

Bank of England

Monetary Policy Report – August 2022

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Agency for Scotland



Withdrawal of paper £20 and £50 notes



30th September 2022 is the last day paper £20 and £50 notes can be used as legal tender in shops, or to pay businesses. Bank of Scotland, Clydesdale Bank and Royal Bank of Scotland will also withdraw their paper £20 and £50 banknotes on this date.



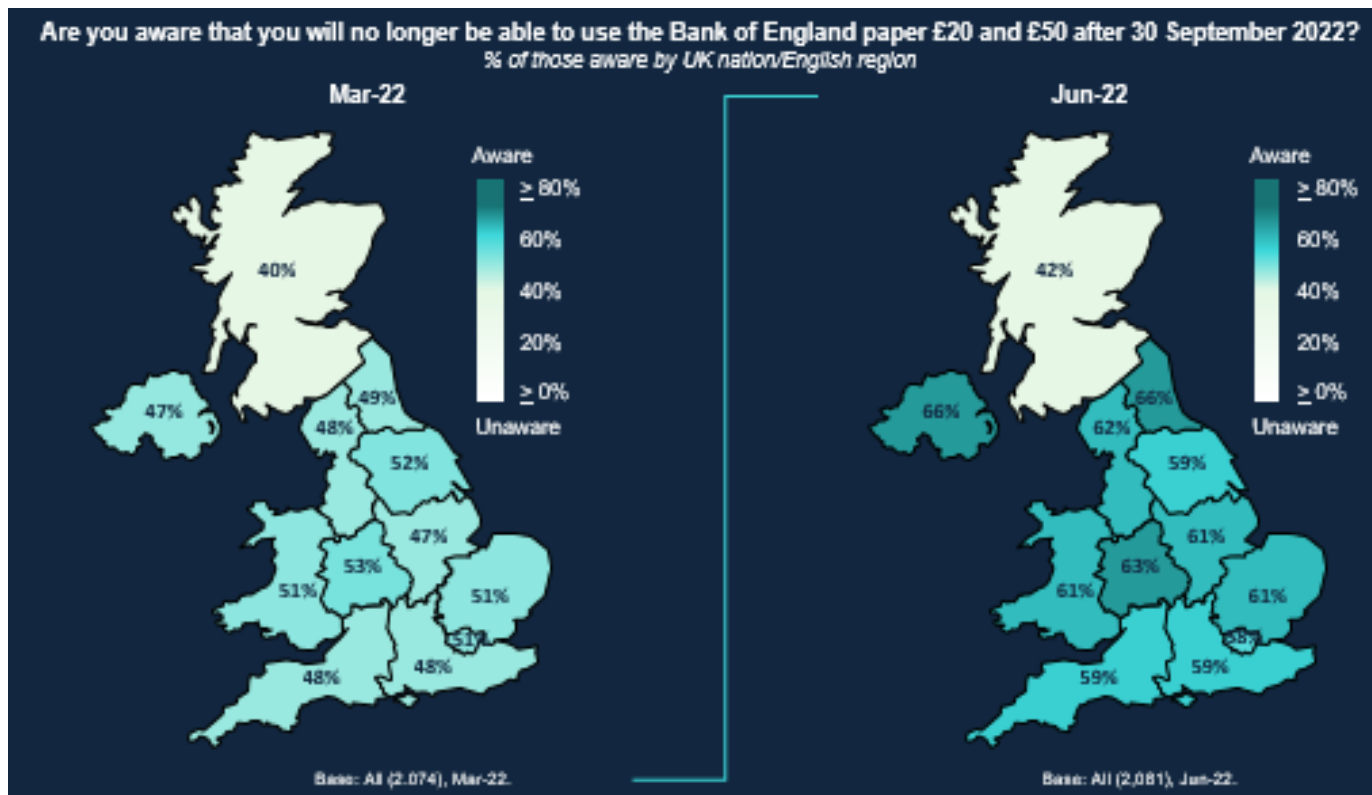
Businesses should **continue to accept** paper £20 and £50 notes in transactions until after this date. **Cash handling machines** may need to be adapted by suppliers to no longer accept paper £20s and £50s after 30th September 2022.



After 30th September 2022, many UK banks will accept withdrawn notes as deposits from customers, however may be charged more to deposit withdrawn notes after the withdrawal date. The Bank of England will always exchange its withdrawn notes.

Progress made to date - awareness

- We have conducted **two public awareness surveys** in March and June 2022.
- Awareness across the UK nations and English regions in Jun-22 has risen by 10 percentage points vs Mar-22, with significant rises in Northern Ireland, the North East, North West, and East Midlands. **Scotland registers the lowest awareness level** for the second time, despite a marginal rise in Jun-22 polling.



Of respondents are
after 30
September 2022.

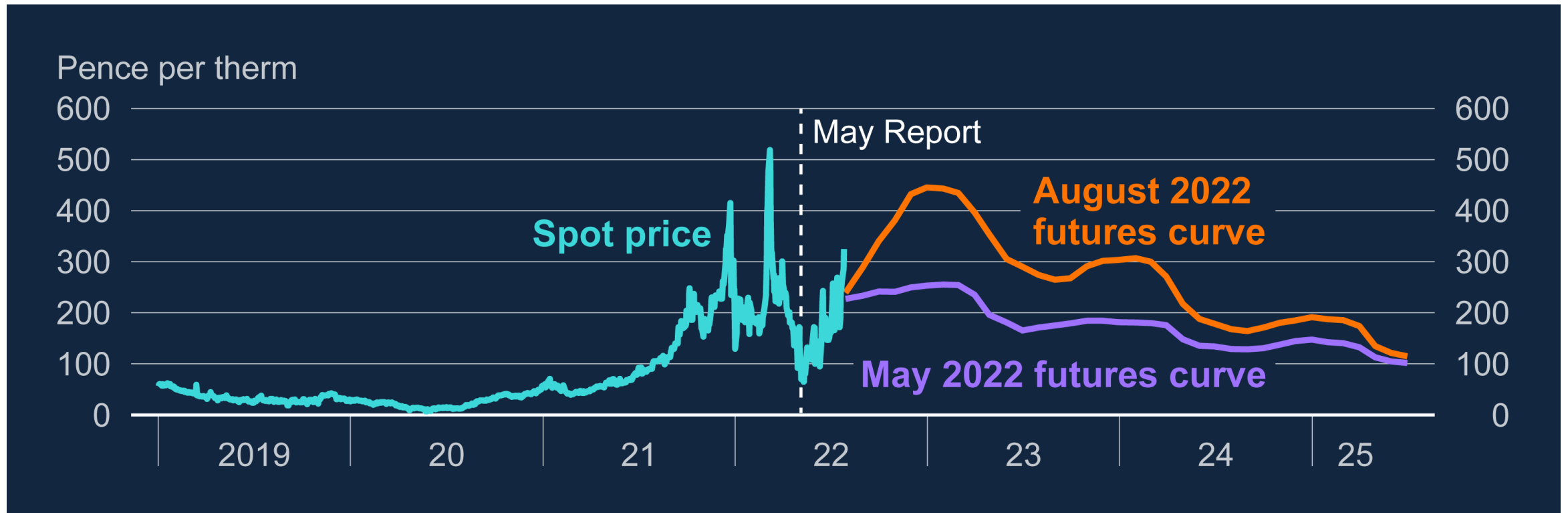
67%
Of respondents says that they don't have paper £20 and/or £50 notes stored or saved at home (vs 14% who do and 22% who would need to check).



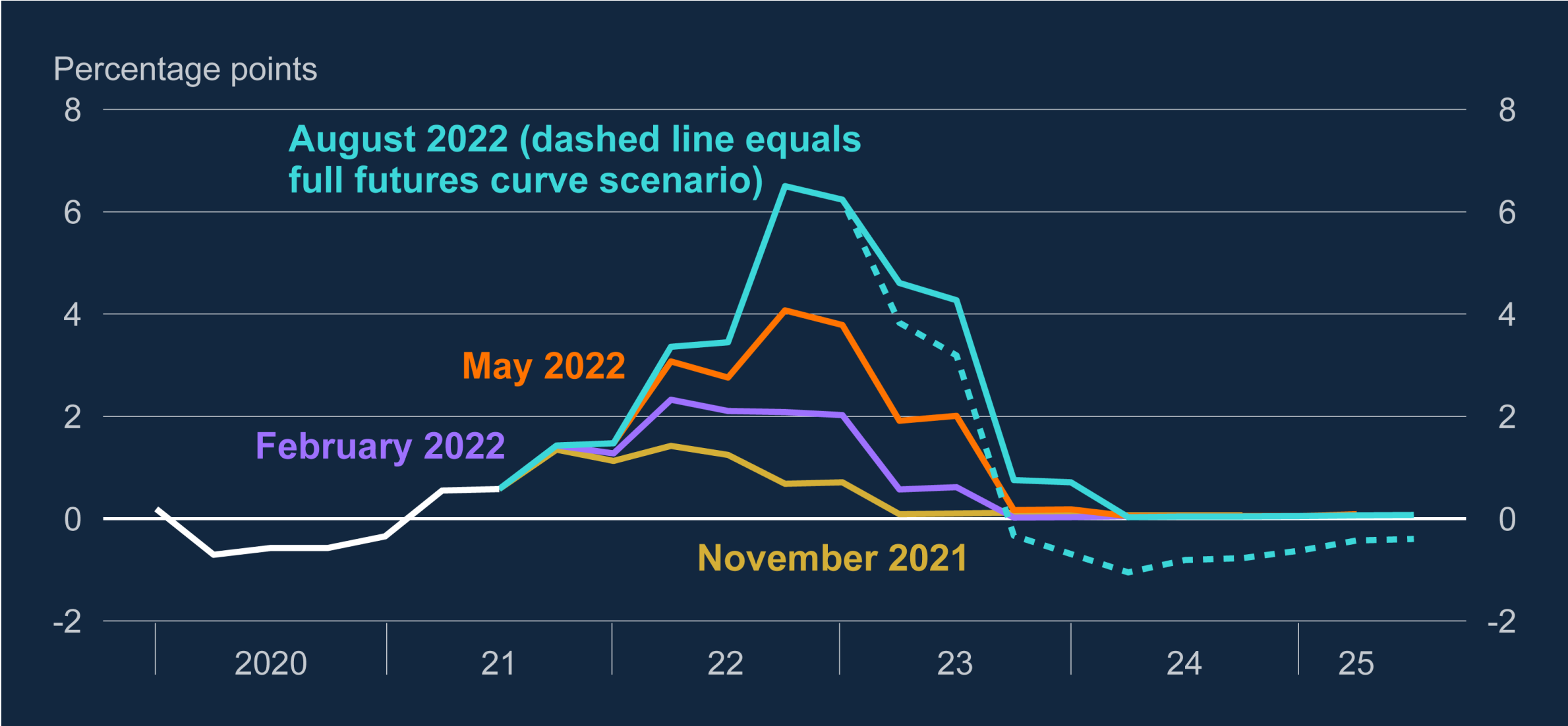
Current economic conditions

Spot gas and futures prices are markedly higher than in May

Wholesale gas spot price and futures curves ^(a)

