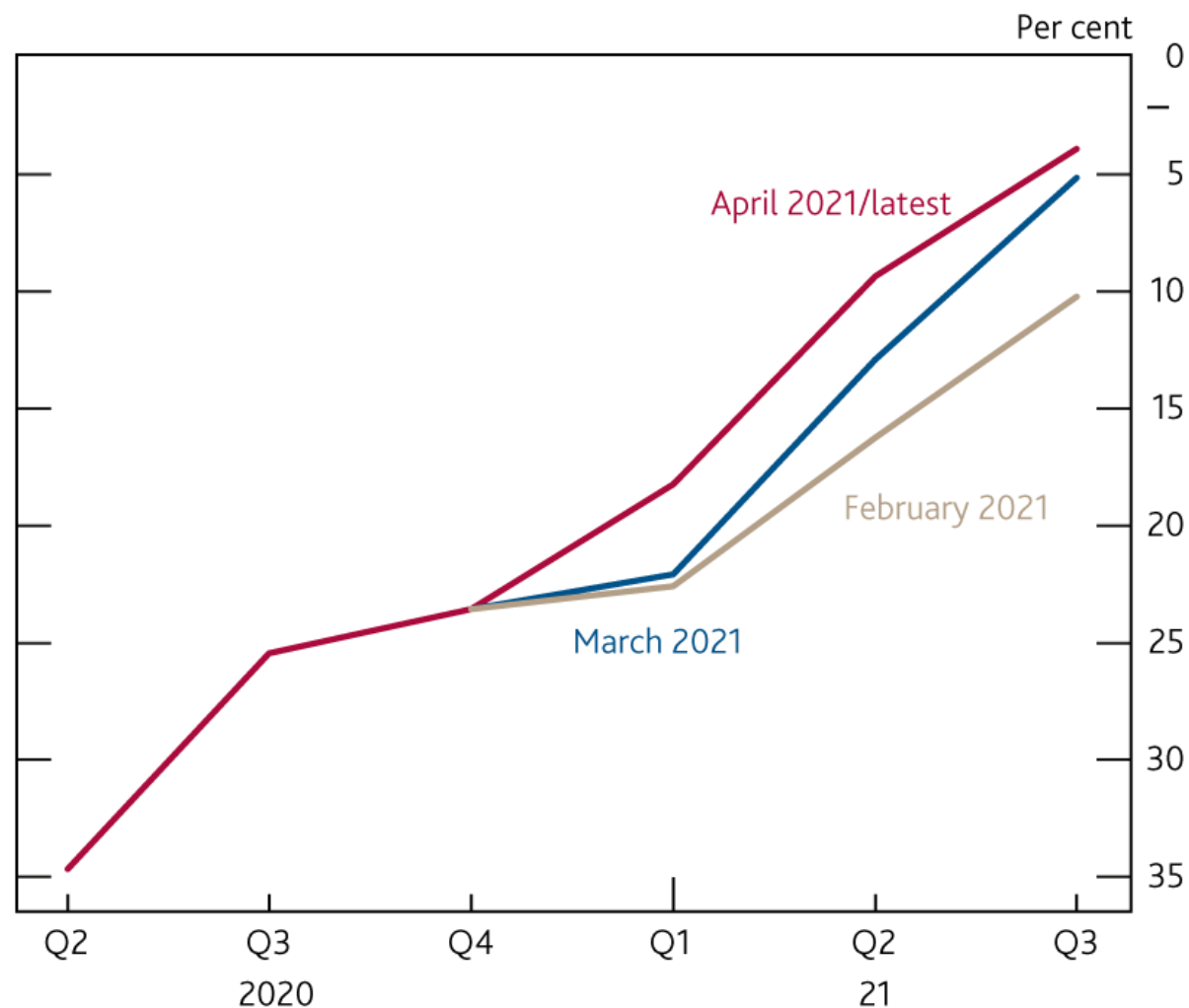
Planned use of funds among households with increased savings^(a)



Sources: NMG Consulting and Bank calculations..

Firms expect Covid to continue to weigh on investment, but by less than previously thought

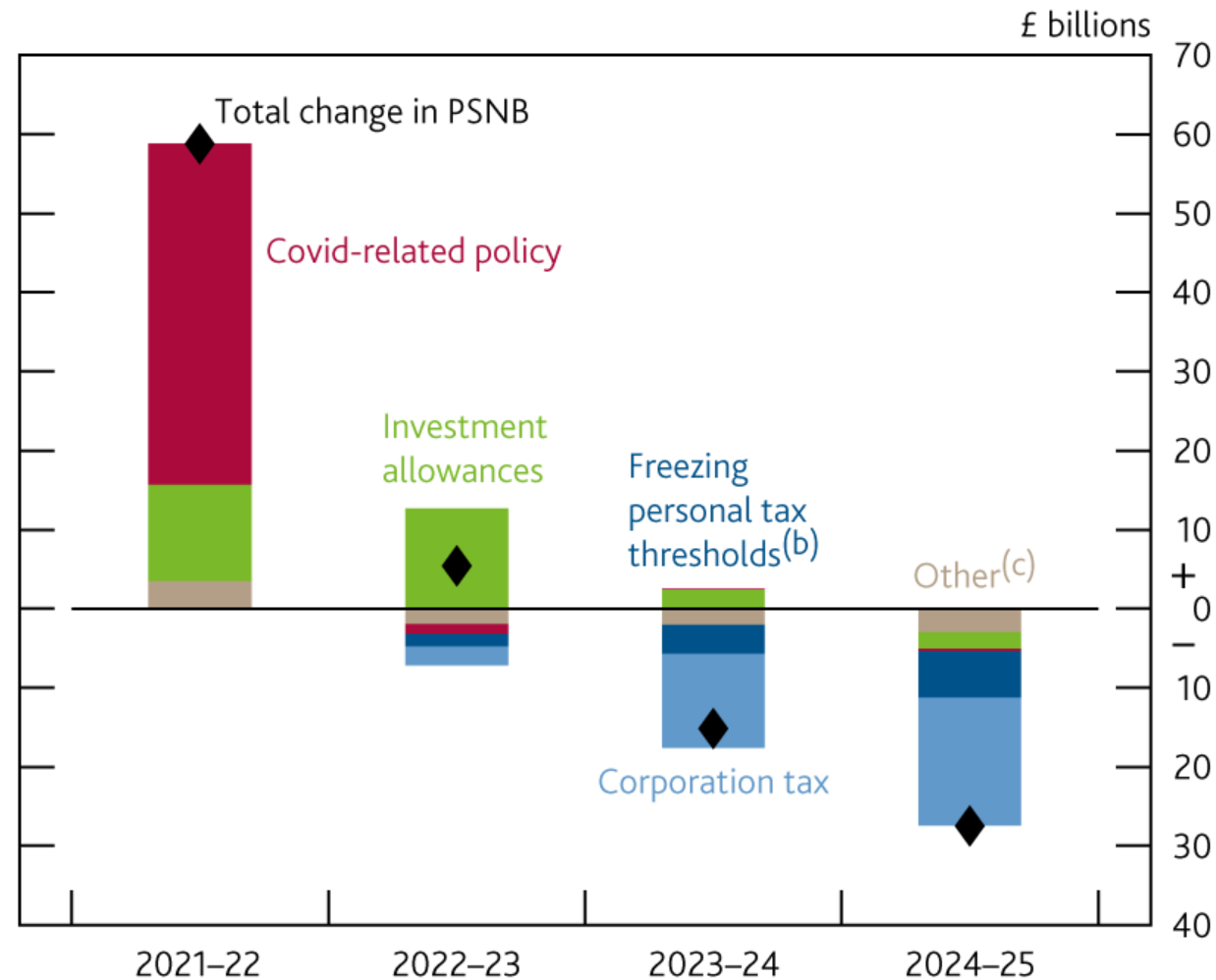
Impact of Covid on investment^(a)



Sources: DMP Survey and Bank calculations.

