Bank of England

NABE Annual Meeting

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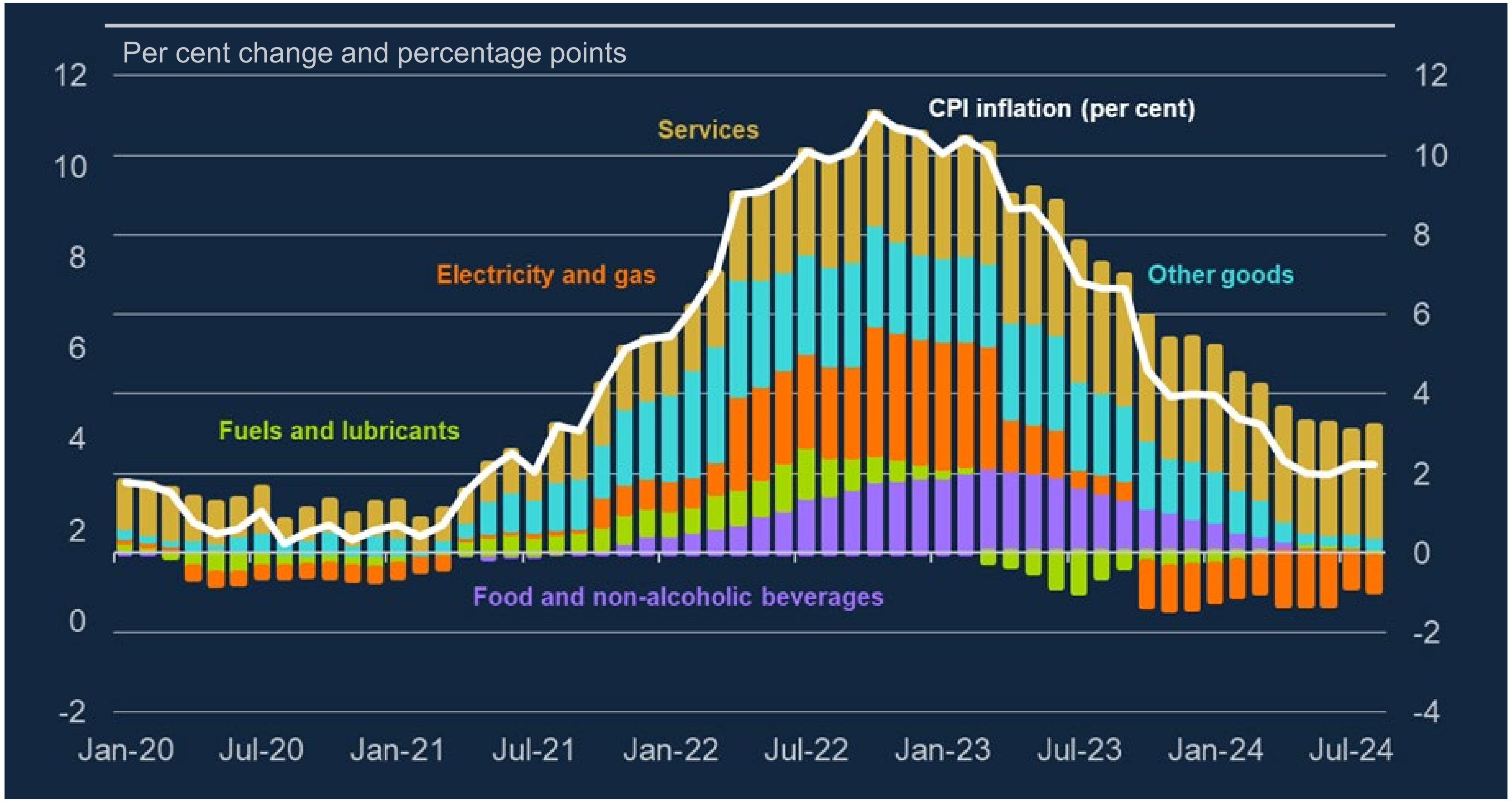
Current Outlook and Challenges

Headline inflation close to target, but services inflation remains stubbornly high