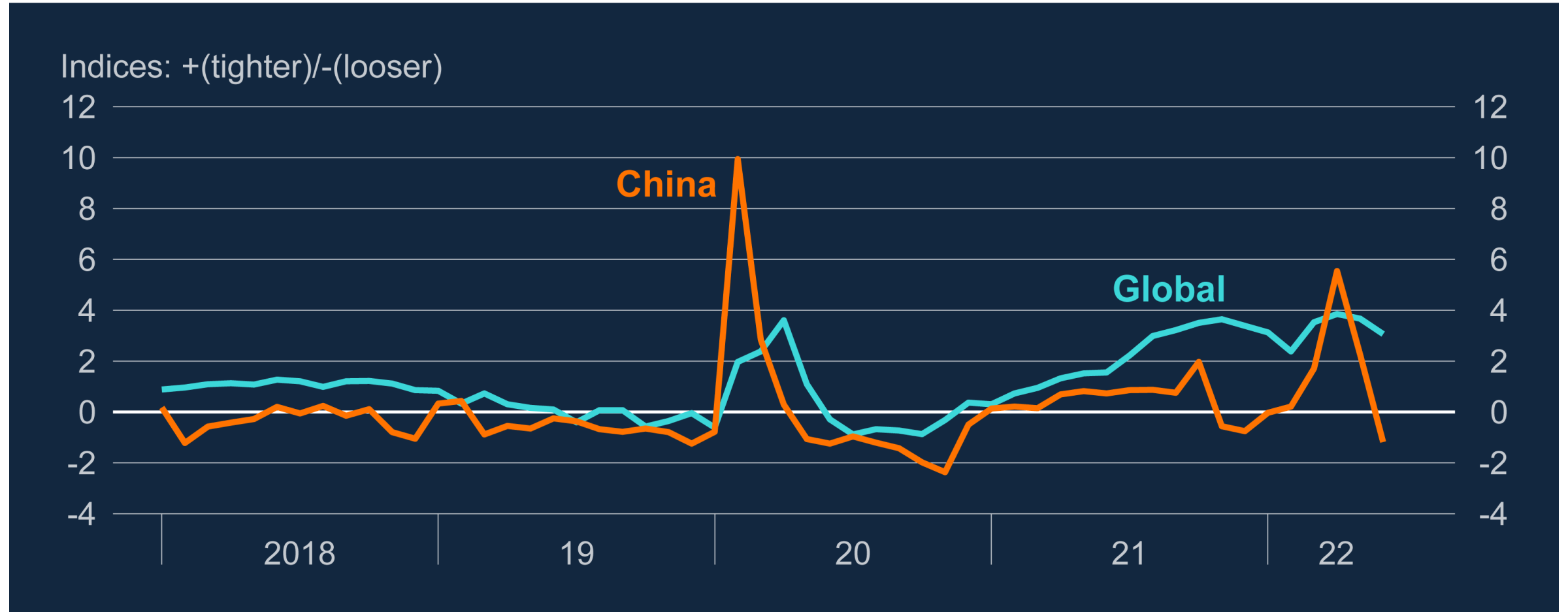


The direct contribution of energy prices to CPI inflation (a)



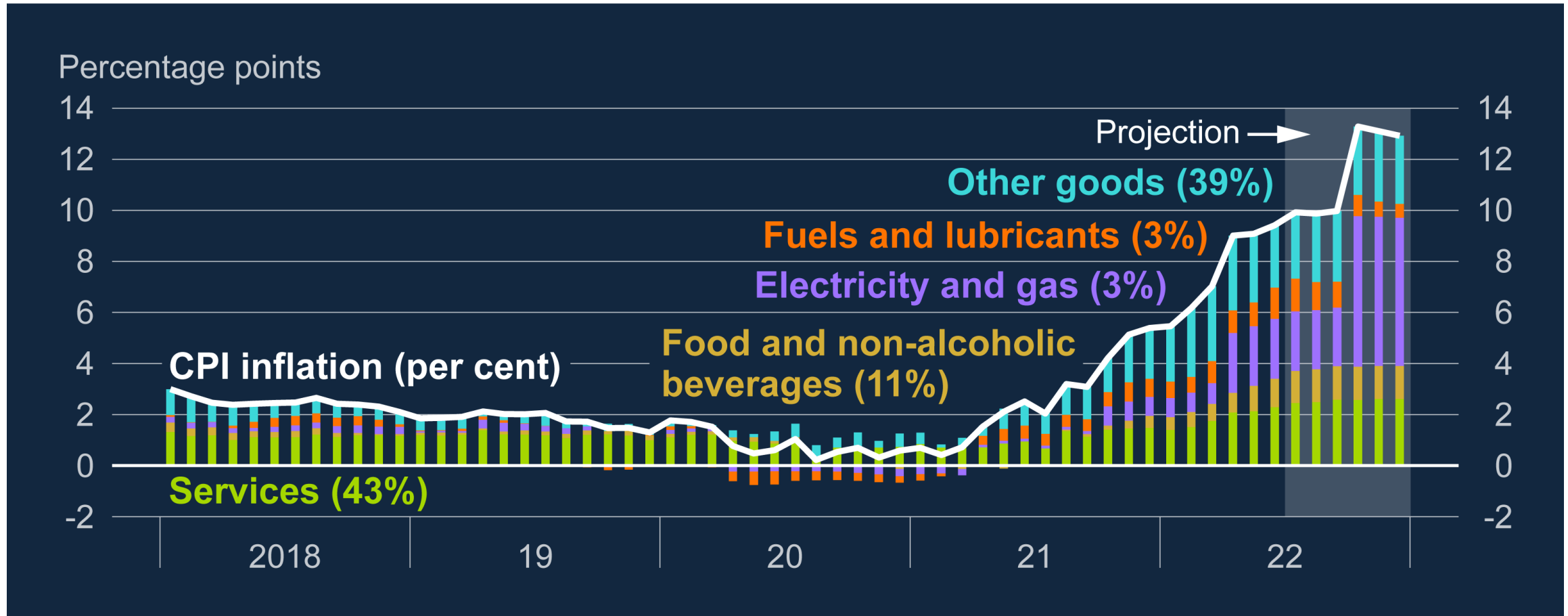
Indicators of supply chain constraints point to continuing disruption, although supply constraints in China have eased

Indicators of supply constraints (a)



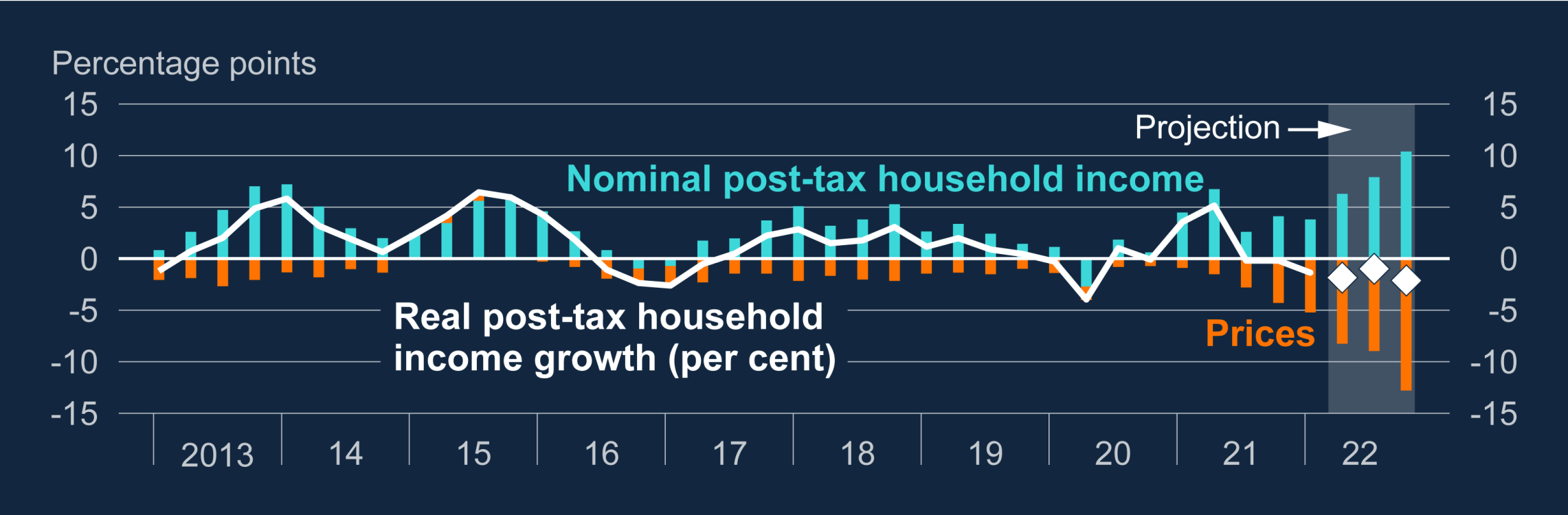
Inflation is expected to pick up to around 13% in 2022 Q4

Contributions to CPI inflation (a)



