



BANK OF ENGLAND

# *Inflation Report* presentation

February 2013

Stephen Collins

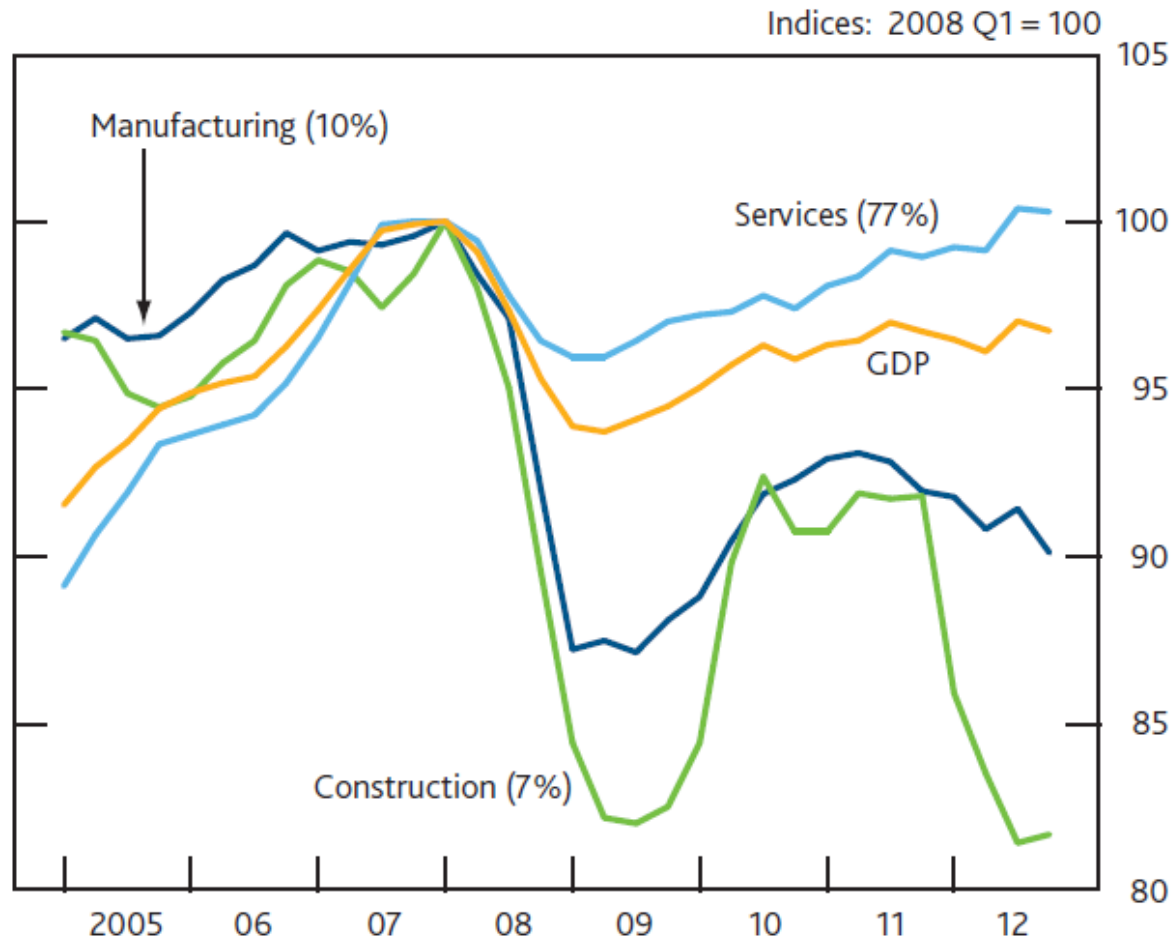
Agent

Agency for South West England

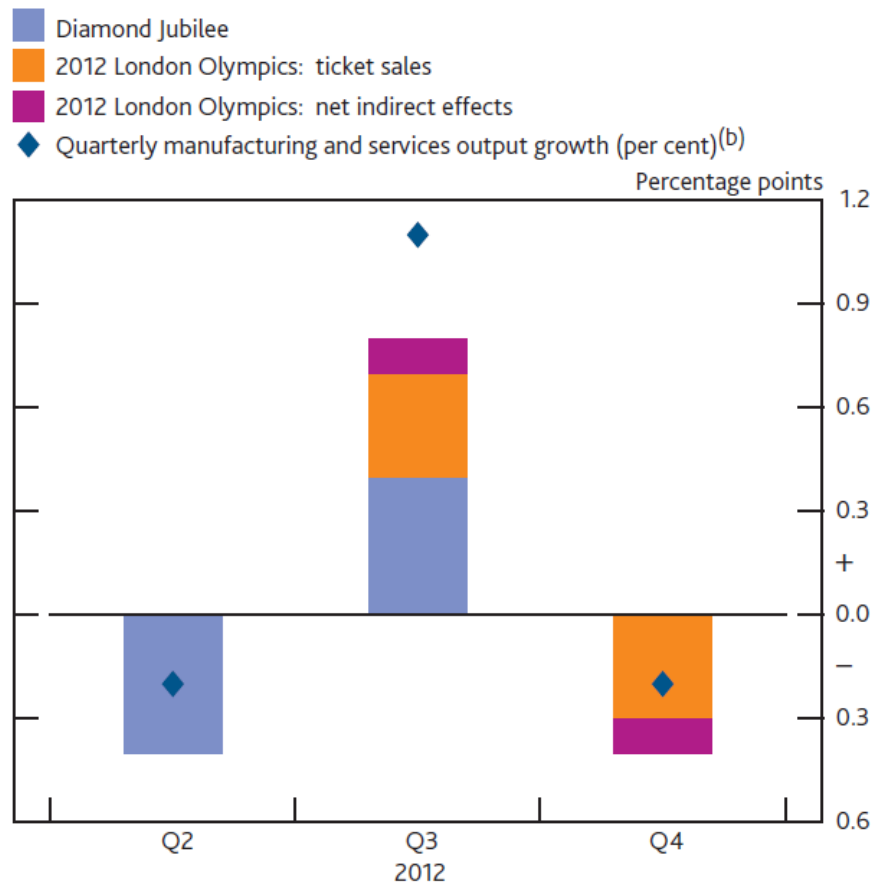
# OUTPUT, DEMAND AND SUPPLY



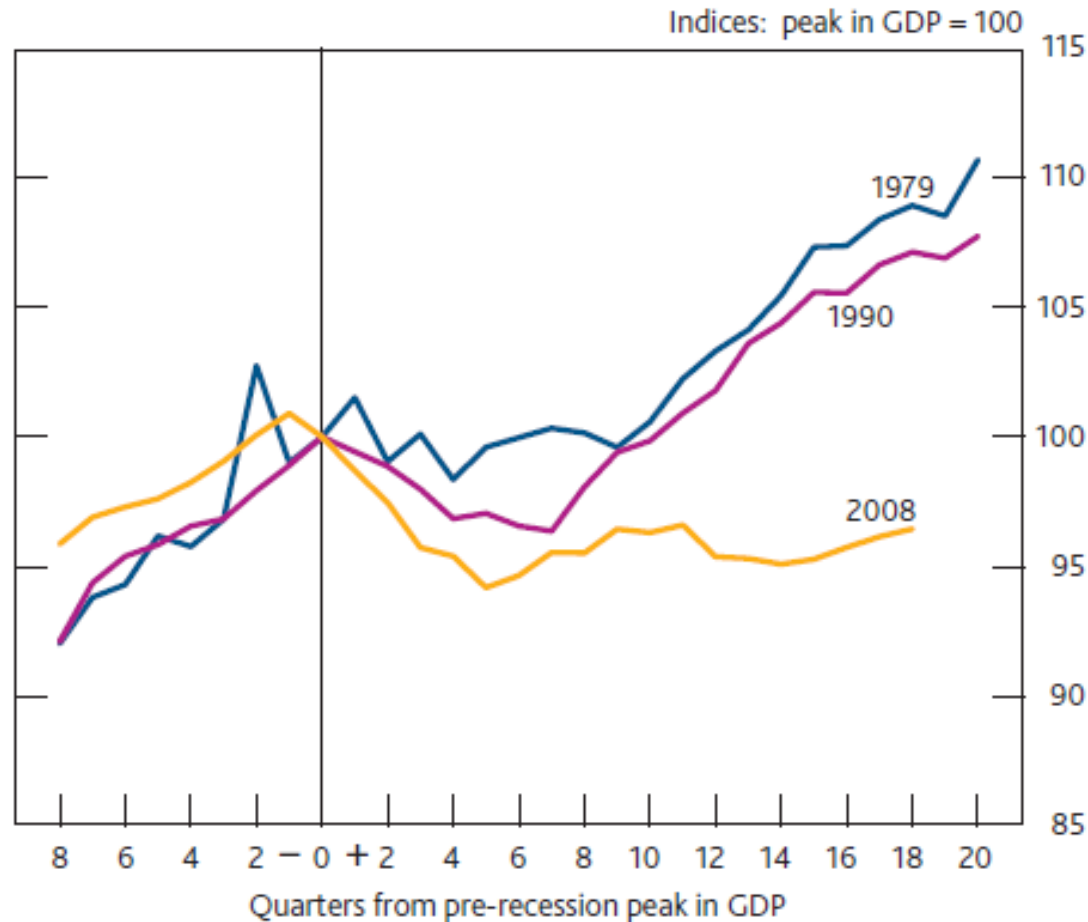