The near-term fiscal loosening in the March *Budget* largely reflects Covid-related policy changes

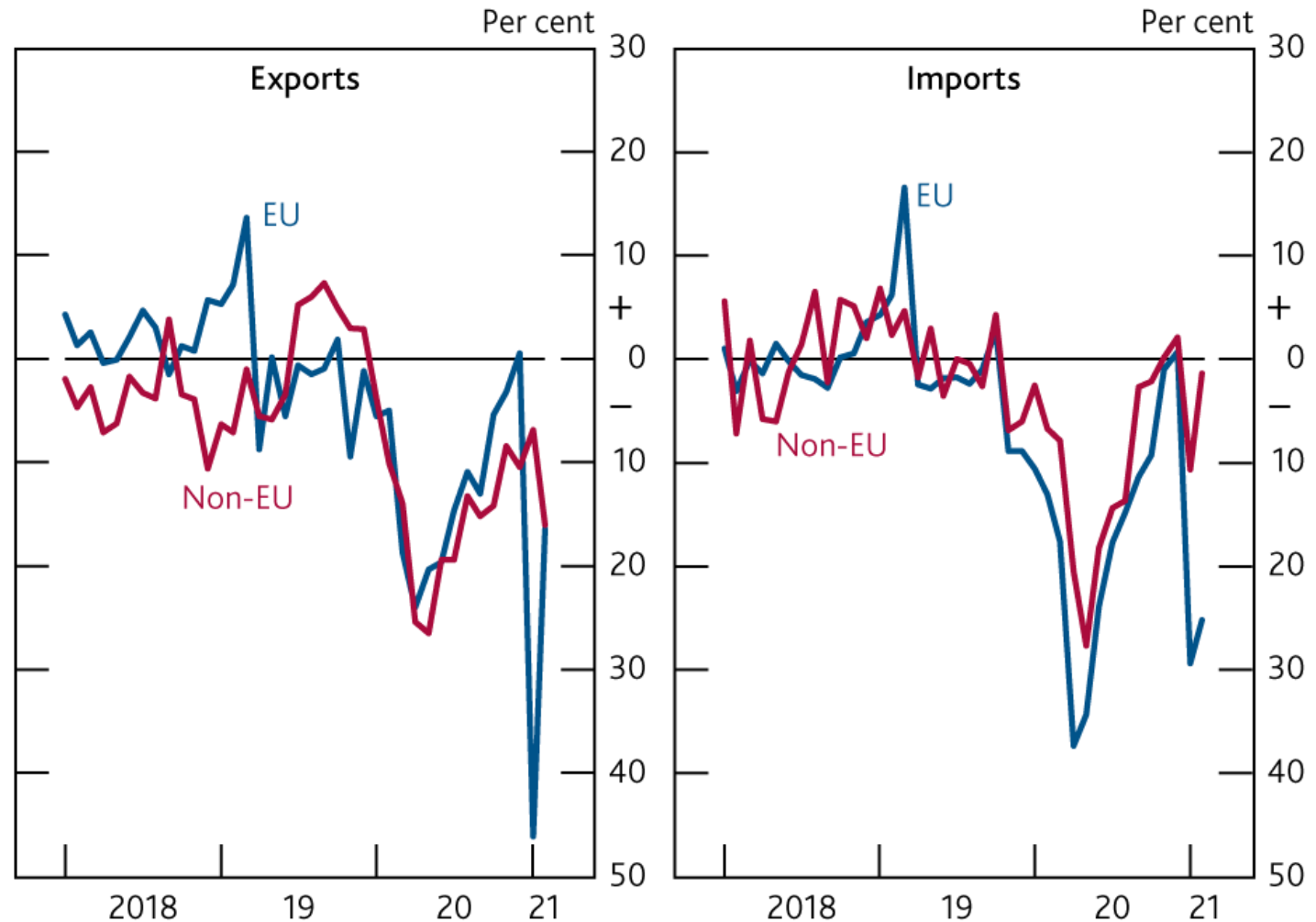
Expected impact of *Budget 2021* policy measures on PSNB^(a)



Source: Office for Budget Responsibility.

Trade with the EU fell sharply in January, but exports recovered somewhat in February

Changes in UK trade in goods with EU and non-EU countries relative to 2019 averages^(a)



Sources: ONS and Bank calculations.

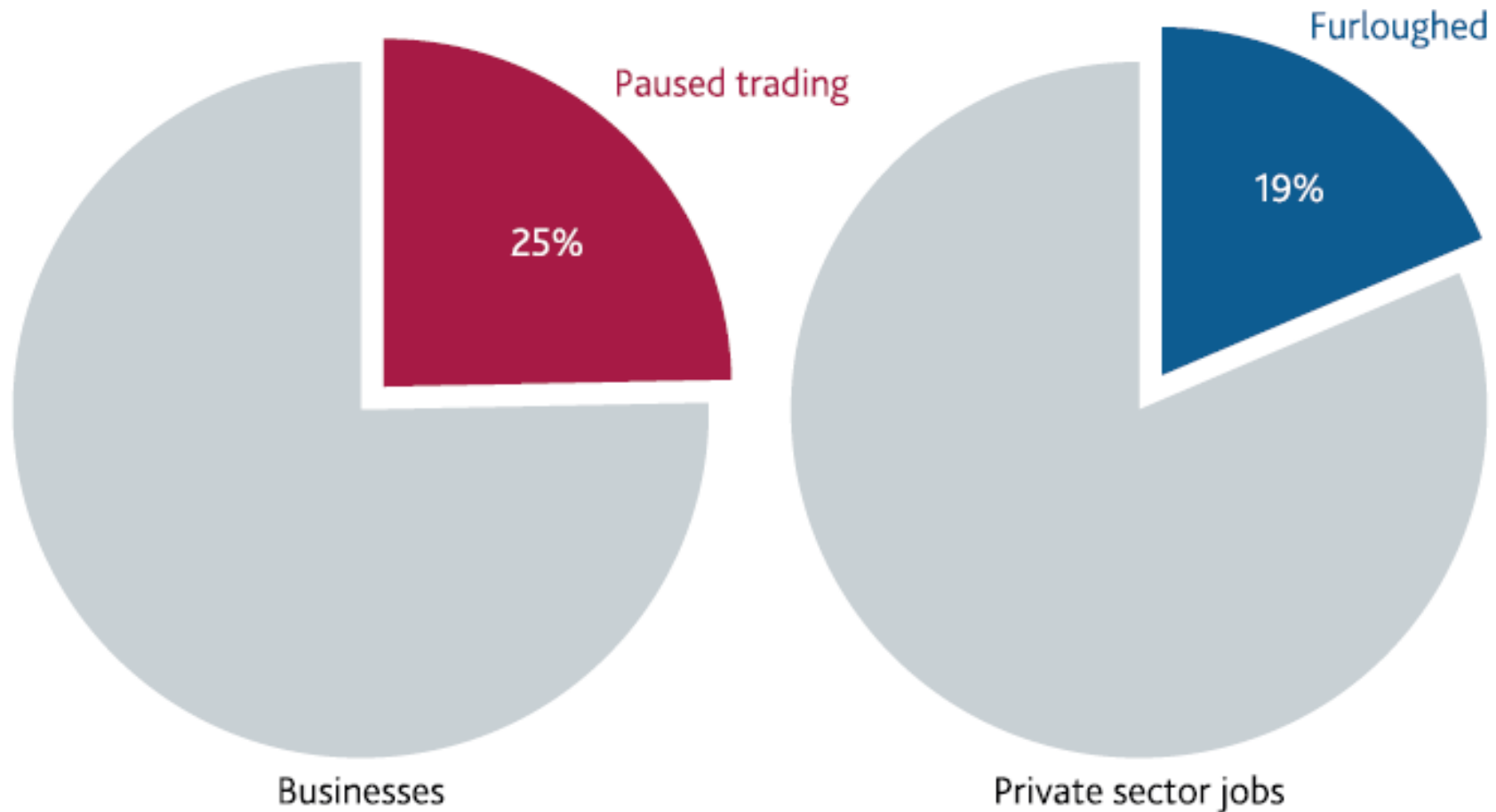


In focus – Supply and spare capacity



A significant proportion of businesses have paused trading and jobs have been furloughed