Real household income is projected to fall in 2022

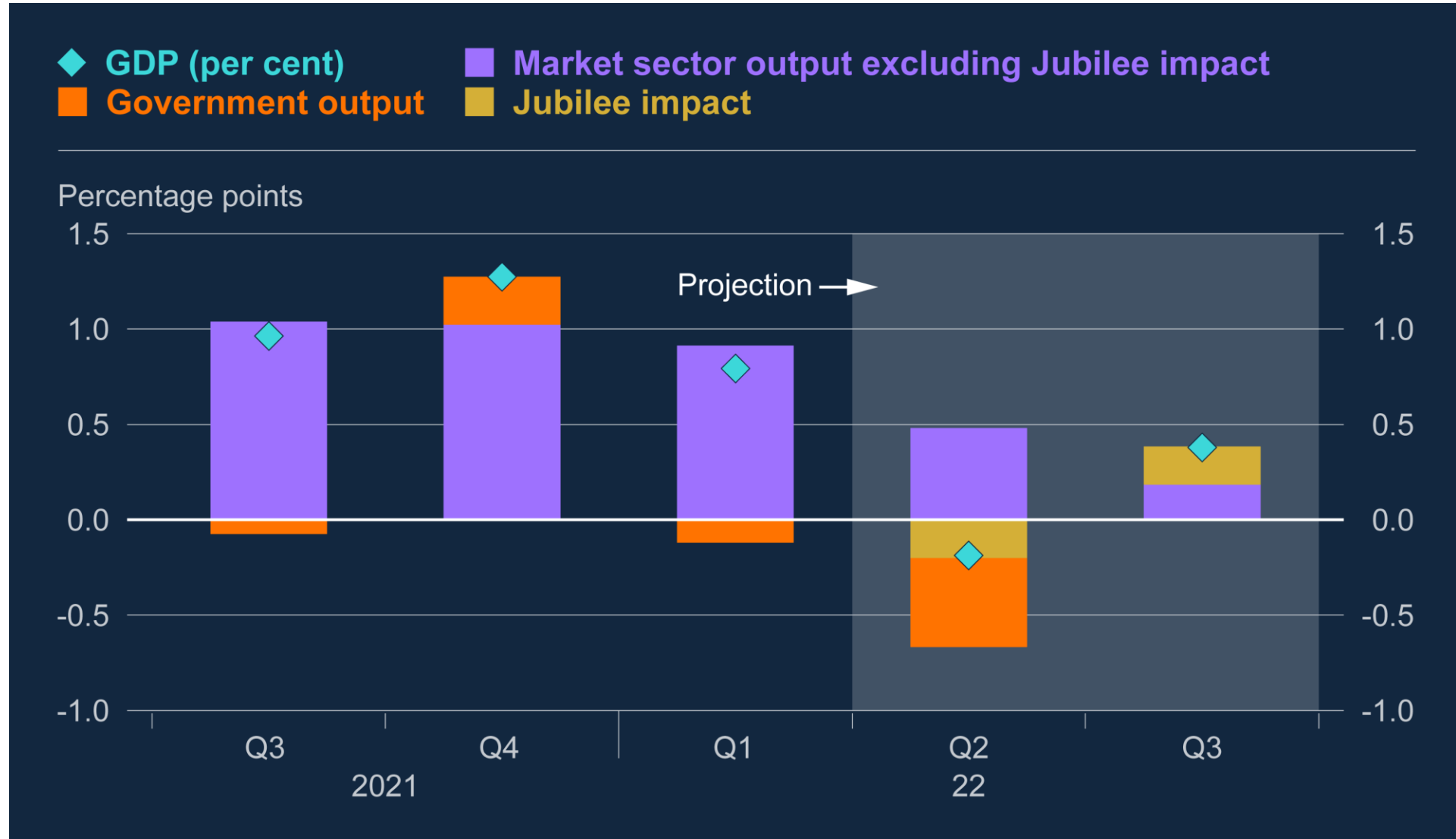
Contributions to four-quarter real household income growth (a)



Sources: ONS and Bank calculations.

Underlying output growth is judged to have slowed since Q1

Contributions to quarterly GDP growth ^(a)



Sources: ONS and Bank calculations.

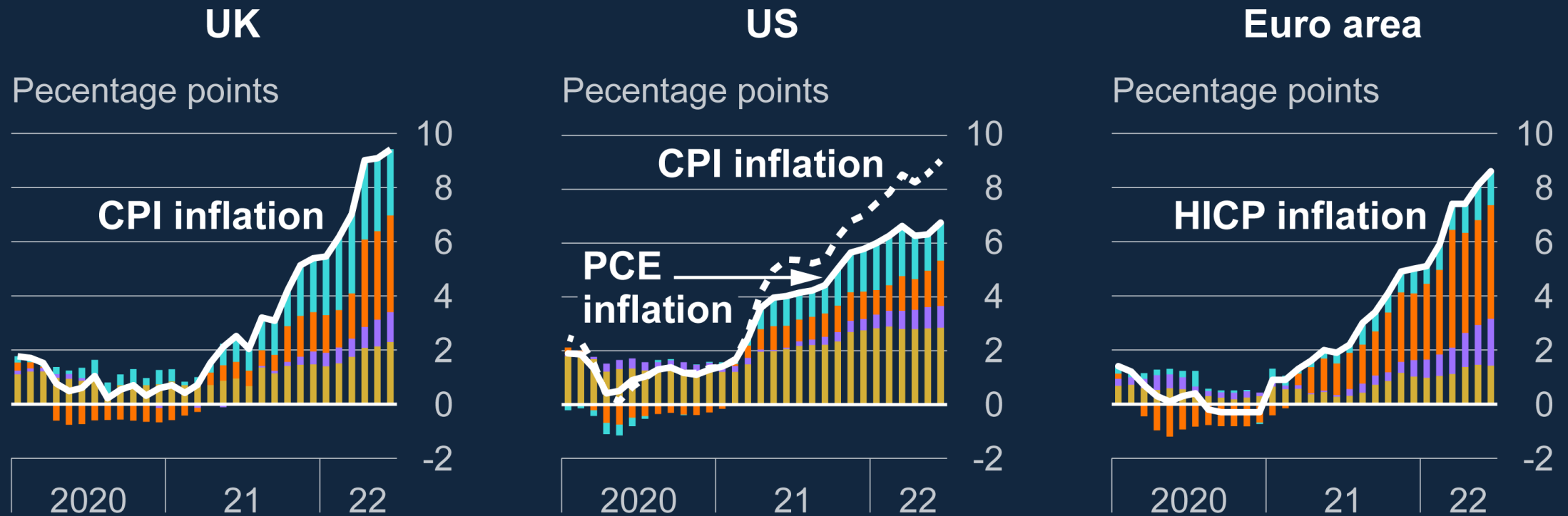
Global GDP growth has been slowing since the middle of last year

UK-weighted world GDP growth (a)



Inflation has picked up across the UK, US and euro area

Contributions to annual consumer price inflation ^(a)