# GDP and sectoral output



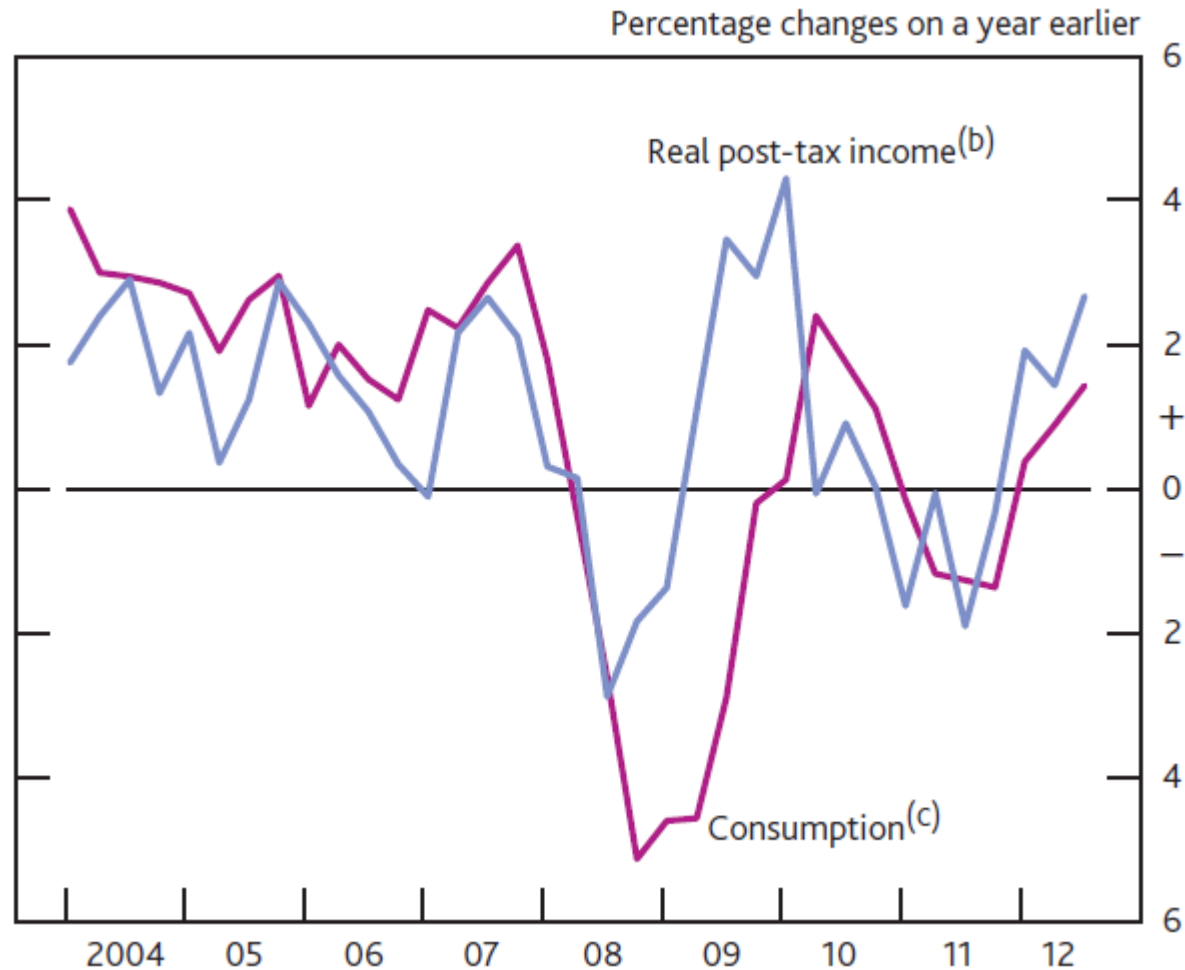
# Bank staff estimates of the contributions of special events to quarterly growth in manufacturing and services output



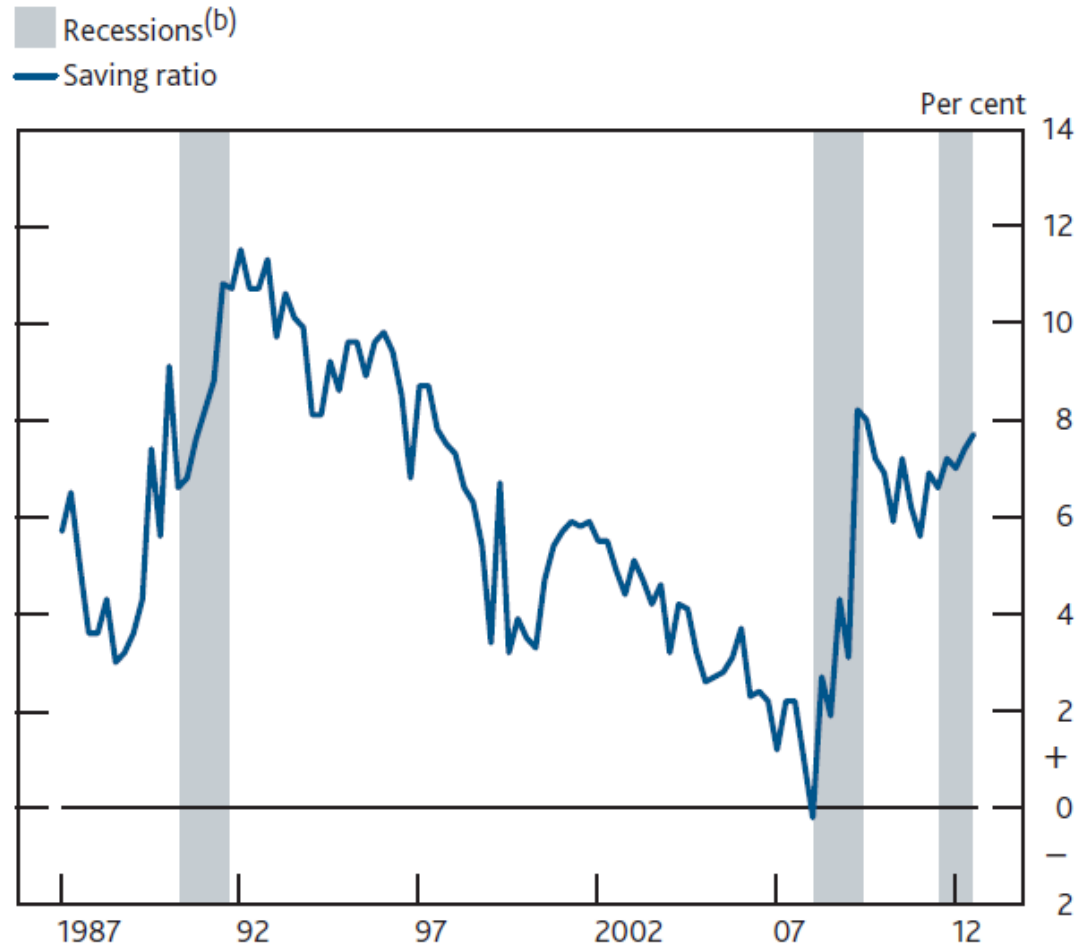
# Level of consumption compared with previous recessions