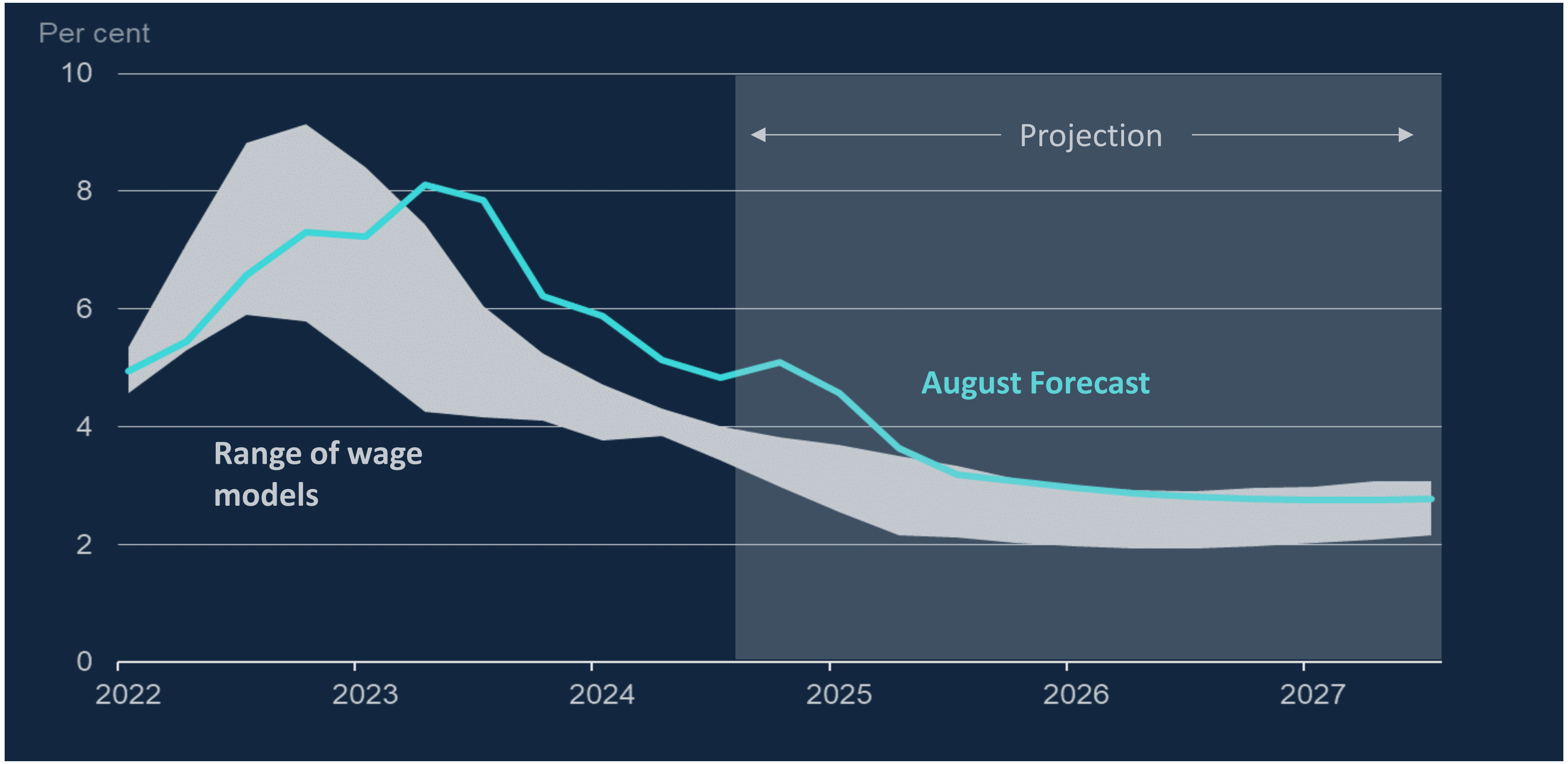
Annual inflation rate and respective contributions



Source: ONS and author's calculations. Latest data points are for August 2024.