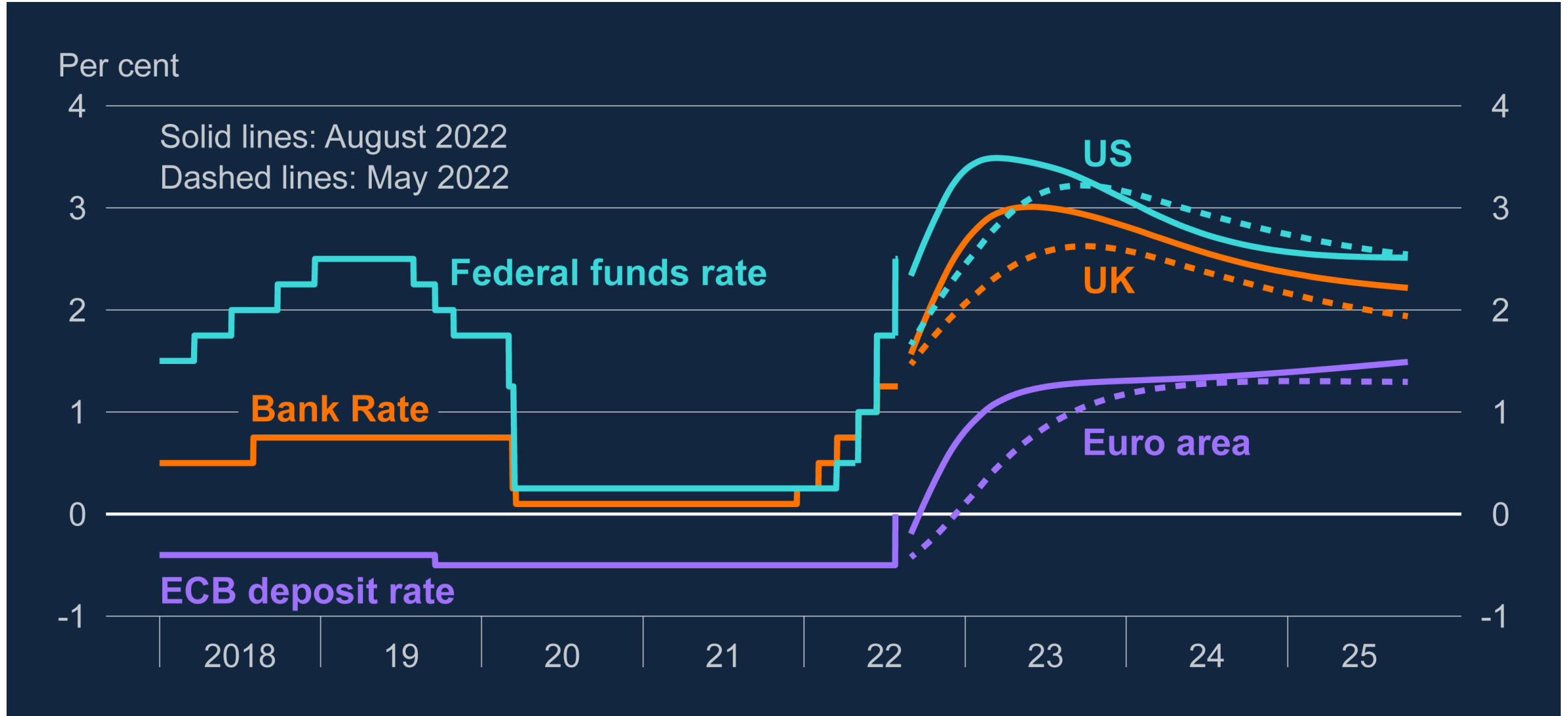




Policy response and credit conditions

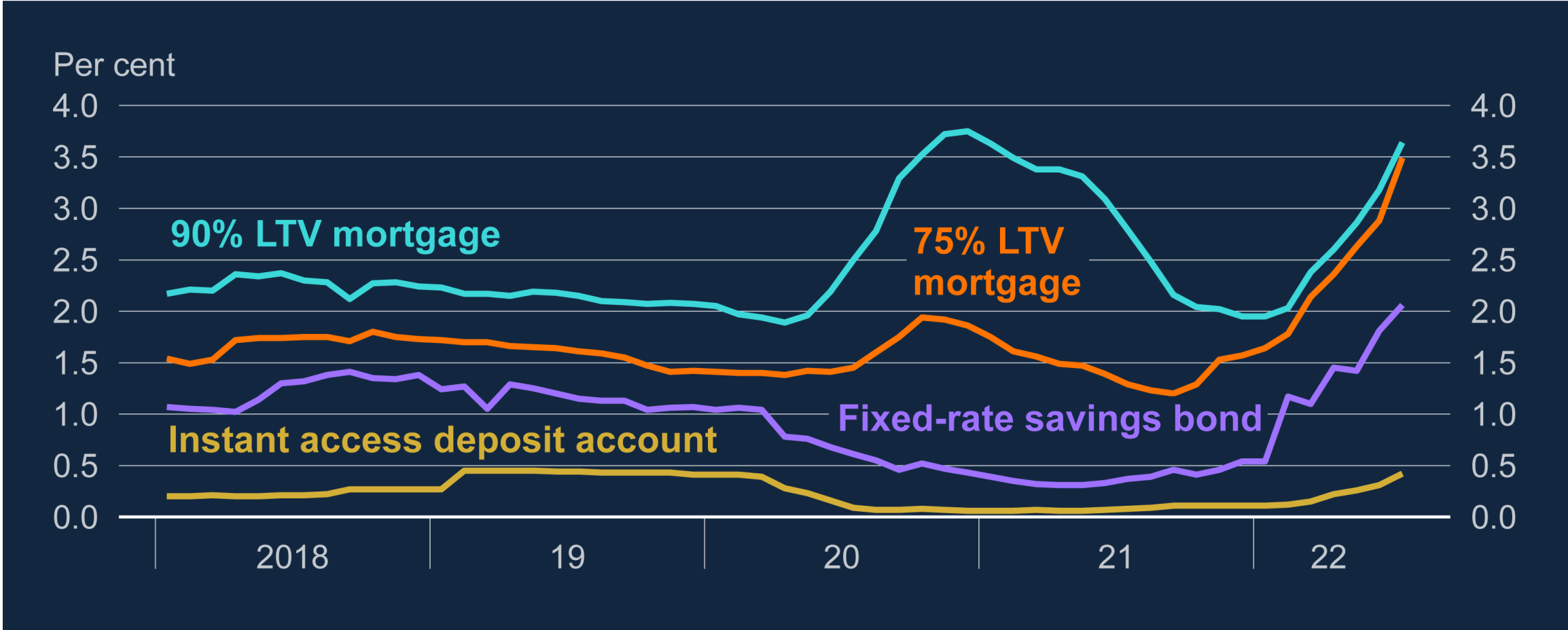
Financial markets are pricing further increases in policy rates

International forward interest rates (a)



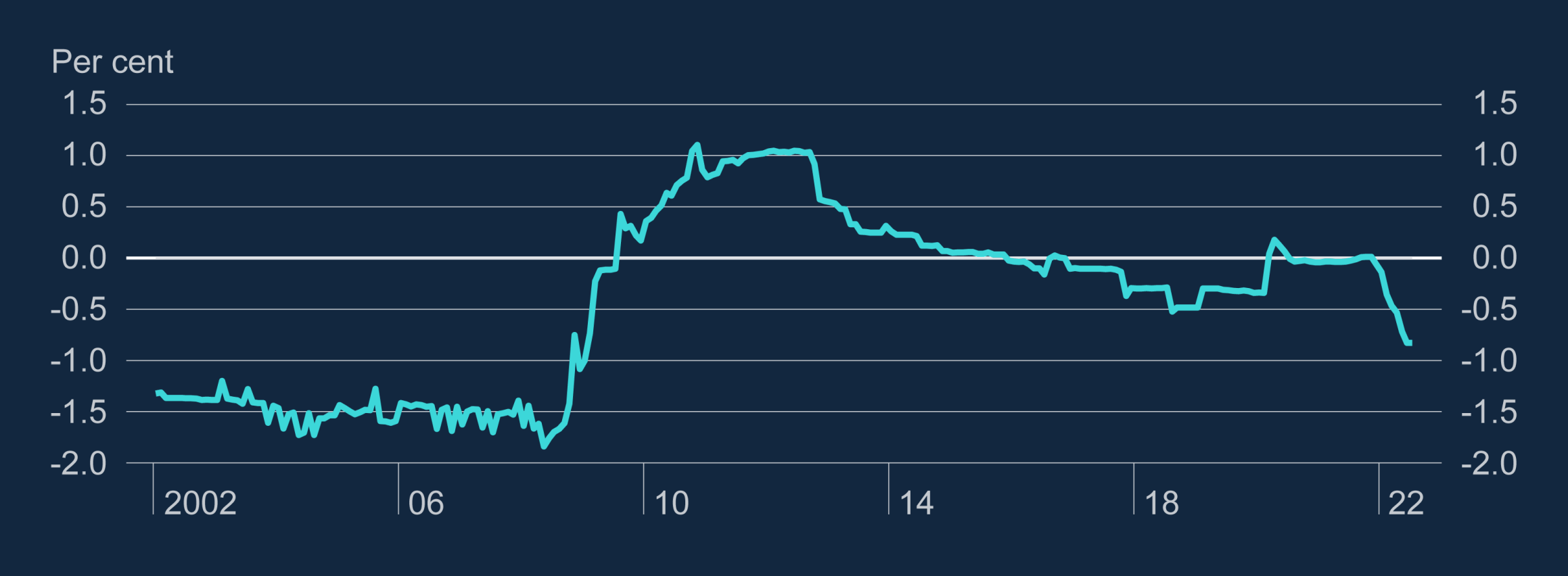
Interest rates on some UK retail products have risen substantially

Average quoted rates on two-year fixed-rate mortgages and savings products ^(a)



Partial pass-through of increases in Bank Rate to instant access deposit rates has turned the spread negative once again

Instant access deposit spread to Bank Rate ^(a)

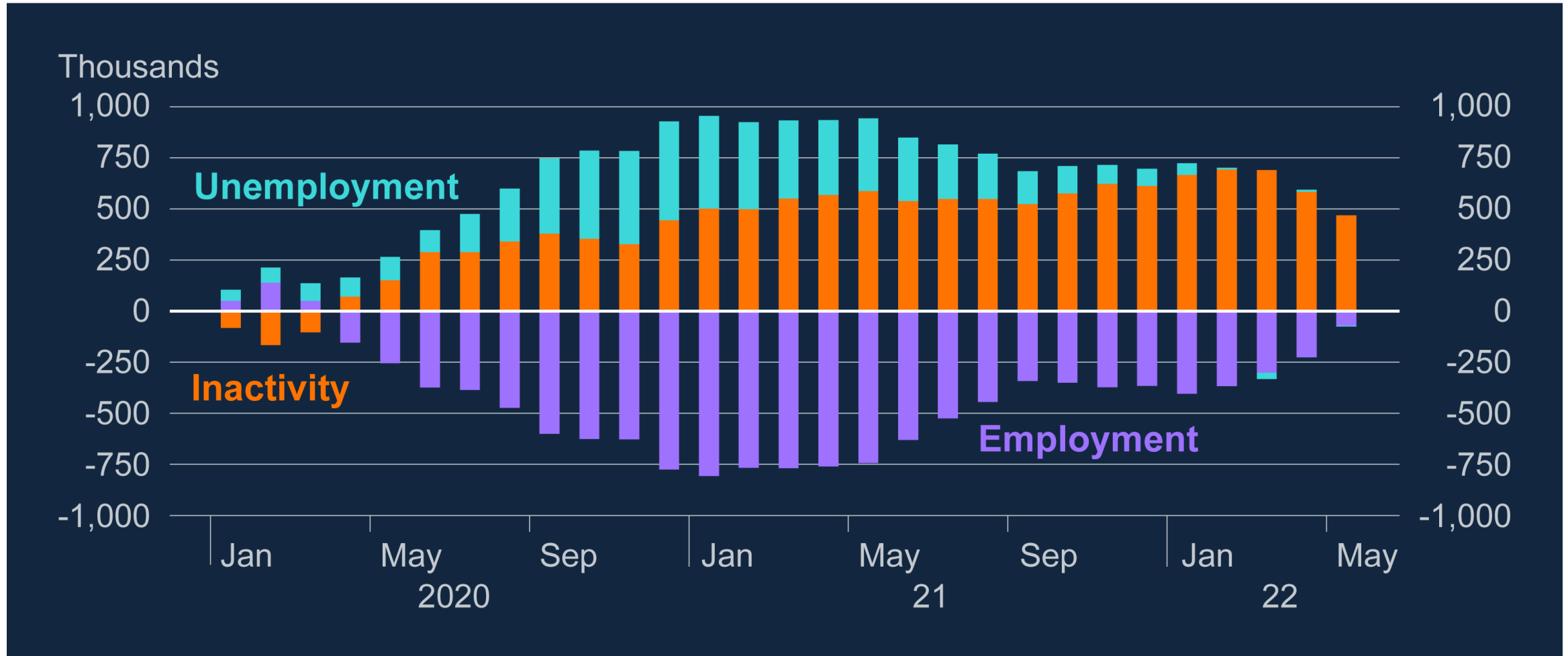




Why is the labour market so tight?