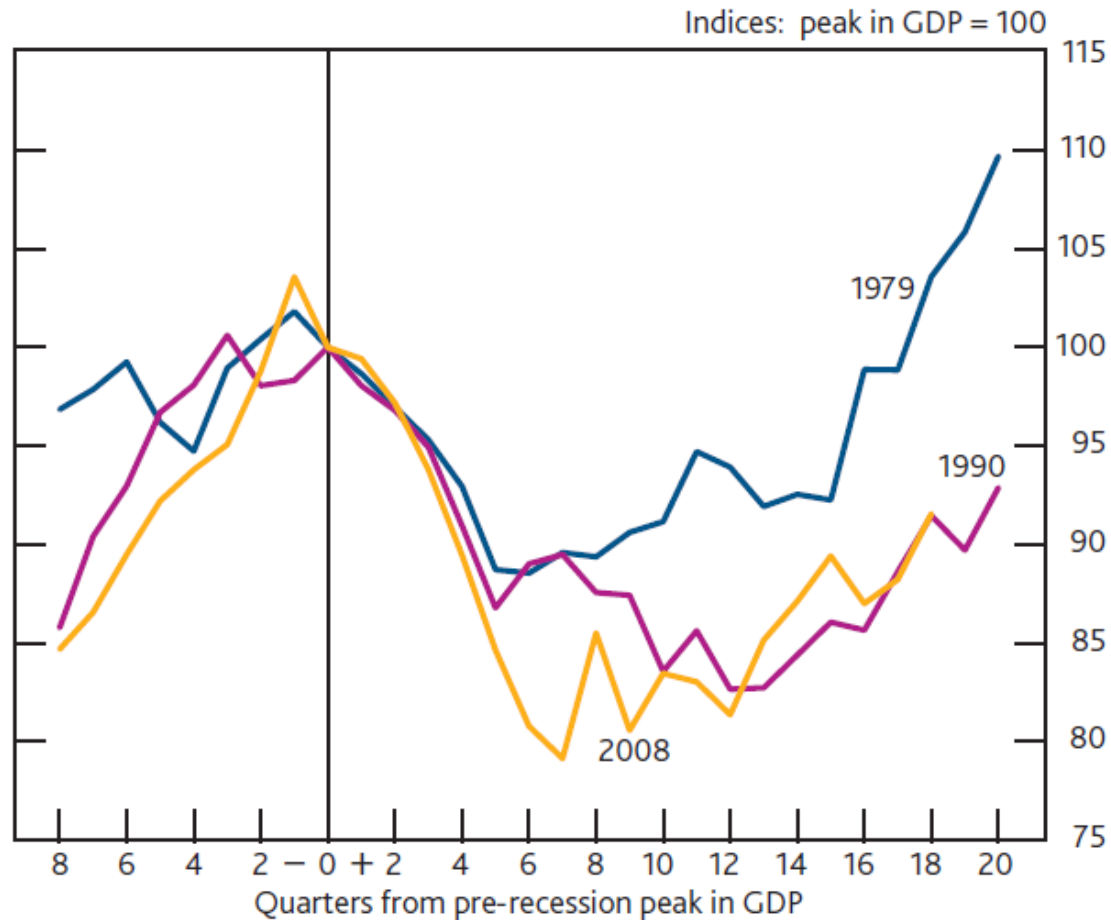
# Household consumption and real income



# Household saving ratio

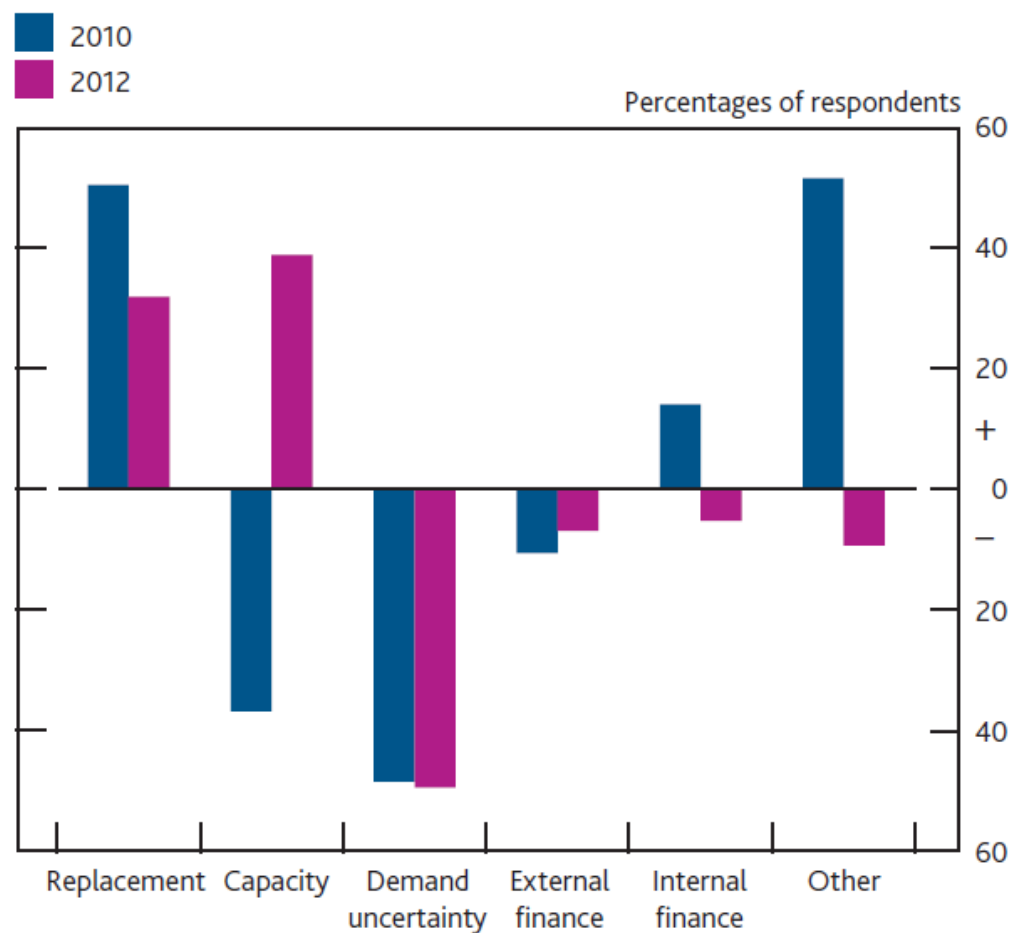


# Level of business investment