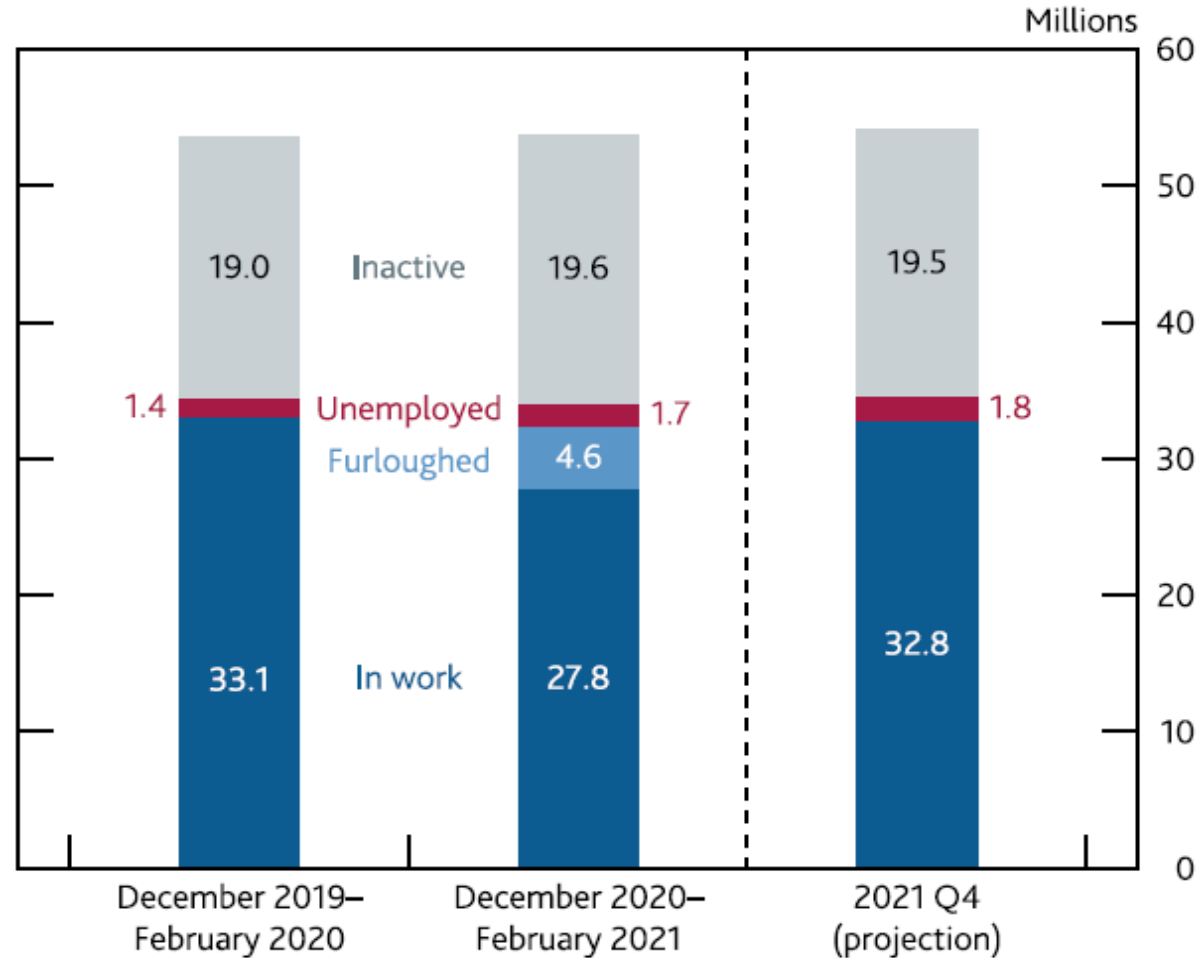
Status of businesses and private sector jobs reported in 2021 Q1(a)



Sources: ONS and Bank calculations.:

The rise in unemployment has been limited by the introduction of furlough and a rise in inactivity

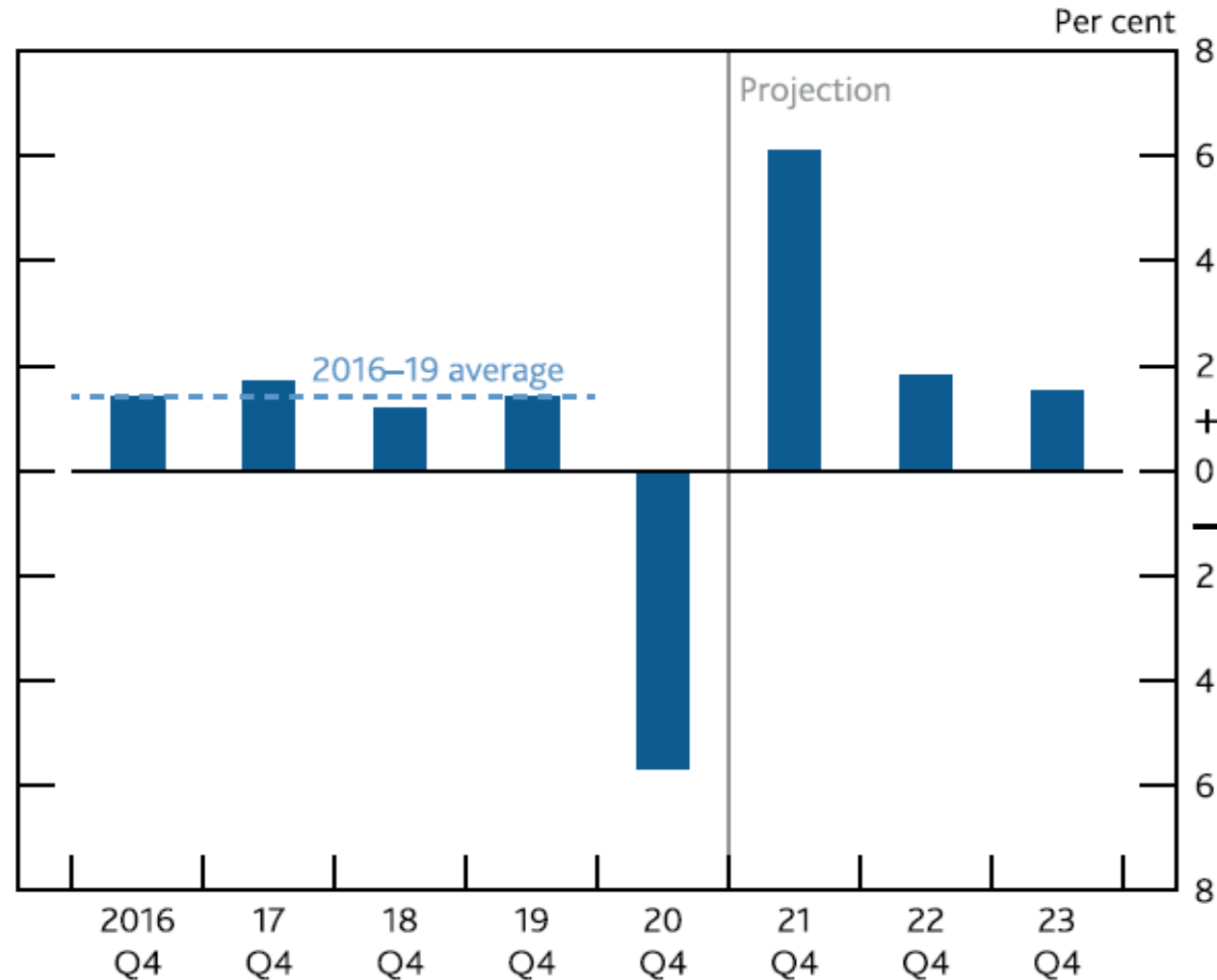
Working-age population by employment status^(a)



Sources: ONS and Bank calculations.