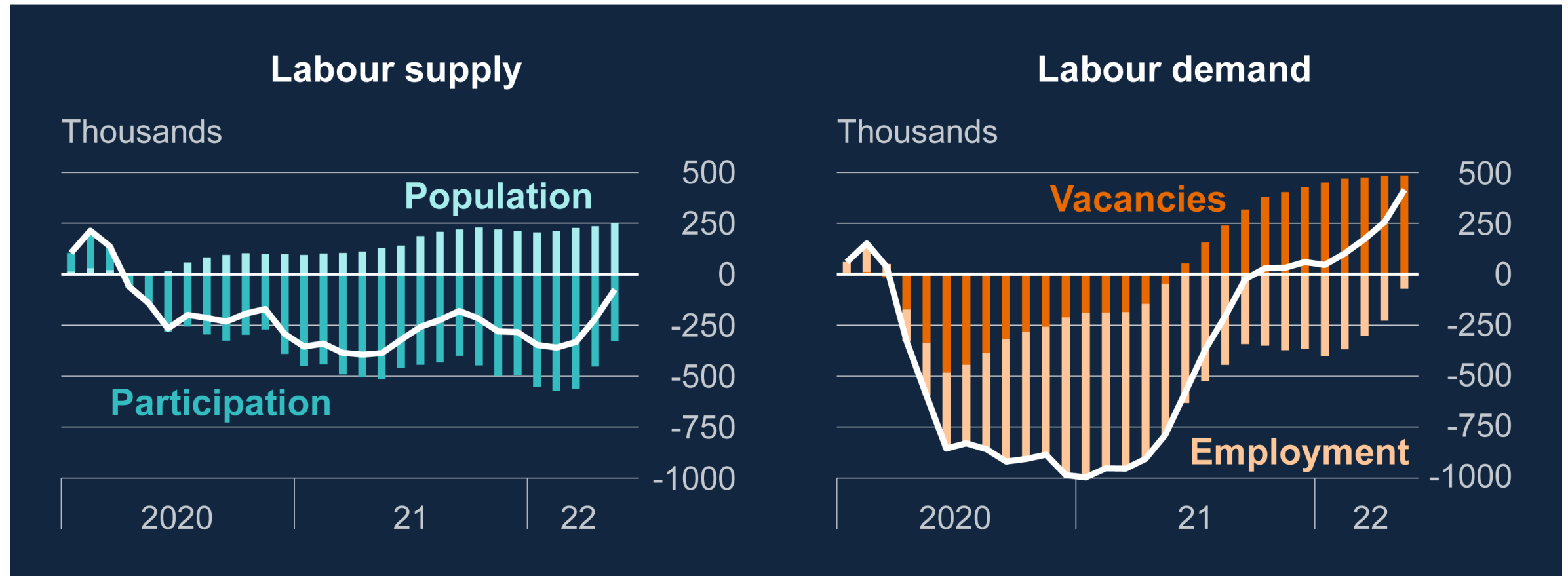
Unemployment has fallen back but the number of people inactive in the labour market remains much higher than pre-Covid

Changes in employment, unemployment and inactivity since 2019 Q4 (a)



Labour supply remains below its pre-Covid level while labour demand has recovered

Changes in labour supply and labour demand since 2019 Q4 (a)



Long-term sickness has driven much of the persistent rise in inactivity

Change in inactivity since 2019 Q4 by reason ^(a)

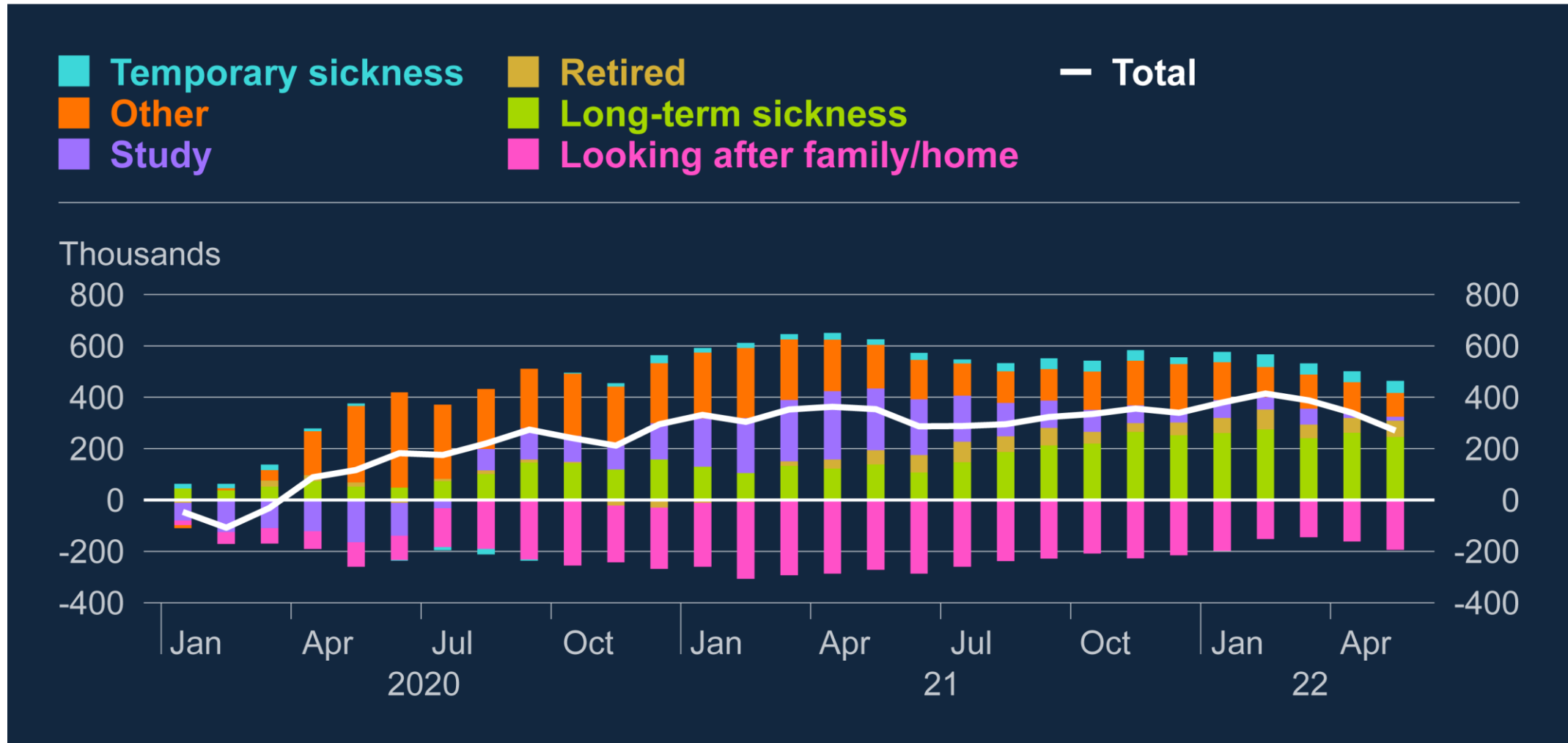
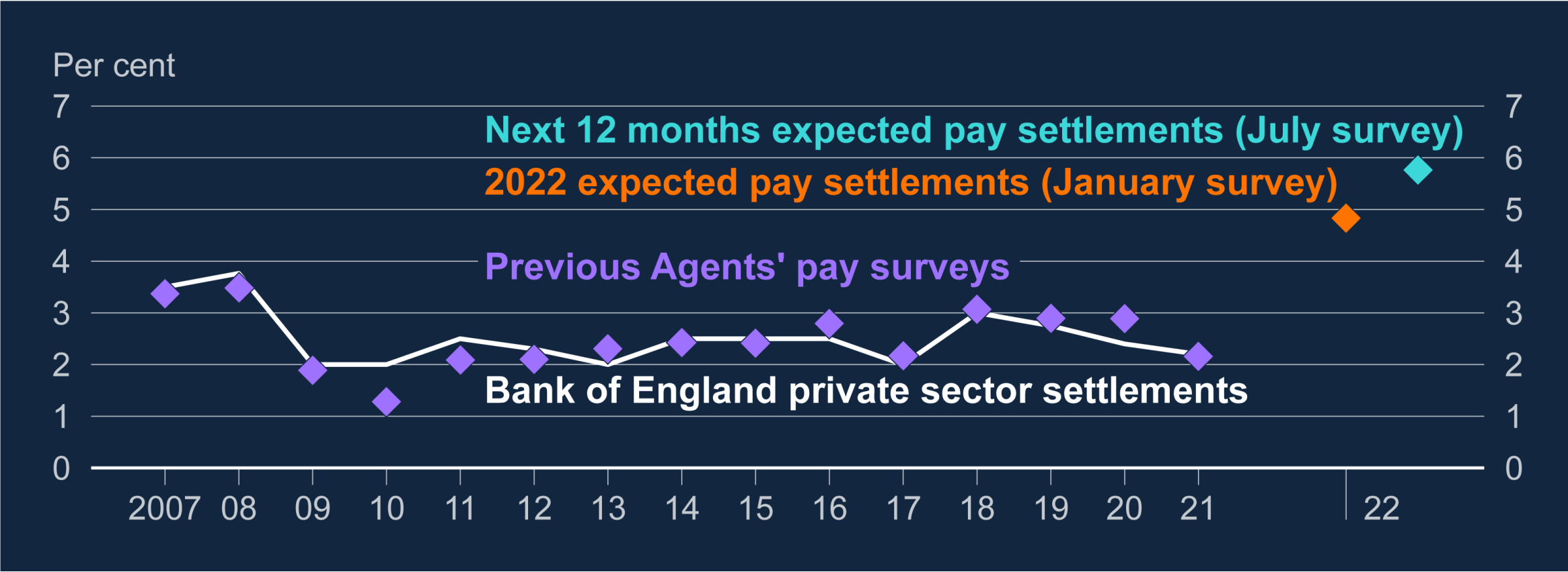