compared with previous recessions

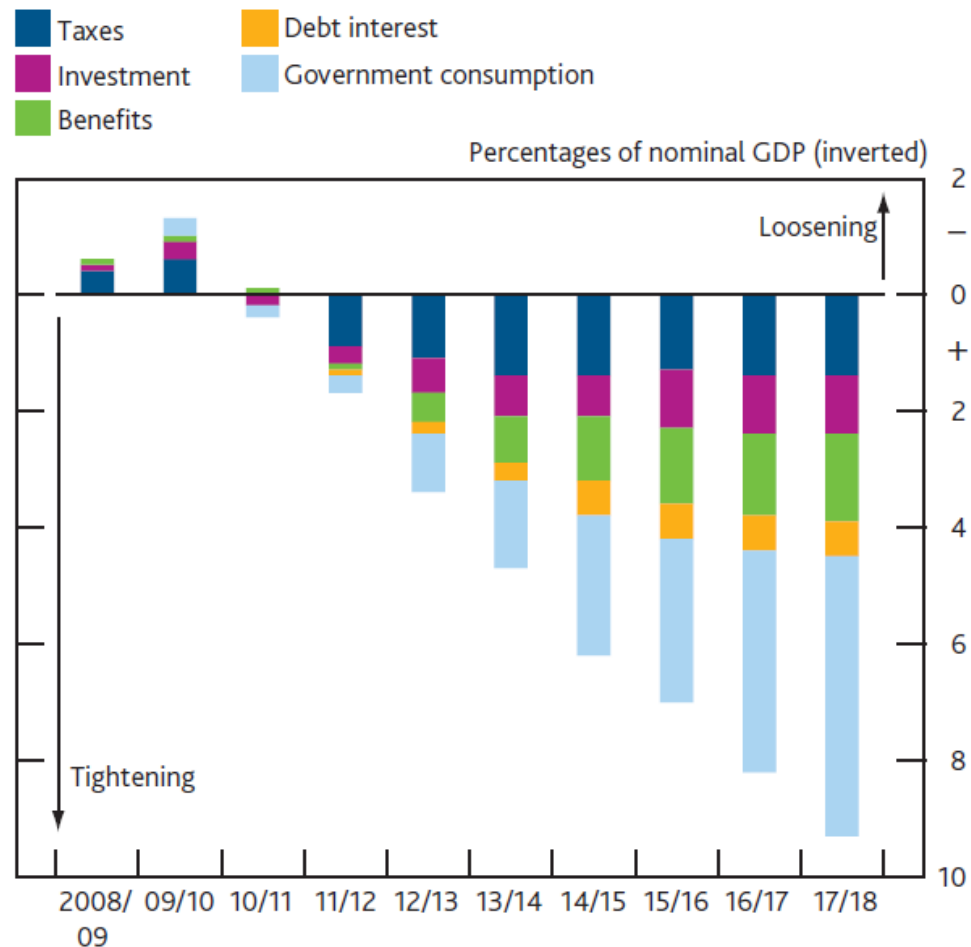




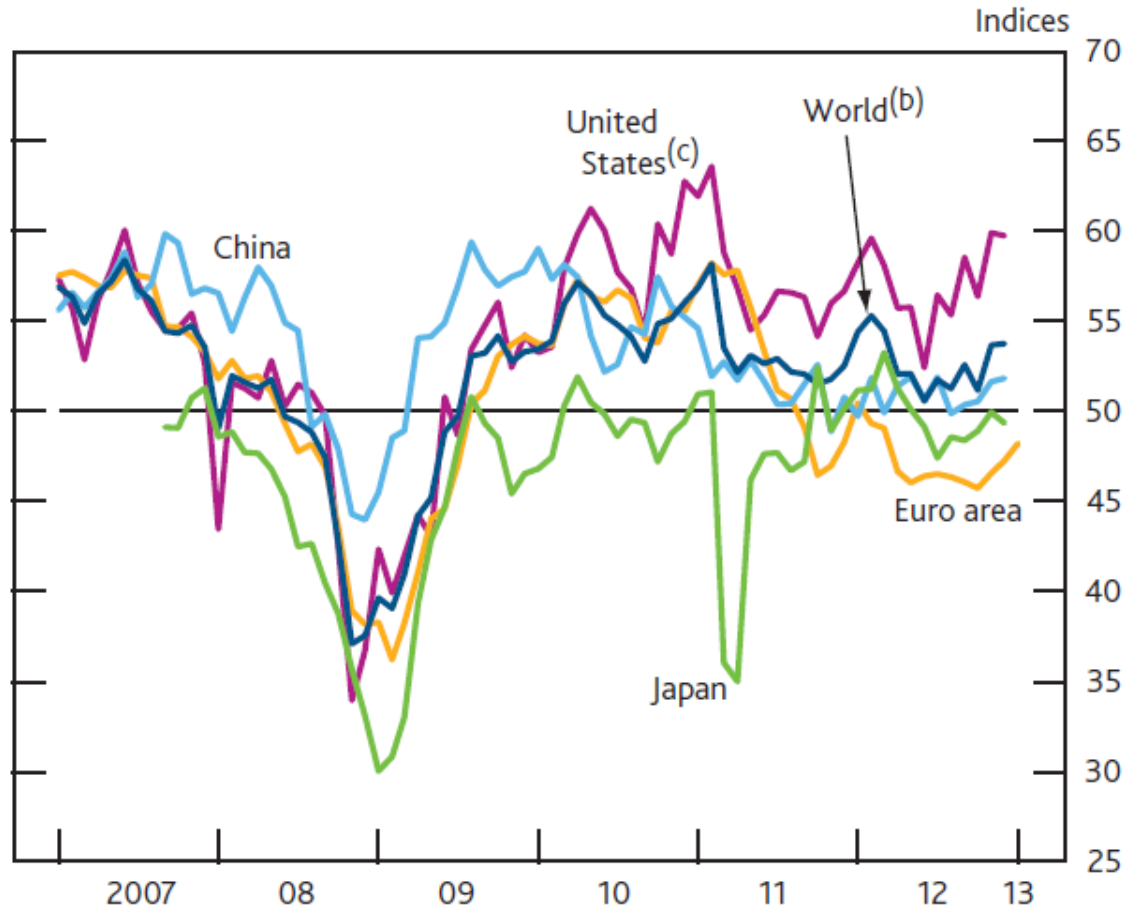
# Agents' survey: key drivers of business investment decisions