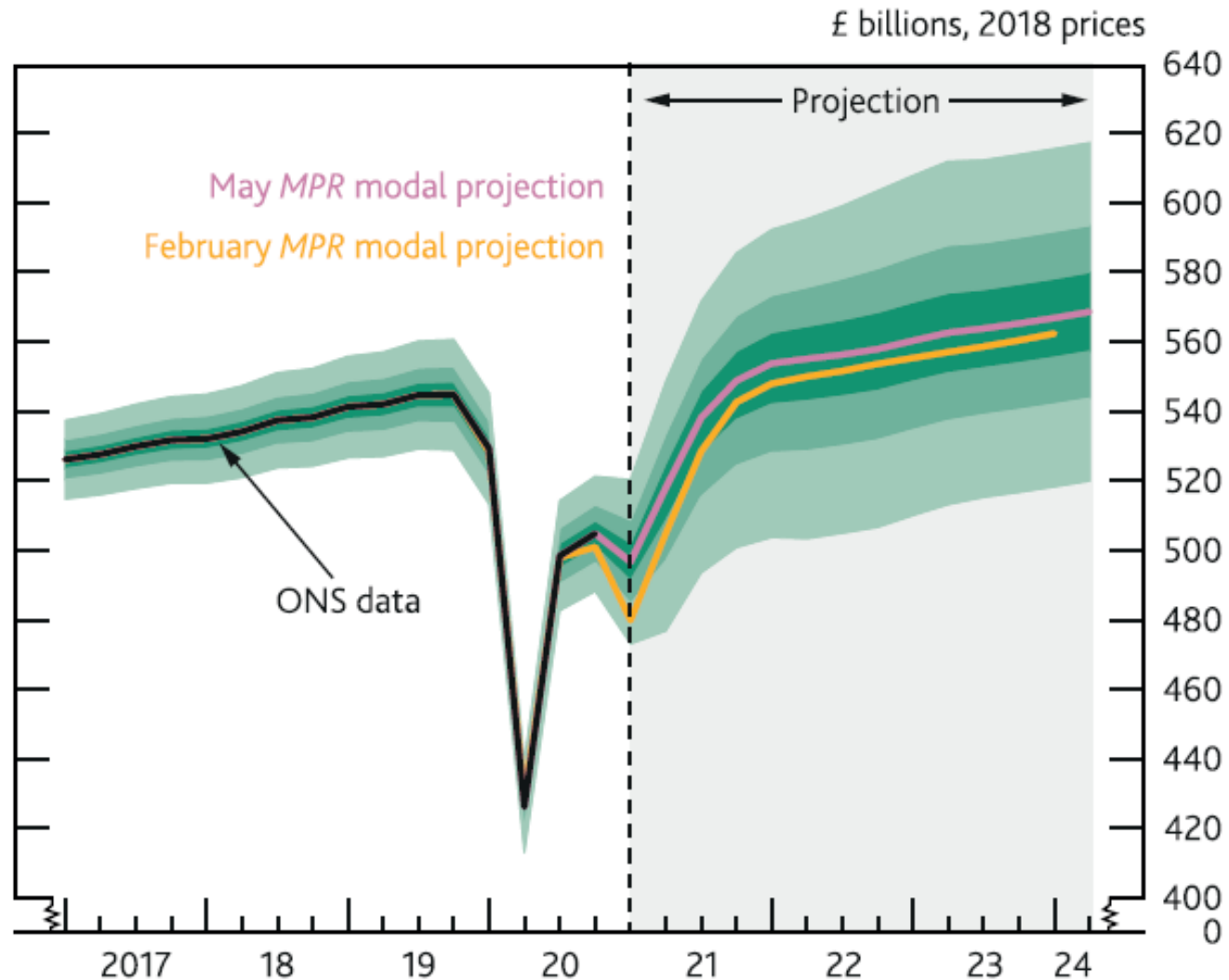
Supply growth is expected to pick up sharply in 2021, before slowing further out

Four-quarter growth in estimated potential supply^(a)

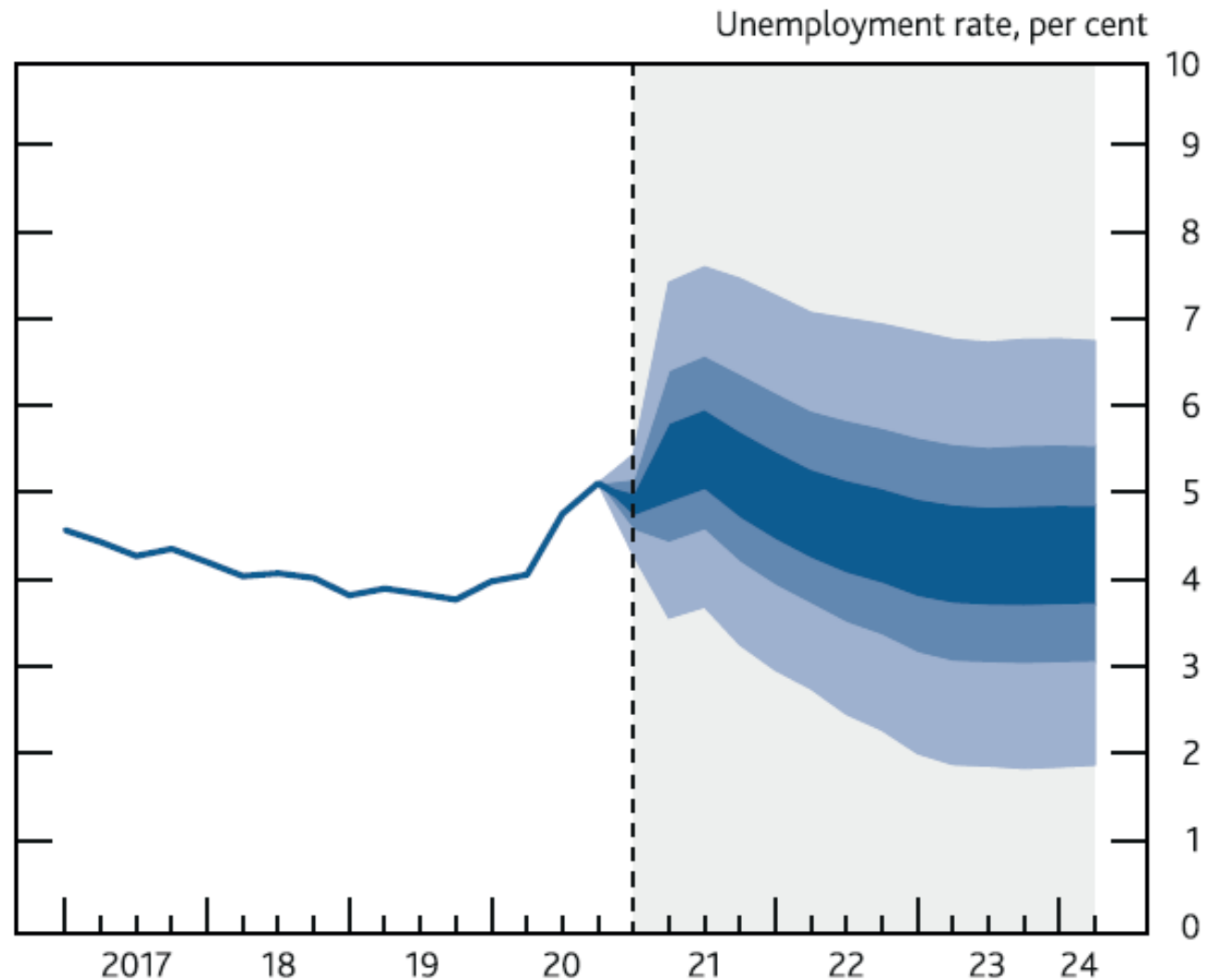




Comparison of February Report modal projection for GDP with May Report projection