Wage growth remains above what our models can explain

Projections for private sector regular average weekly earnings four-quarter growth

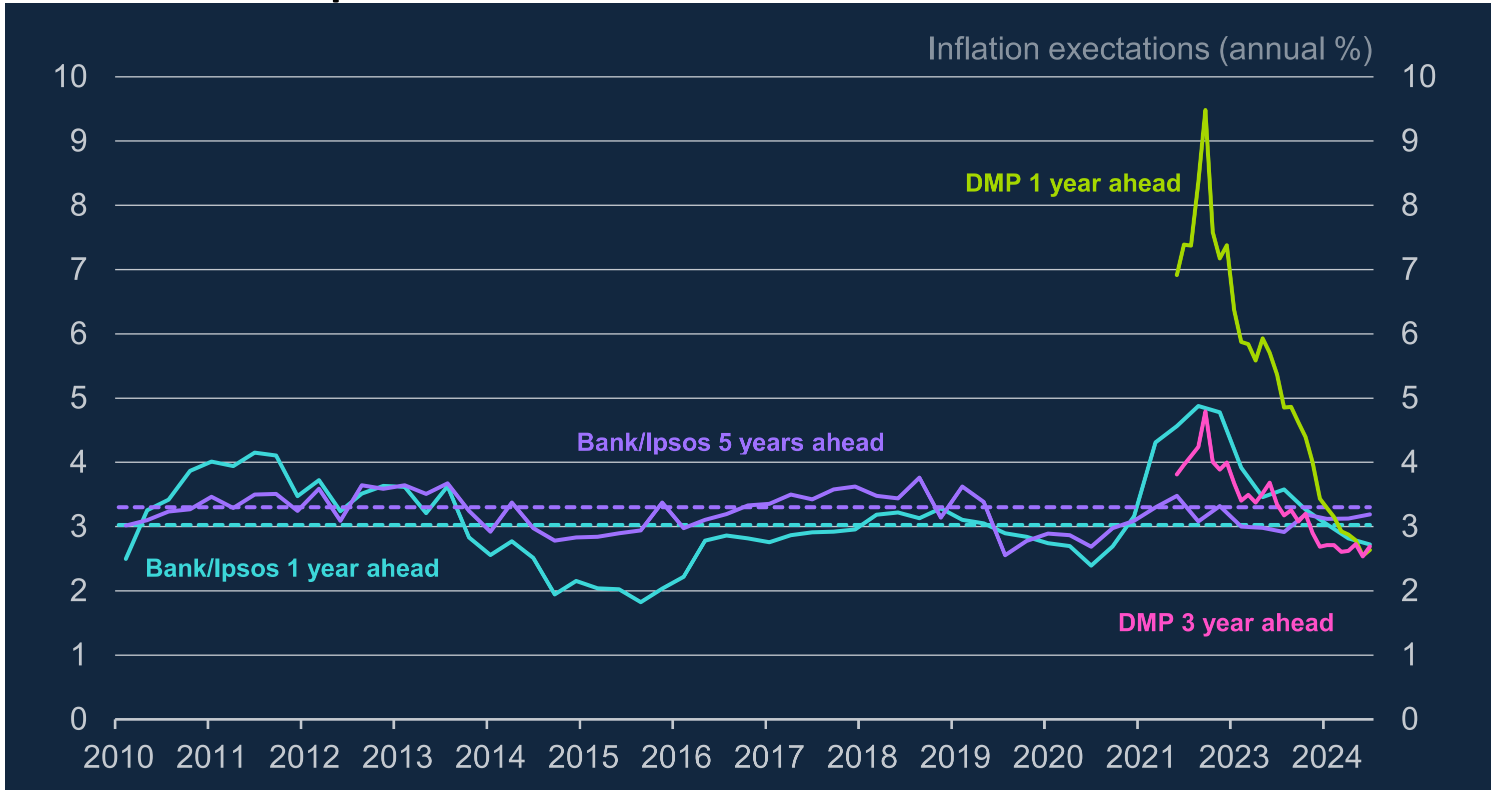


Source: ONS and author's calculations. Consistent with August 2024 MPR Forecast.