# Composition of the fiscal consolidation



# Survey measures of global output growth



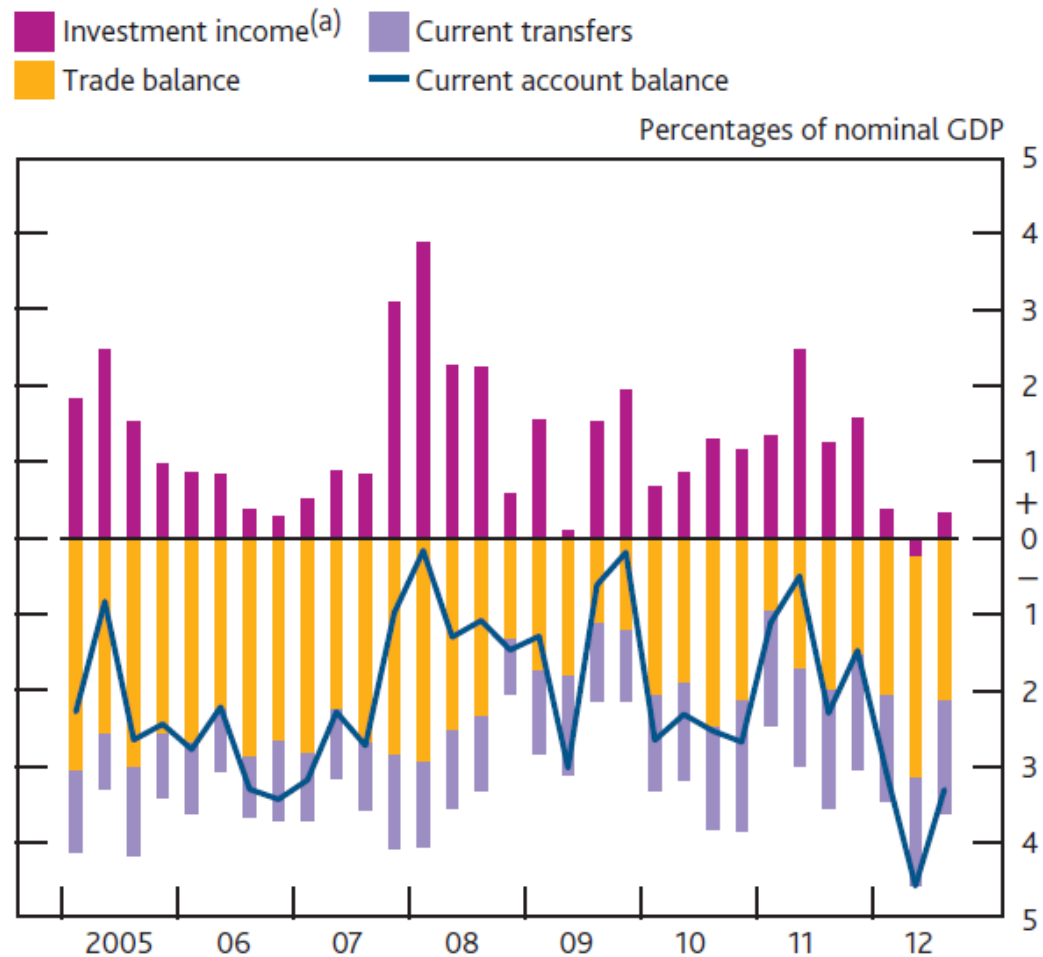
Sources: HSBC, JPMorgan Chase & Co., Markit Economics, Nomura, US Bureau of Economic Analysis and US Institute for Supply Management (ISM).

South West Agency

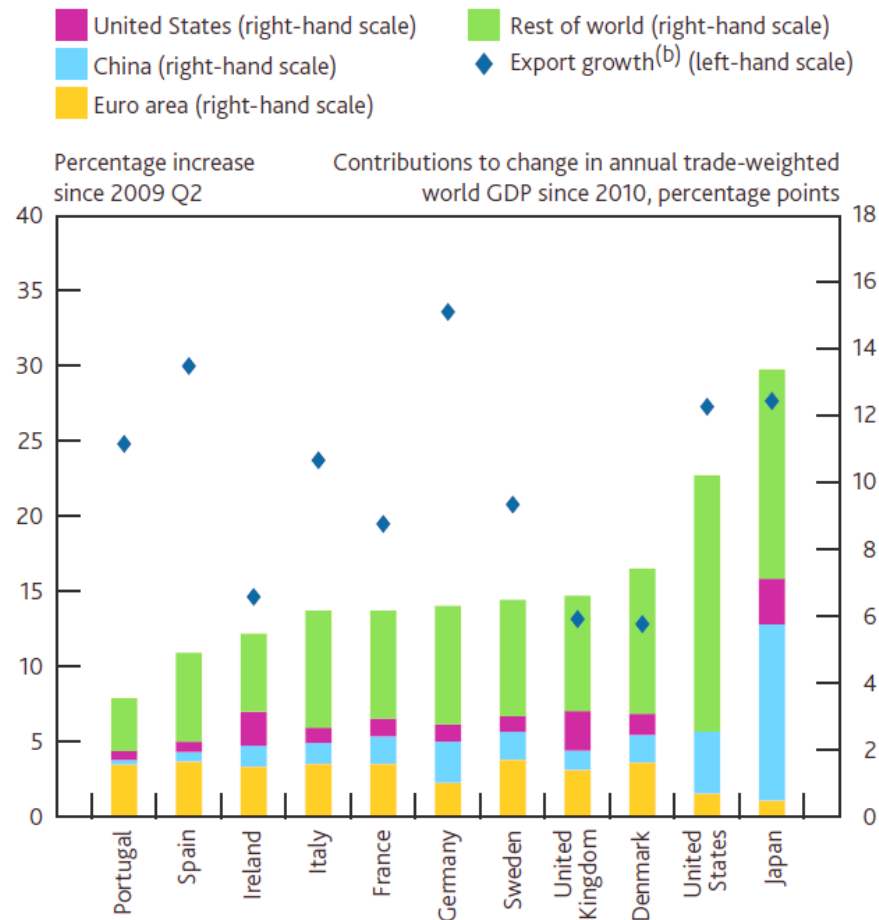


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# UK current account



# International export growth and external demand conditions



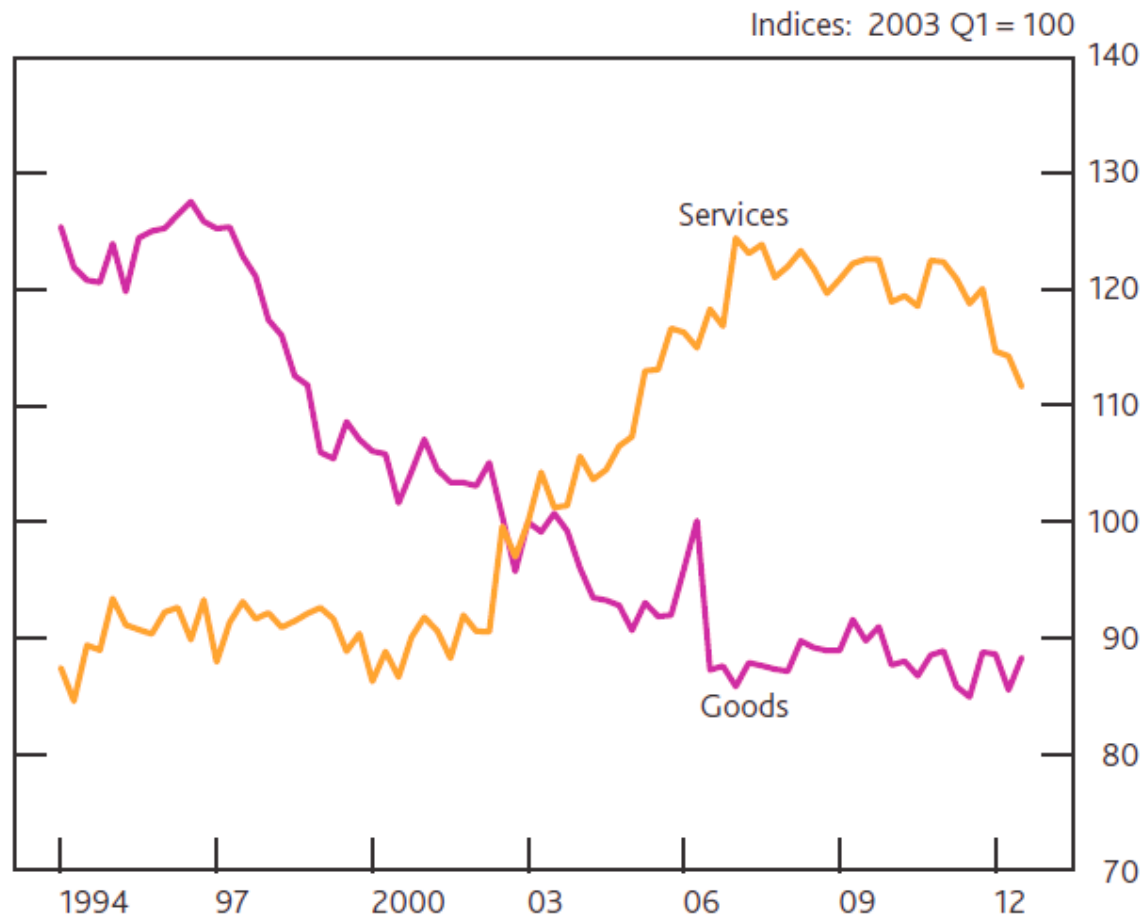
Sources: IMF, OECD, UN Comtrade (DESA/UNSD) and Bank calculations.