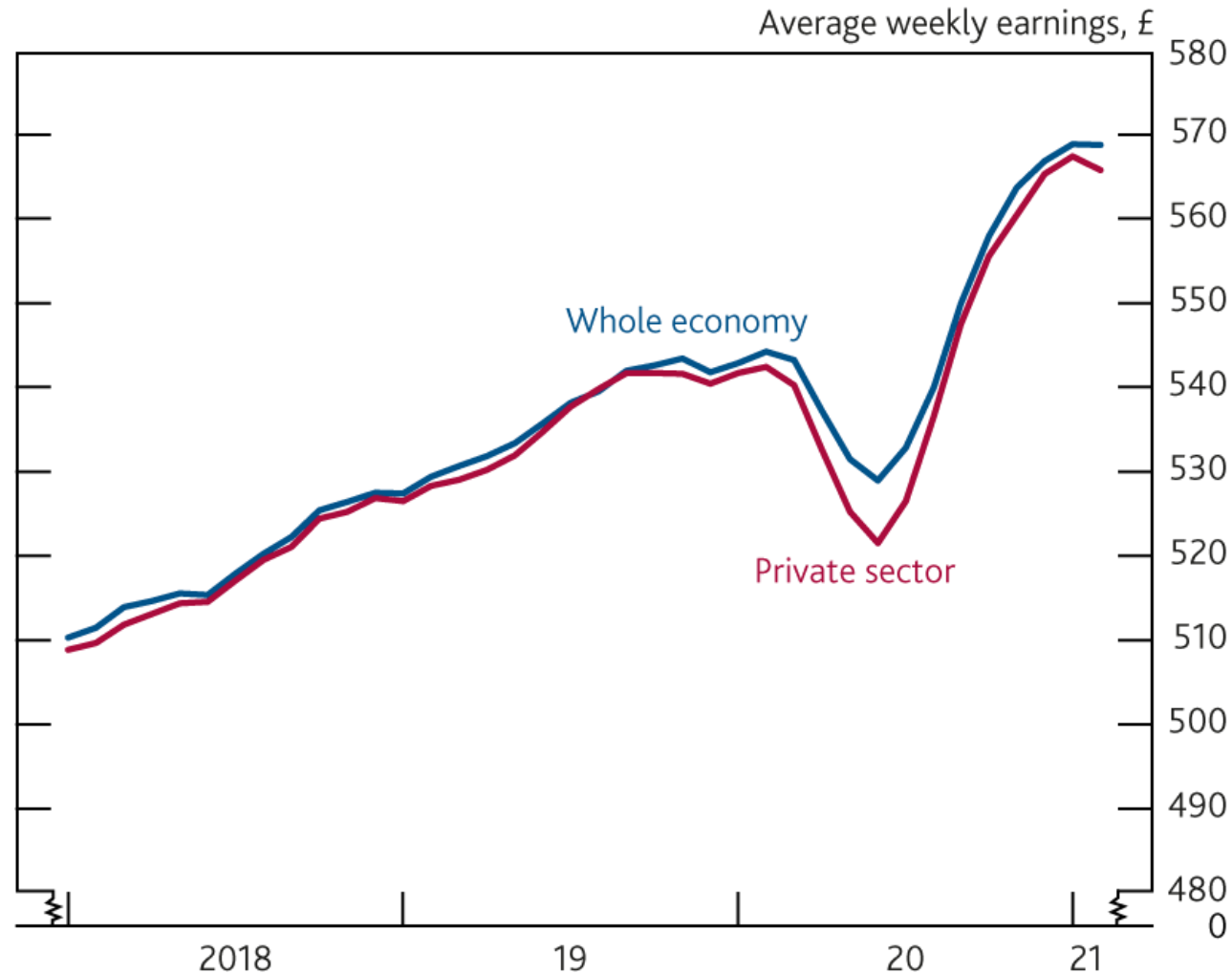


Unemployment projection based on market interest rate expectations, other policy measures as announced



Average earnings have increased materially relative to pre-pandemic...

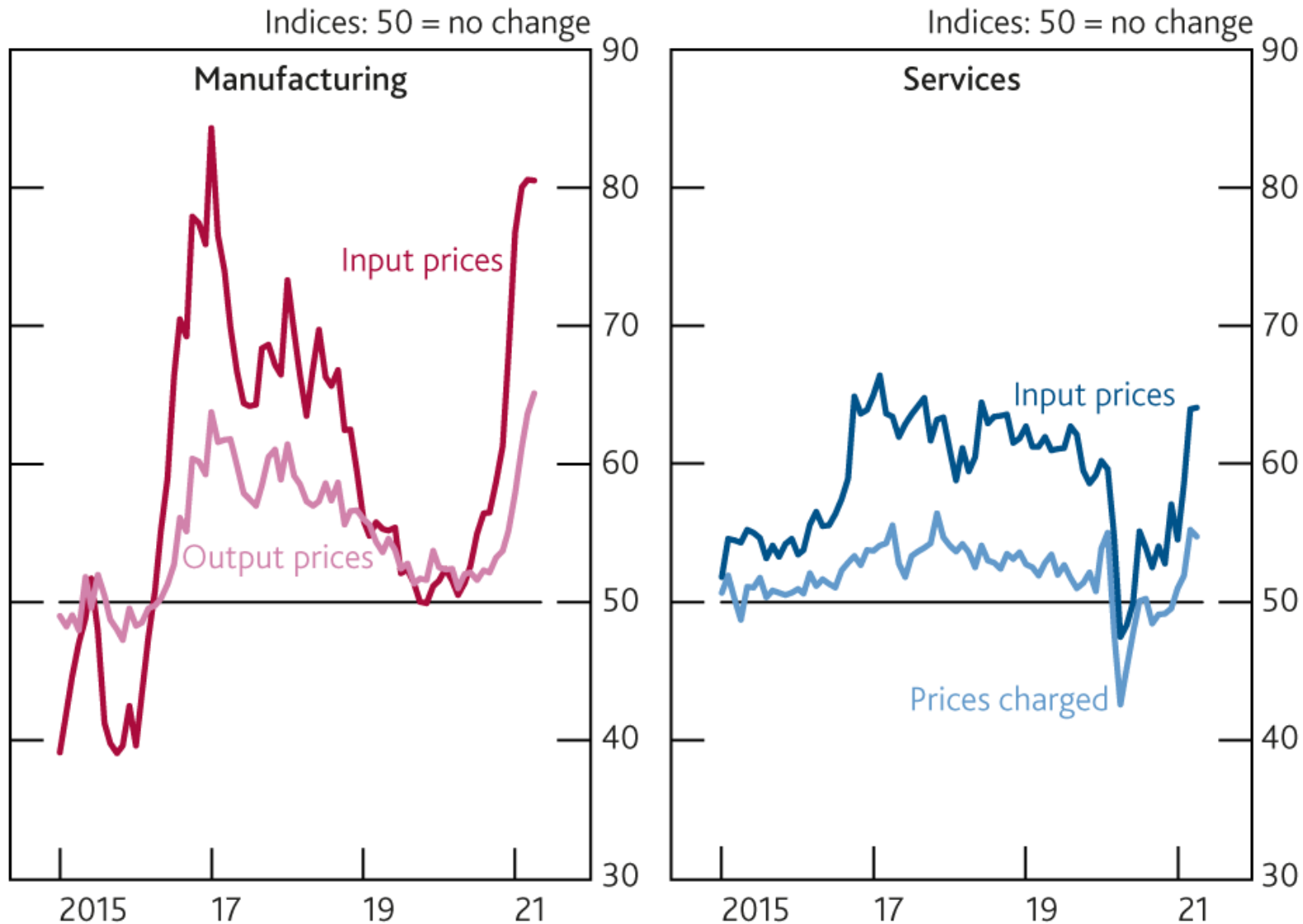
Measures of total pay^(a)



Sources: ONS and Bank calculations.