Notes: The shaded range represents a range of projections from three statistical models of nominal private sector regular average weekly earnings growth, including a wage equation based on **Yellen (2017)** as shown in Chart 2.16, a wage equation based on **Haldane (2018)** and a simple error-correction model based on productivity, inflation expectations and slack in the labour market as embodied in the difference between the actual unemployment rate and the Committee's estimate of the medium-term equilibrium rate. The projections are dynamic, multi-step ahead forecasts beginning at a point within the models' estimation periods and are sensitive to data revisions, which can lead to changes in the range over the past as well as over the forecast period.

Household and firm inflation expectations have fallen to historical averages

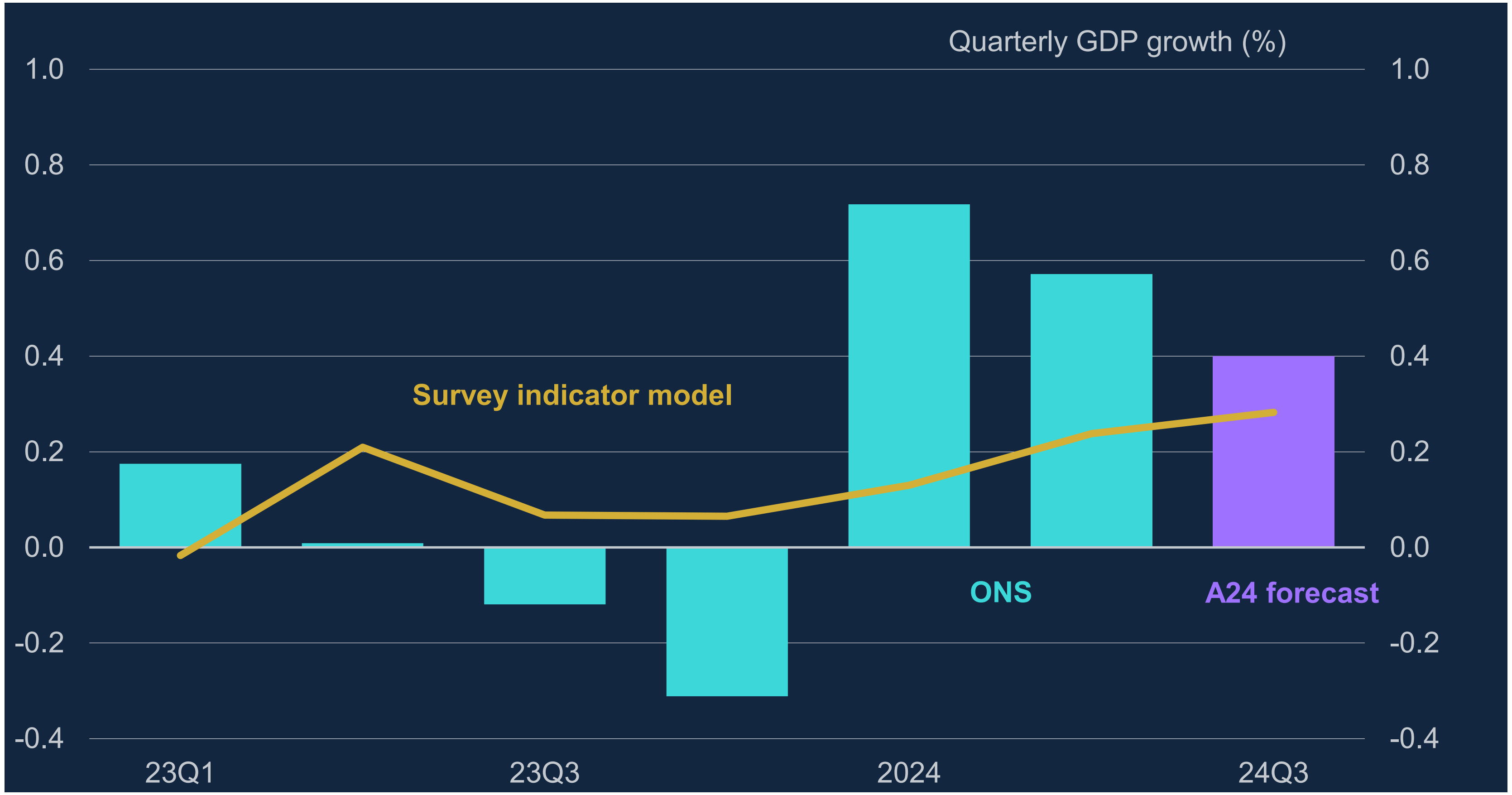
Short and medium-term inflation expectations



Sources: Bank/Ipsos Inflation Attitudes Survey and author's calculations.