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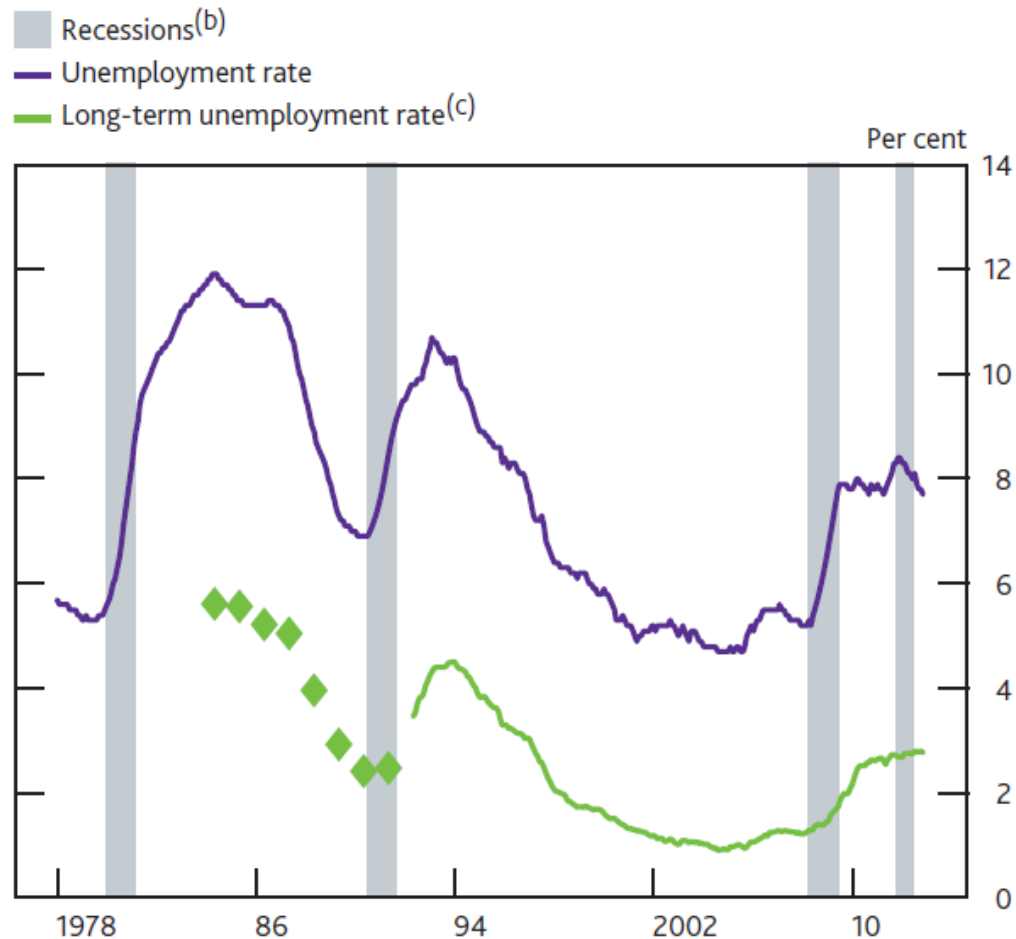


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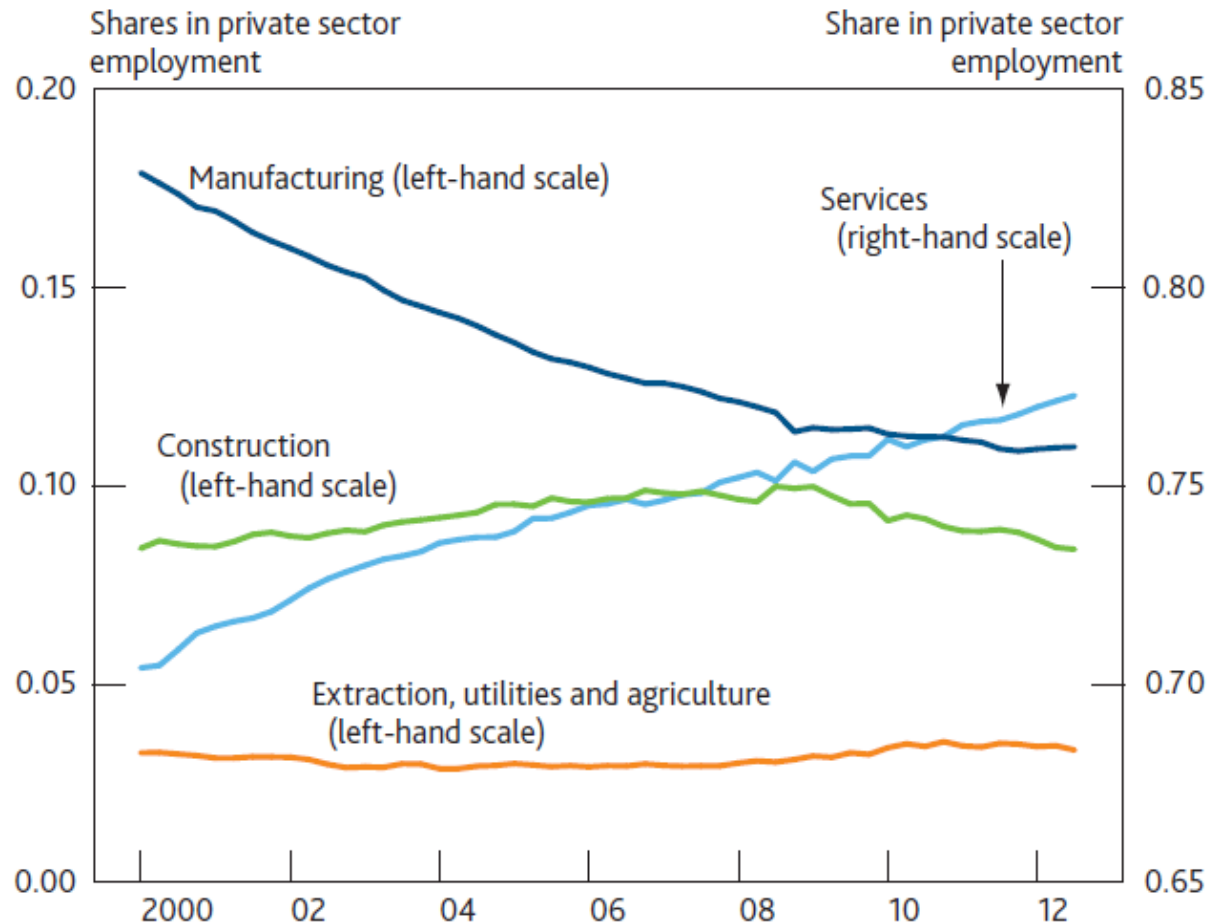
# Ratios of UK exports to UK-weighted rest of G7 imports