Input prices appear to have risen sharply

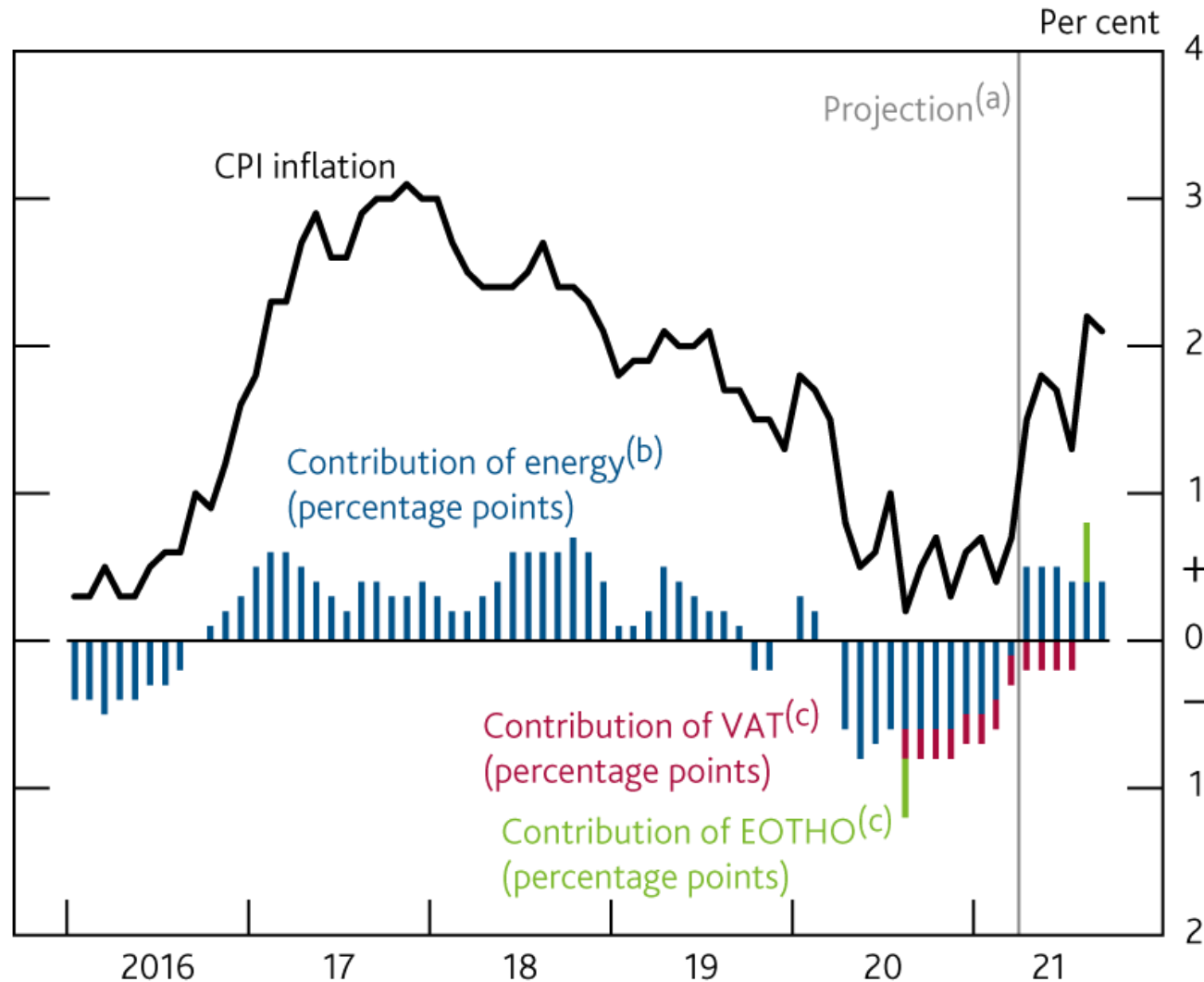
Survey indicators of input and output prices^(a)



Source: IHS Markit/CIPS.

Inflation is expected to reach 2% during Q3

CPI inflation and the contributions of energy prices, VAT and the Eat Out to Help Out (EOTHO) scheme



Sources: Bloomberg Finance L.P., Department for Business, Energy and Industrial Strategy, ONS and Bank calculations.

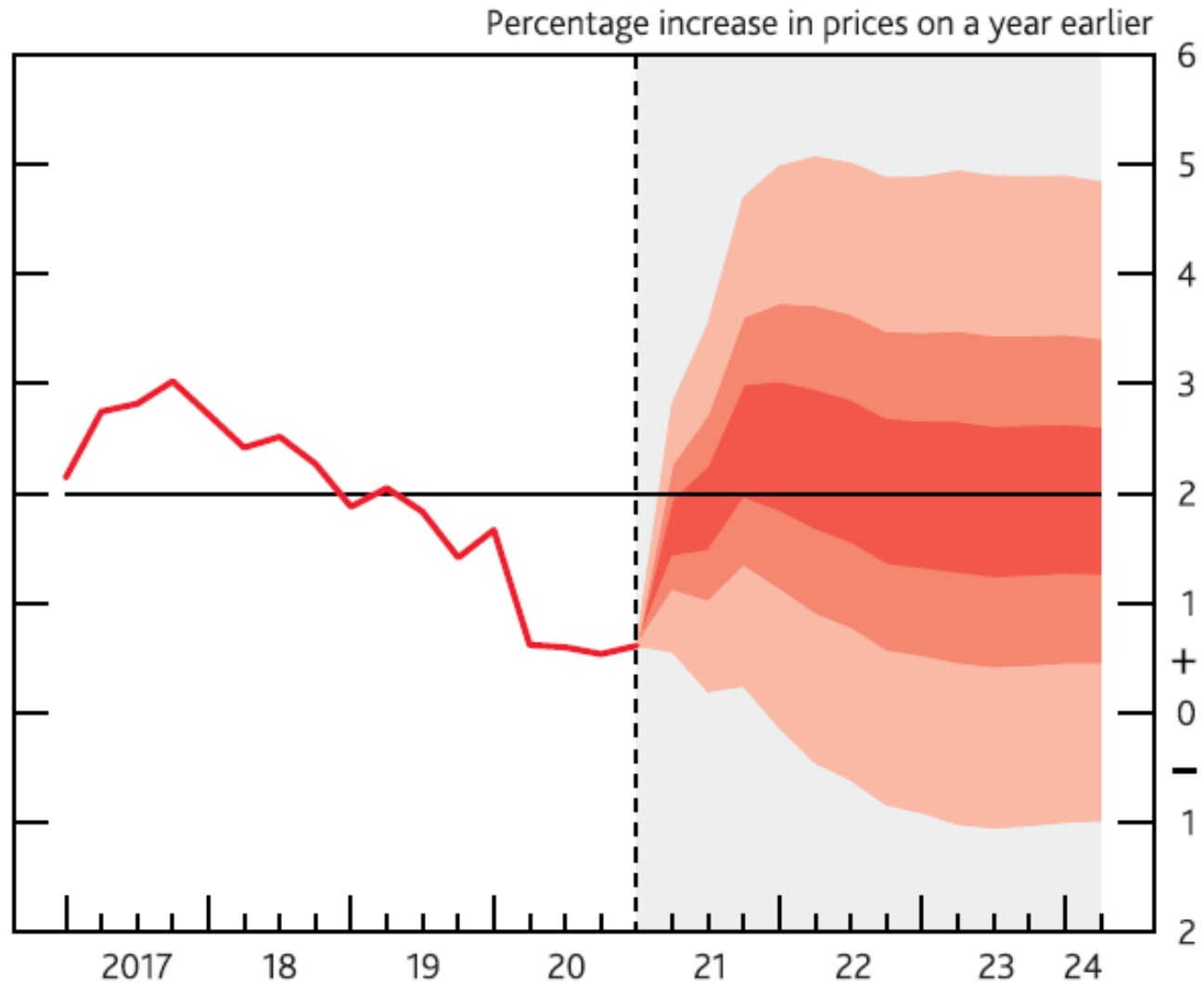
Oil prices have risen further since the February Report