Notes: Data shown are median responses from the Bank/Ipsos Inflation Attitudes Survey. 'Short-term inflation expectations' refers to inflation expectations in the next 12 months and 'Medium-term inflation expectations' refers to inflation expectations for inflation five years ahead. Dashed lines represent the series averages over 2010–19. A methodological break occurred during the Covid-19 pandemic that means a degree of caution should be taken when making long-run comparisons with these data, for more information please see the methodology notes linked in the latest IAS release for August 2024. Latest data points are for 2024 Q3. The DMP results on CPI inflation expectations are based on the question: "What do you think the annual CPI inflation rate will be in the UK, both one year from now and three years from now?'. We calculate the average CPI inflation rate during each DMP survey window.

GDP has surprised to the upside this year, but we think underlying growth is weaker



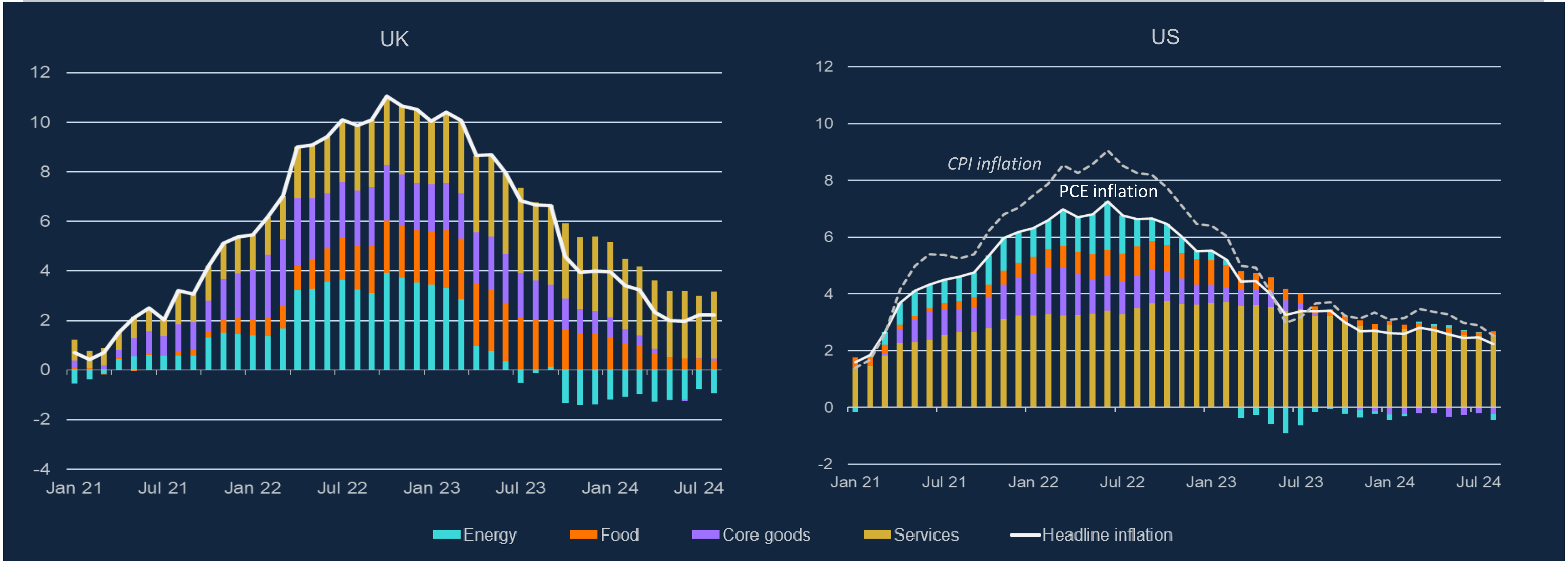
Sources: Bank/Ipsos Inflation Attitudes Survey and author's calculations.