# Unemployment rates

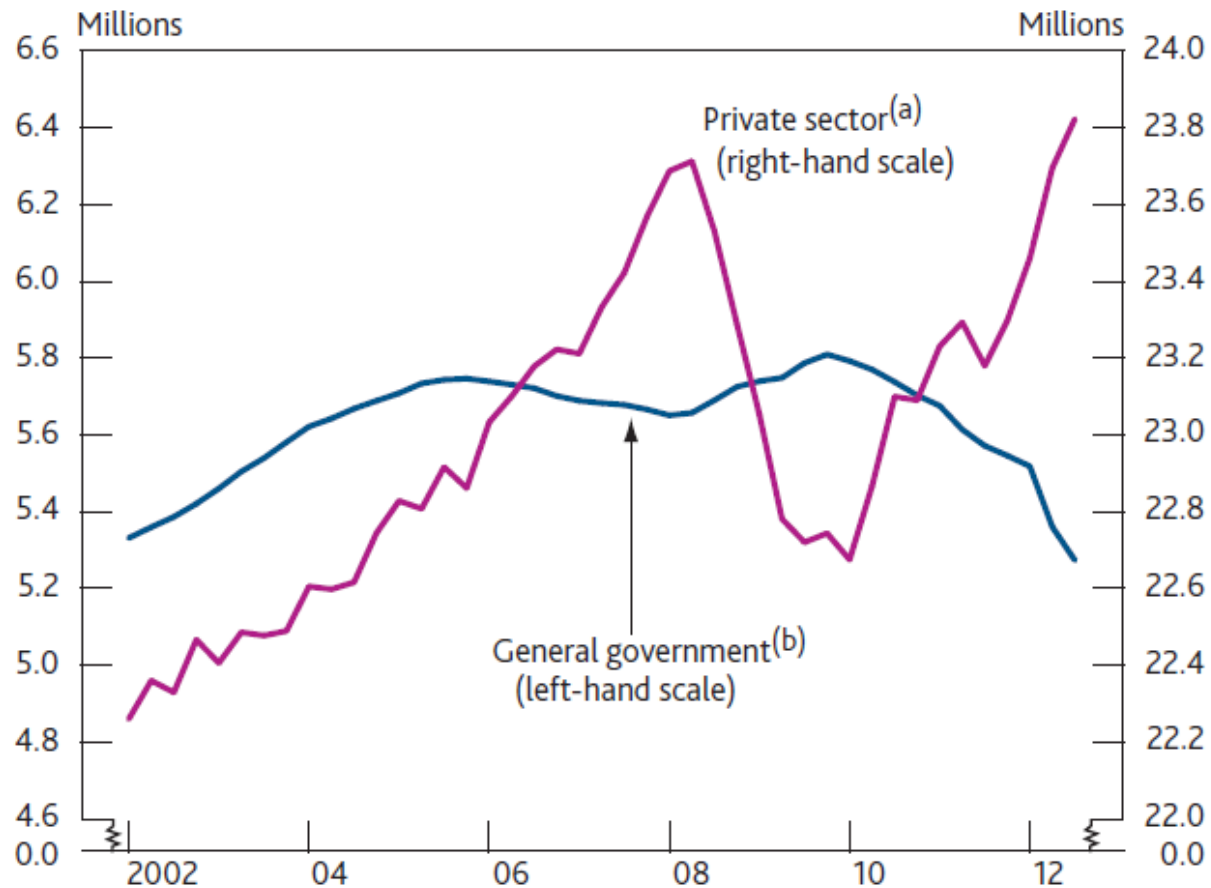


# Sectoral employment shares

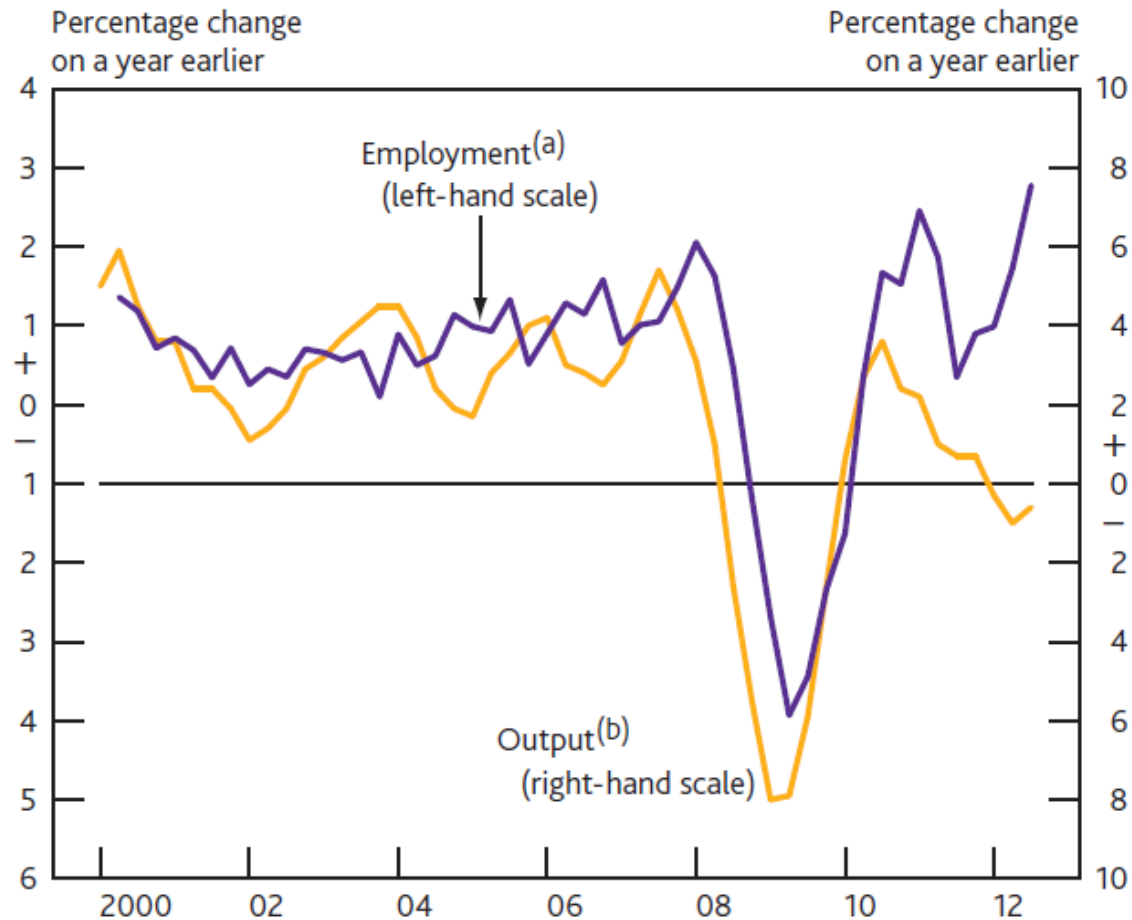