Chart 2.18: Respondents to the Agents' pay survey in July expected average pay settlements to be nearly 6% over the next 12 months, up from 5% in January

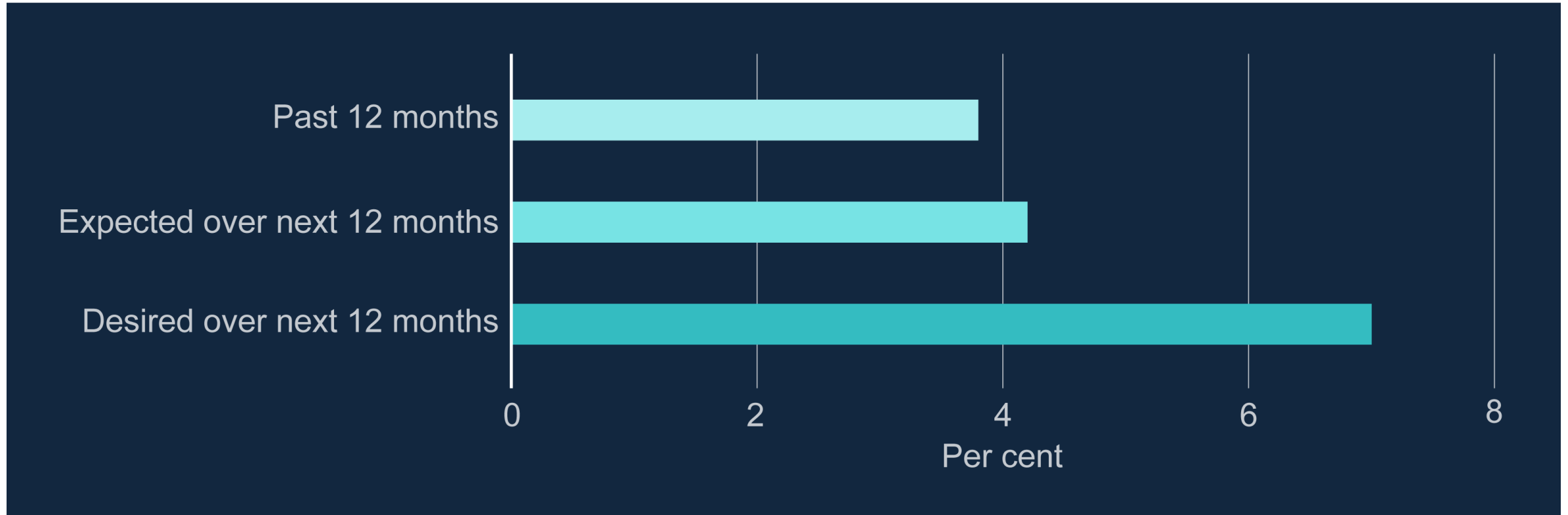
Pay settlements (a)



Sources: Bank of England, including the wage settlements database (which draws on information from the Bank's Agents, Incomes Data Research, Incomes Data Services, Industrial Relations Services and the Labour Research Department).

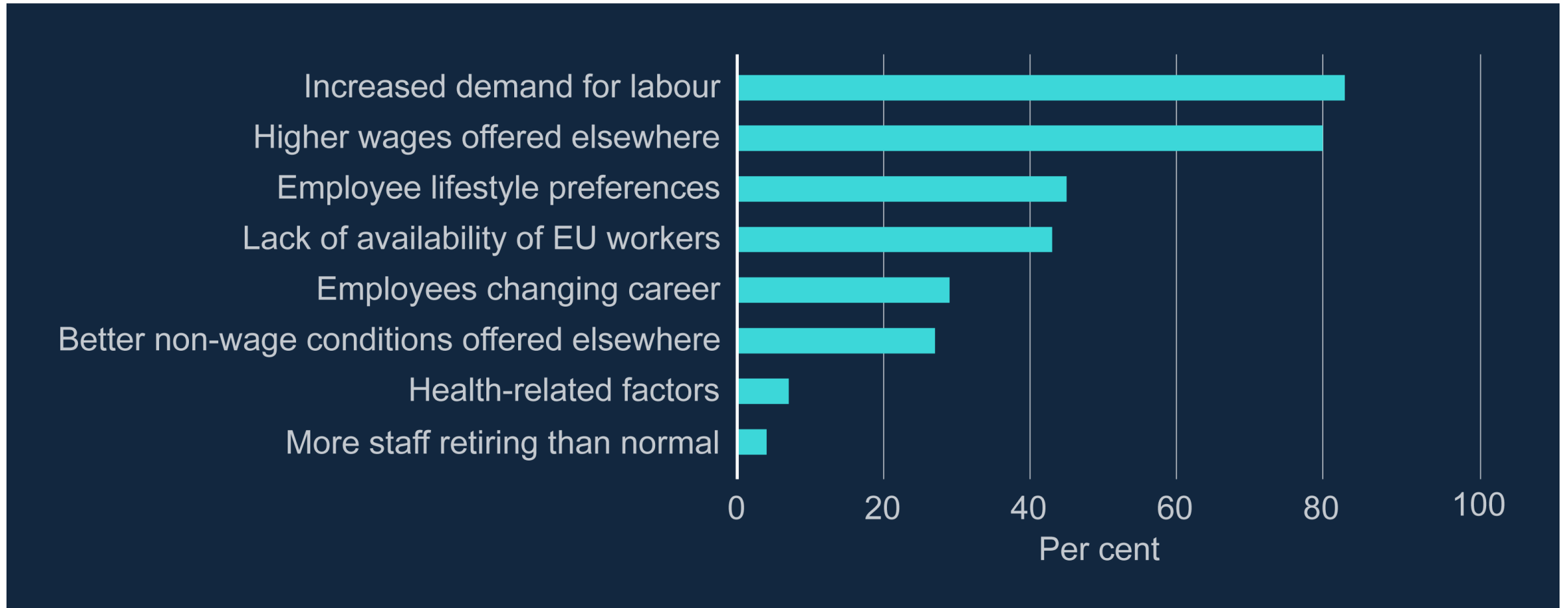
Firms expect to expand headcount further in the coming year, but by less than they would ideally like

Reported, expected and desired changes in businesses' staff numbers (a)



A lack of EU workers is one factor behind recruitment difficulties, although increased demand for labour and higher wages offered elsewhere appear most important

Sources of recruitment and retention difficulties for firms (a)