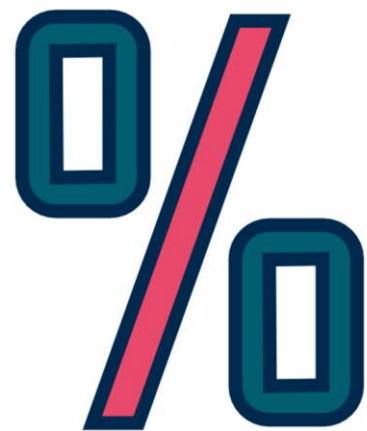
Sterling oil and wholesale gas prices



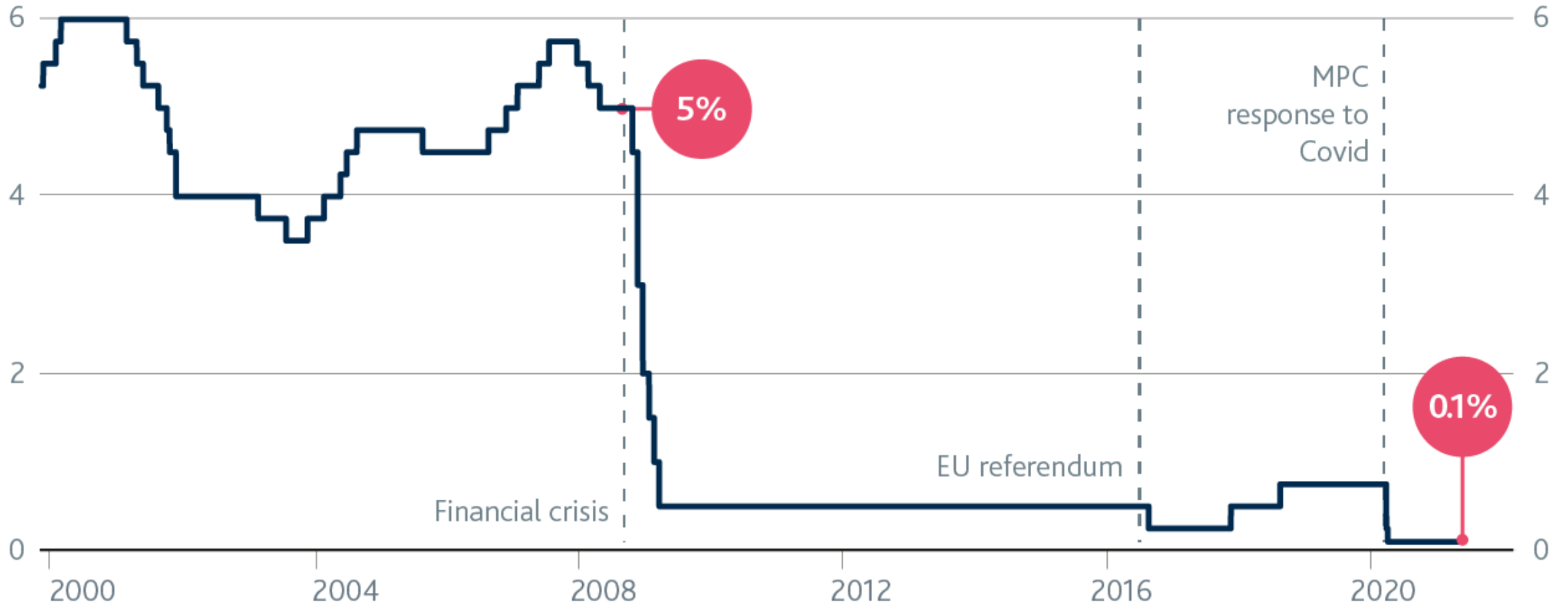
Sources: Bank of England, Bloomberg Finance L.P. and Bank calculations.

CPI inflation projection based on market interest rate expectations, other policy measures as announced



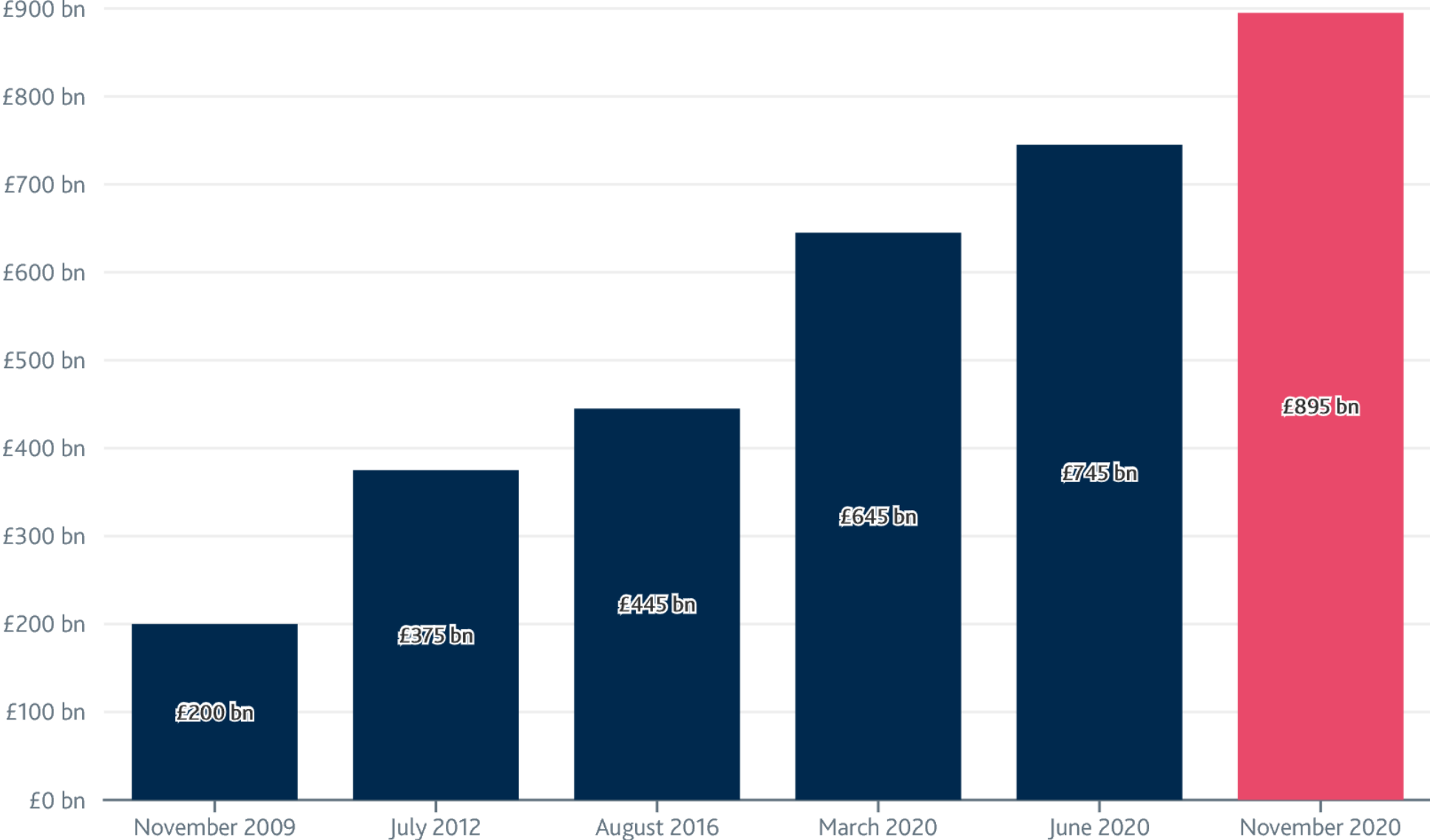


Bank Rate (%)