Notes: A range of indicators inform the survey indicator model, including series from S&P Global/CIPS purchasing managers' index, British Chambers of Commerce (BCC) and the Confederation of British Industry (CBI). Indicators are weighted together according to their relative forecast performance in the recent past. Latest data points shown are for 2024 Q2.

UK vs US

Headline inflation is close to target in both jurisdictions

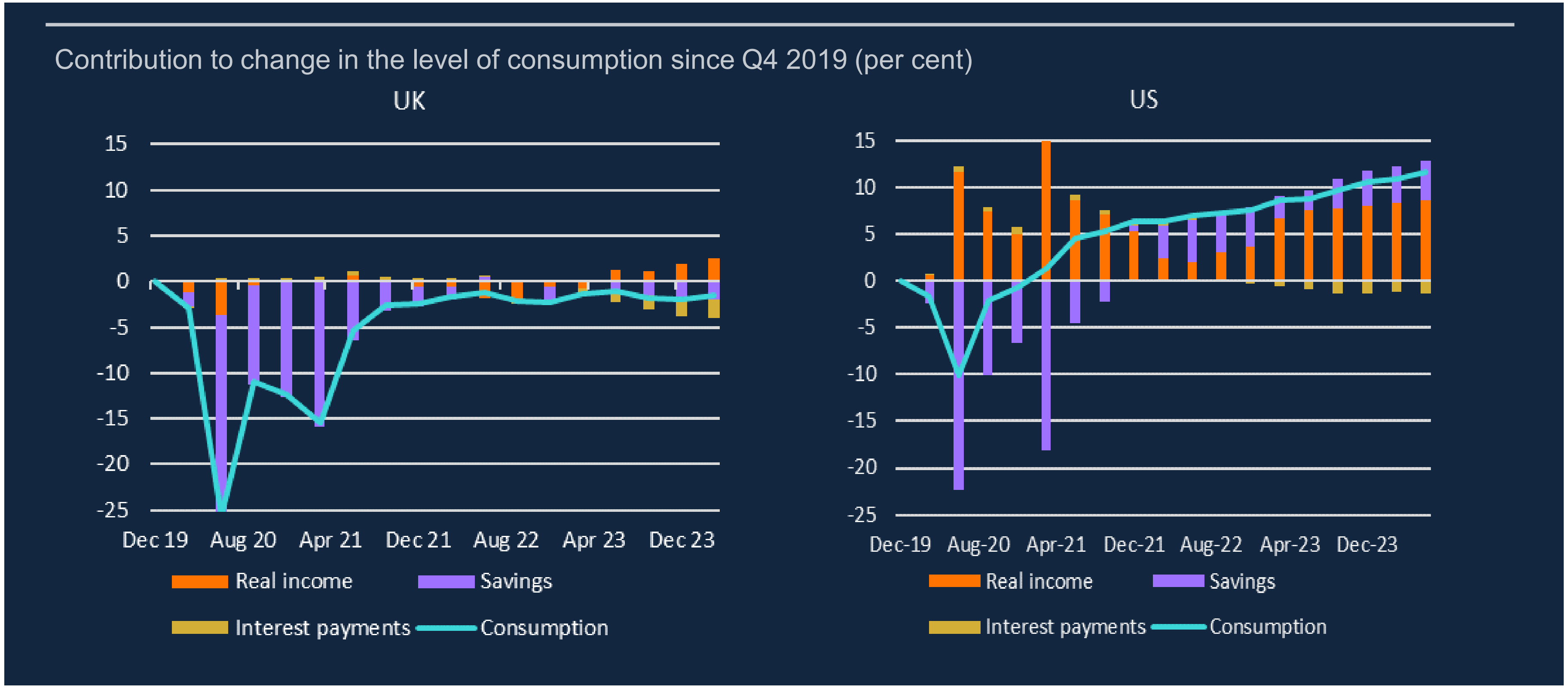
Contributions to headline inflation



Sources: ONS, BEA and author's calculations.