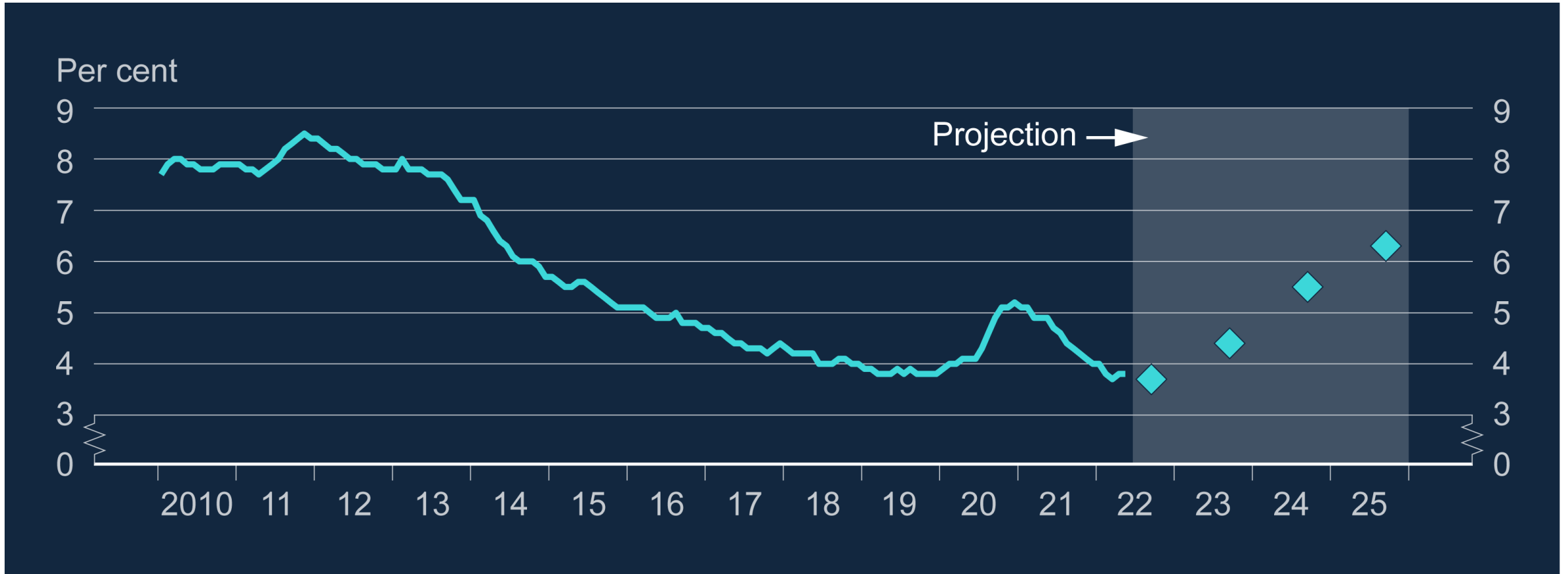




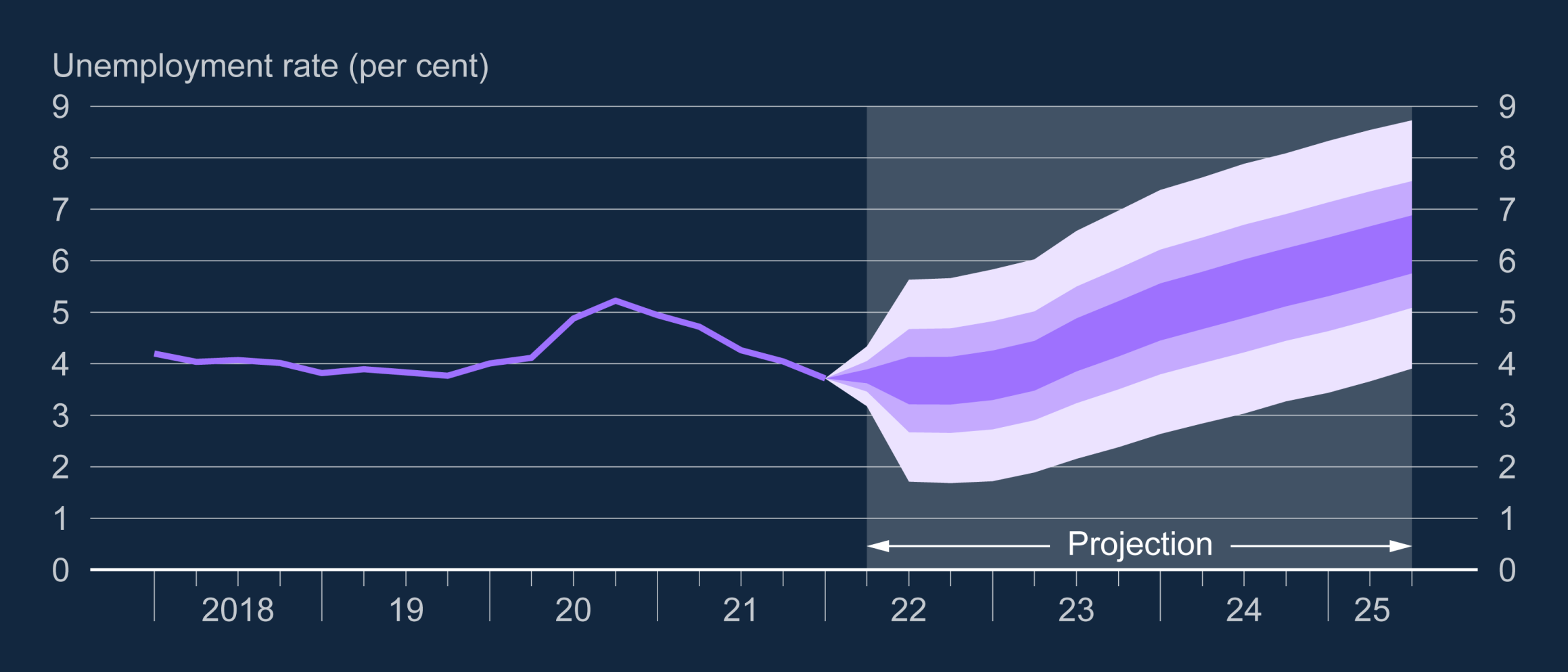
August MPR forecast

The unemployment rate is expected to rise from the middle of 2023 following a slowing in demand

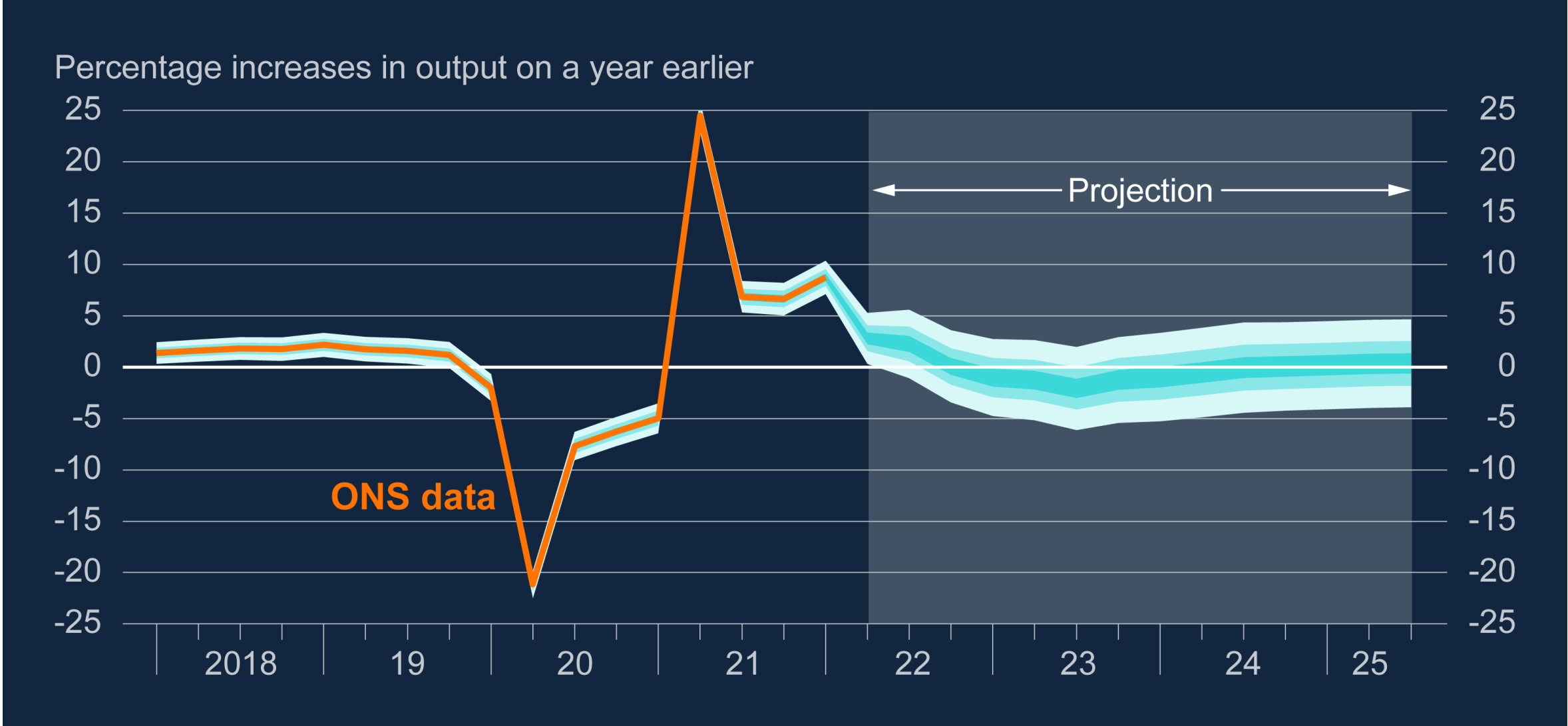
The unemployment rate and the MPC's baseline projection (a)



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



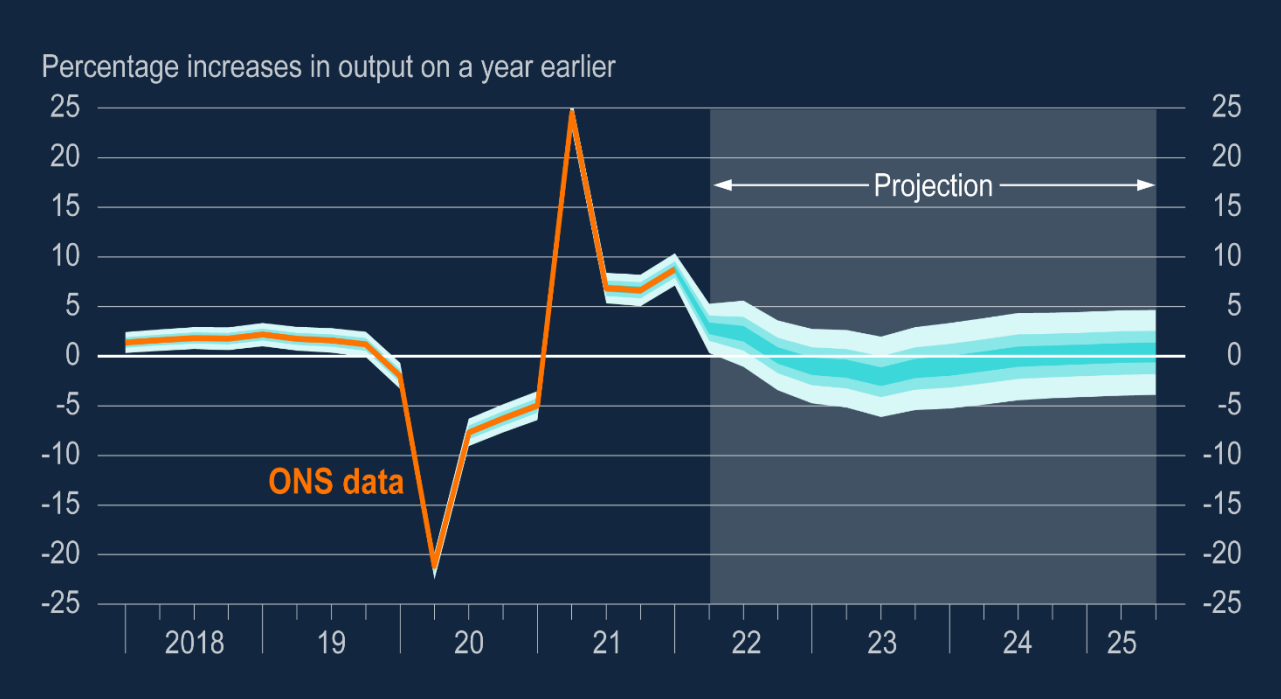
GDP growth projection based on market interest rate expectations, other policy measures as announced