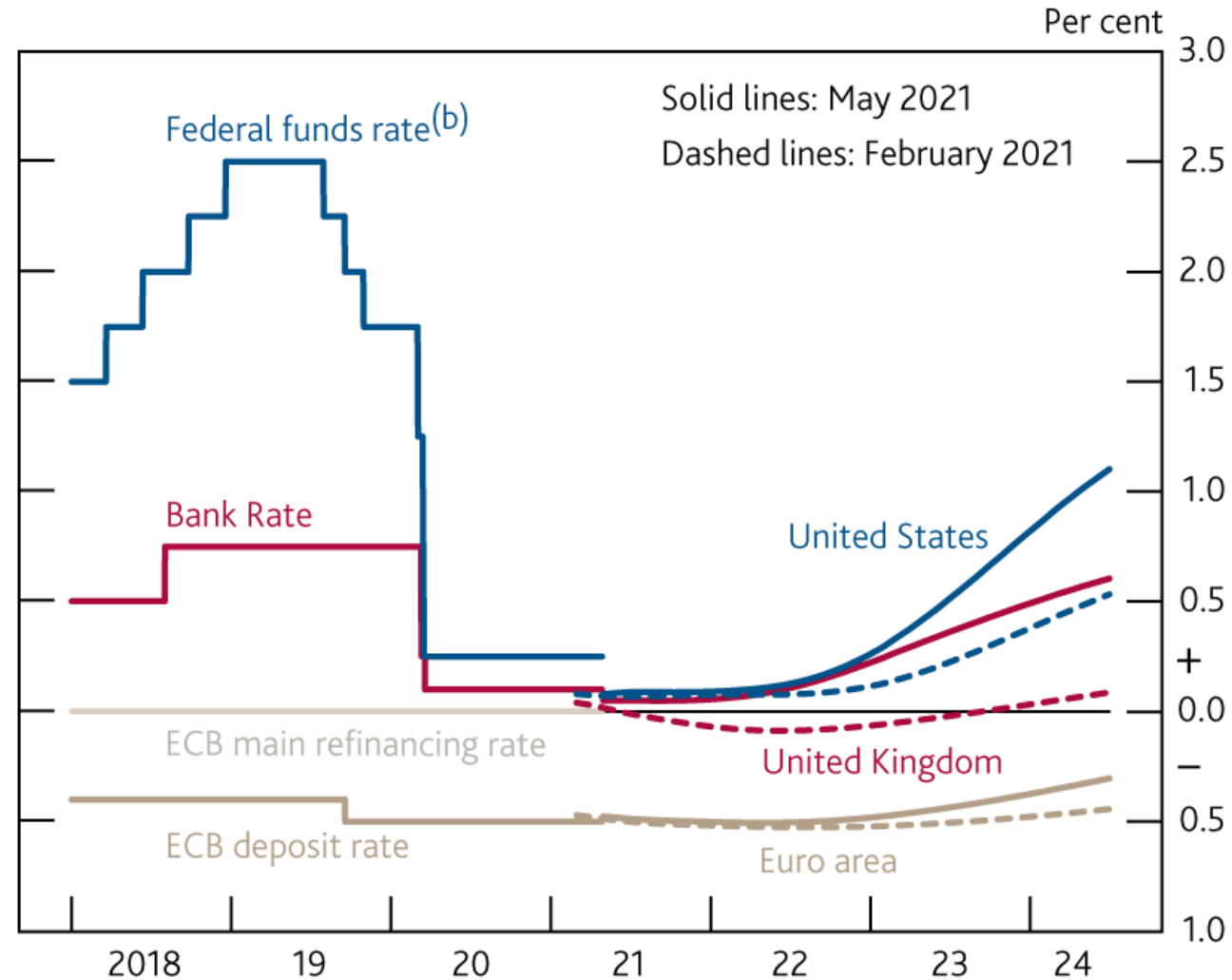
We have been increasing the amount of Quantitative Easing

Bank of England purchases of bonds in £ billion



Market-implied paths for policy rates have steepened in the UK and US

International forward interest rates^(a)



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

Questions

The next Agency for Scotland briefing is at 3pm on 24 June 2021

*If you know of others that would like to be invited please contact
scotland@bankofengland.co.uk*

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

| | Projections | | | |
|--|-------------|------------|-----------|---------|
| | 2021 Q2 | 2022 Q2 | 2023 Q2 | 2024 Q2 |
| GDP ^(c) | 21.5 (17.6) | 7.1 (8.9) | 1.4 (1.3) | 1.1 |
| CPI inflation ^(d) | 1.7 (1.6) | 2.3 (2.0) | 2.0 (2.1) | 1.9 |
| LFS unemployment rate | 5.2 (7.7) | 4.7 (5.4) | 4.3 (4.9) | 4.3 |
| Excess supply/Excess demand ^(e) | -1¼ (-2½) | +½ (+¼) | 0 (0) | 0 |
| Bank Rate ^(f) | 0.1 (0.0) | 0.1 (-0.1) | 0.3 (0.0) | 0.6 |

Table 1.B: Indicative projections consistent with the MPC's forecast (a)(b)

| | Averages | | | Projections | | |
|--|-----------|------------|-----------------|-----------------|----------------|---------------|
| | 1998–2007 | 2010–19 | 2020 | 2021 | 2022 | 2023 |
| World GDP (UK-weighted) ^(c) | 3 | 2¼ | -4½ (-4¾) | 5 (4¾) | 4½ (5) | 2½ (2¼) |
| World GDP (PPP-weighted) ^(d) | 4 | 3½ | -3½ (-4) | 6¼ (6) | 4¾ (5¼) | 3½ (3½) |
| Euro-area GDP ^(e) | 2¼ | 1½ | -6¾ (-7) | 3¾ (3½) | 5½ (6½) | 2¼ (1¾) |
| US GDP ^(f) | 3 | 2¼ | -3½ (-3½) | 6¾ (6½) | 4¼ (3¼) | 1¾ (1¾) |
| Emerging market GDP (PPP-weighted) ^(g) | 5½ | 5 | -2½ (-3) | 7 (6¾) | 5¼ (5¾) | 4¾ (4½) |
| of which, China GDP ^(h) | 10 | 7¾ | 1¾ (2¼) | 9¼ (8½) | 5½ (5½) | 5¼ (5¼) |
| UK GDP ⁽ⁱ⁾ | 3 | 1¾ | -9¾ (-10) | 7¼ (5) | 5¾ (7¼) | 1¼ (1¼) |
| Household consumption ^(j) | 3¼ | 1¾ | -11 (-12¼) | 5¼ (4¼) | 9¼ (11¾) | 1¾ (1) |
| Business investment ^(k) | 2¾ | 3¾ | -10¼ (-15) | 7 (4) | 13½ (12) | 1¼ (4½) |
| Housing investment ^(l) | 3¼ | 3¾ | -12½ (-10½) | 13½ (10¾) | 4¾ (3½) | 3¼ (6¼) |
| Exports ^(m) | 4¼ | 3¼ | -15¾ (-13½) | 1 (-3) | 4½ (5½) | 4½ (4¼) |
| Imports ⁽ⁿ⁾ | 5¾ | 3½ | -17¾ (-19) | 8½ (5¼) | 10 (12¾) | 4 (3½) |
| Contribution of net trade to GDP ^(o) | -¼ | -¼ | ¾ (2) | -2¼ (-2½) | -1¾ (-2¼) | 0 (0) |
| Real post-tax labour income ^(p) | 3¼ | 1¼ | 1 (1½) | -¾ (-1) | 1½ (1) | ¾ (1¾) |
| Household saving ratio ^(q) | 8 | 8½ | 15¾ (17¾) | 12 (15¼) | 6 (6½) | 6 (6½) |
| Credit spreads ^(r) | ¾ | 2½ | 2 (2) | 2¼ (2¼) | 2 (2¼) | 2 (2) |
| Excess supply/Excess demand^(s) | 0 | -1¾ | -2 (-1¼) | -¾ (-1¼) | +¼ (+¼) | +¼ (0) |
| Hourly labour productivity ^(t) | 2¼ | ½ | ¾ (2¾) | ¼ (-3¼) | ½ (2) | ¾ (½) |
| Employment ^(u) | 1 | 1¼ | -1¼ (-1¼) | 1¼ (-¾) | 1¼ (2¼) | ¾ (1¼) |
| Average weekly hours worked ^(v) | 32¼ | 32 | 30¼ (29¾) | 32¼ (32¼) | 32 (32) | 32 (32) |
| Unemployment rate ^(w) | 5¼ | 6 | 5 (5¼) | 5 (6½) | 4½ (5) | 4¼ (4½) |
| Participation rate ^(x) | 63 | 63½ | 63½ (63¾) | 64 (63¾) | 64 (64) | 64 (64) |
| CPI Inflation ^(y) | 1½ | 2¼ | ½ (½) | 2½ (2) | 2 (2¼) | 2 (2) |
| UK import prices ^(z) | 0 | 1½ | 2 (1¾) | -1½ (-½) | 0 (0) | ¼ (0) |
| Energy prices – direct contribution to CPI inflation ^(aa) | ¼ | ¼ | -½ (-½) | ¾ (½) | 0 (0) | 0 (0) |
| Average weekly earnings ^(ab) | 4¼ | 2¼ | 4¾ (4¼) | -½ (¾) | 2¾ (2½) | 2¾ (2¼) |
| Unit labour costs ^(ac) | 3 | 1½ | 11¾ (13½) | -8 (-8¼) | 2¼ (2½) | 2¼ (2¼) |
| Private sector regular pay based unit wage costs ^(ad) | 1¾ | 1¾ | 10¾ (14) | -4½ (-5¾) | 1 (2) | 3 (3) |

Sources: Bank of England, Bloomberg Finance L.P., Department for Business, Energy and Industrial Strategy, Eurostat, IMF World Economic Outlook (WEO), National Bureau of Statistics of China, ONS, US Bureau of Economic Analysis and Bank calculations.