Consumption is still below pre-pandemic levels in the UK, while it's 12% higher in the US

UK vs US contributions to consumption

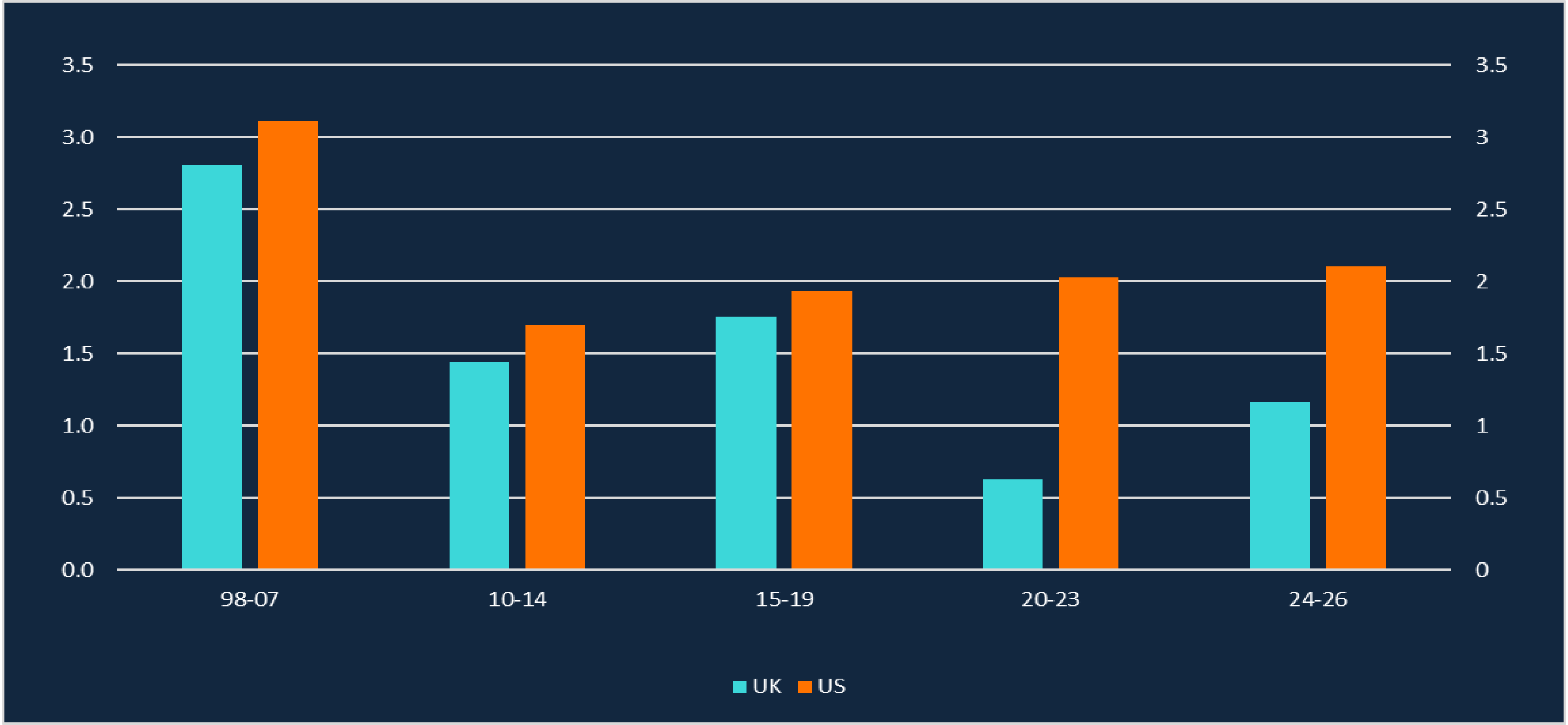


Sources: ONS, BEA and author's calculations.

Notes: Savings are defined here as the residual after subtracting the change in real income and interest payments from real consumption. Latest data to Q1 2024.

Potential growth is expected to be much higher in the US

Average annual potential growth rates, selected periods



Sources: Bank of England, Congressional Budget Office, European Commission and author's calculations.
Notes: Model based estimates and projections of potential GDP growth. UK estimates obtained from the **February 2024 MPR**. US estimates obtained from **The Budget and Economic Outlook: 2024 to 2034** (published June 2024).