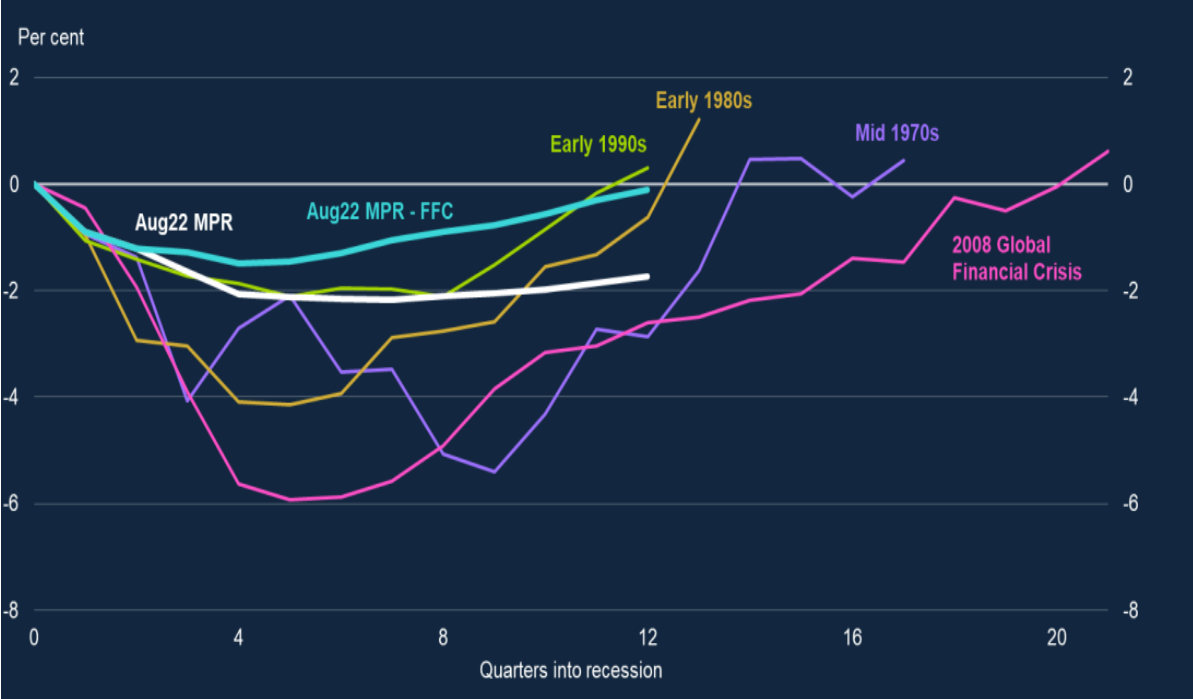
UK GDP is expected fall a little in Q2, and then rebound in Q3..

..but output is then projected to fall in each quarter from Q4-22 to Q4-23

August baseline GDP projection



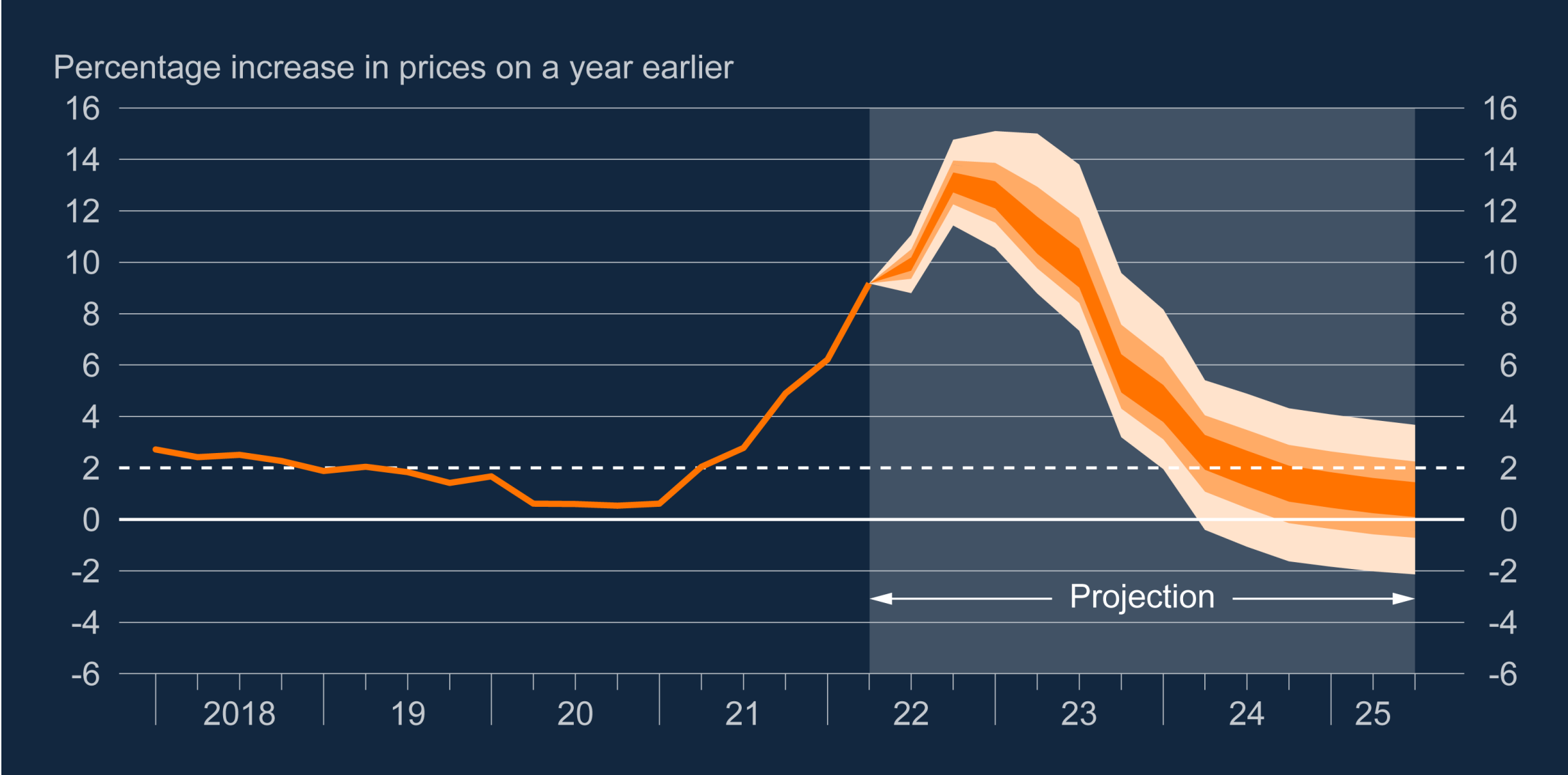
Comparison with past recessions



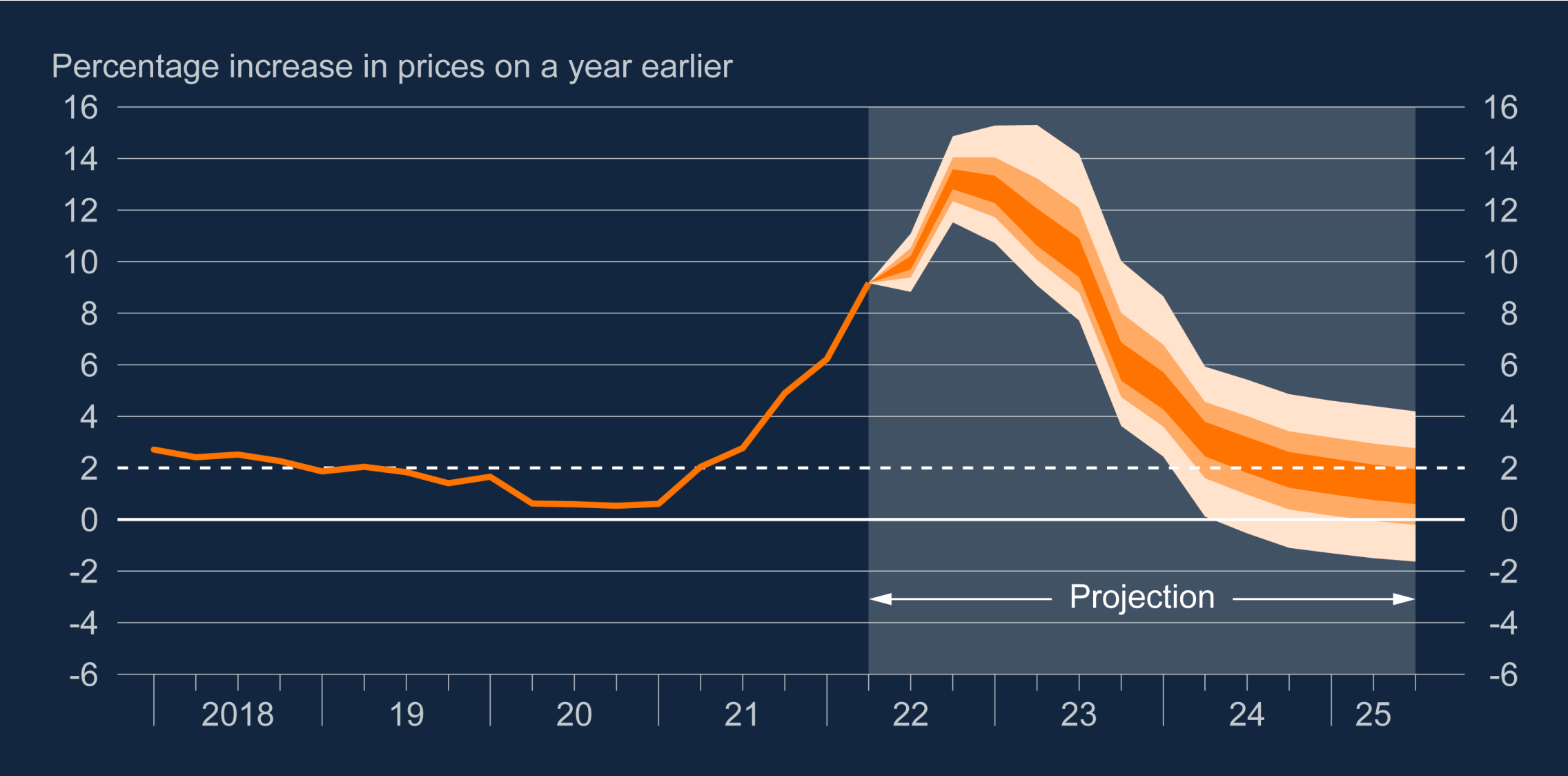
Based on market interest rate expectations, other policy measures as announced

Cumulative per cent change in GDP from the pre-recession level

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



CPI inflation projection based on constant interest rates at 1.75%, other policy measures as announced





Questions

The next Agency for Scotland **virtual** briefing is 11-11.30am on 19 September 2022

If you know of others who would like to be invited please contact scotlandevents@bankofengland.co.uk