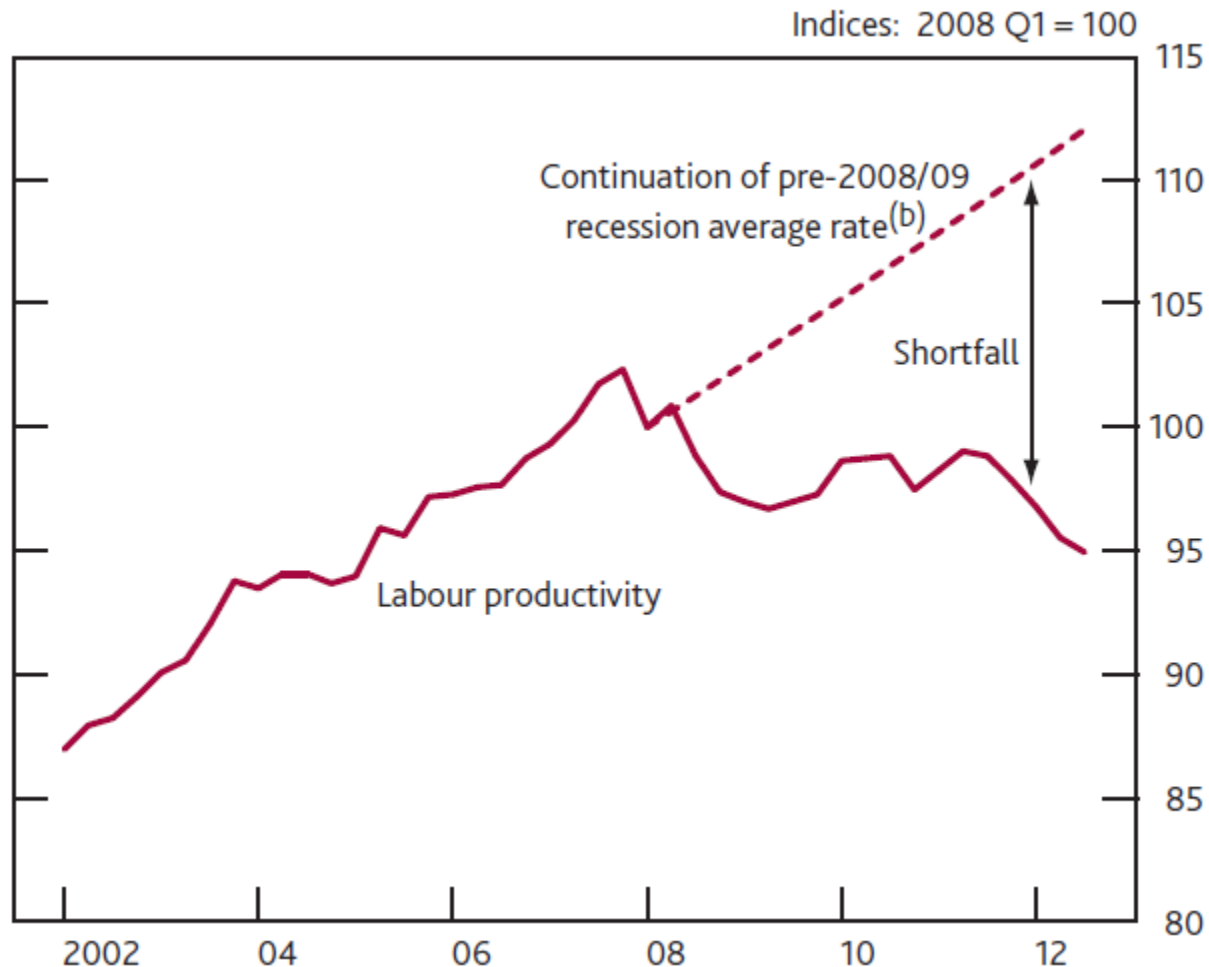
# Private sector and general government employment



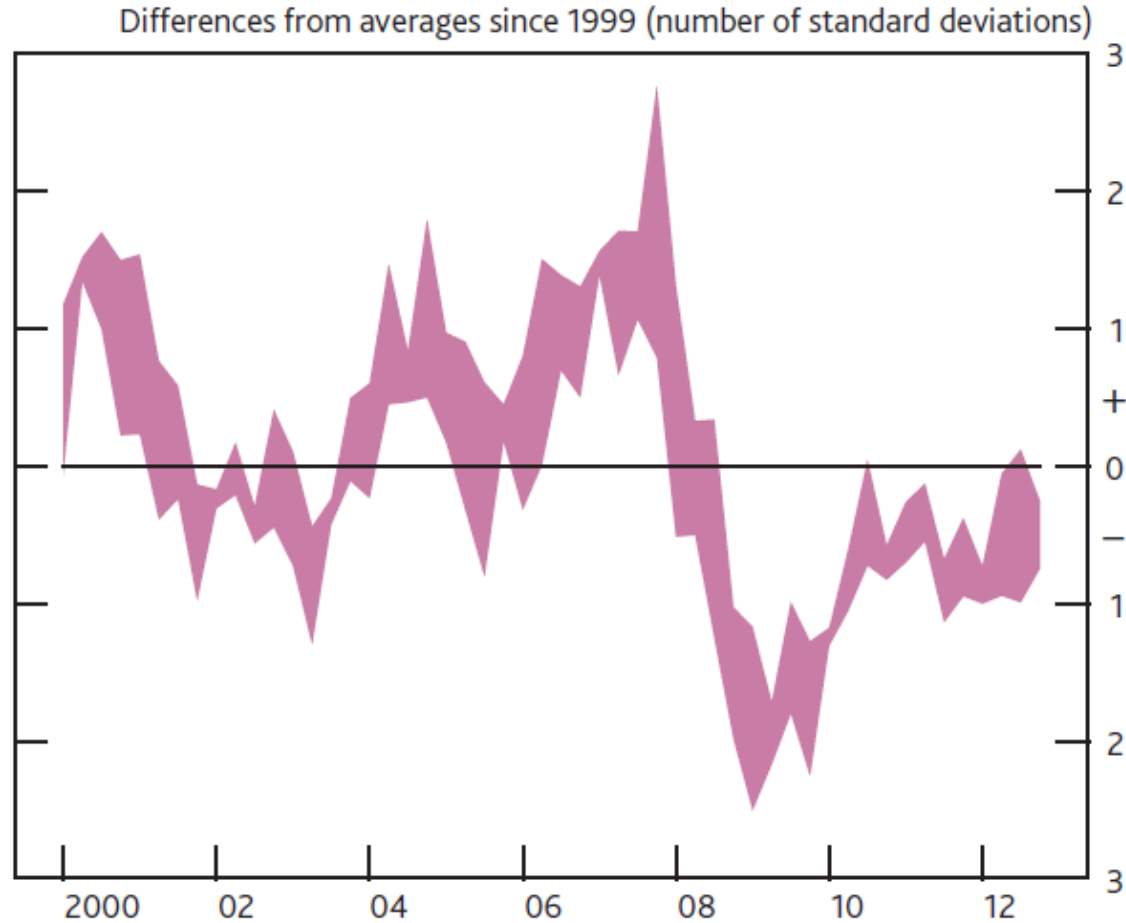
# Private sector output and employment



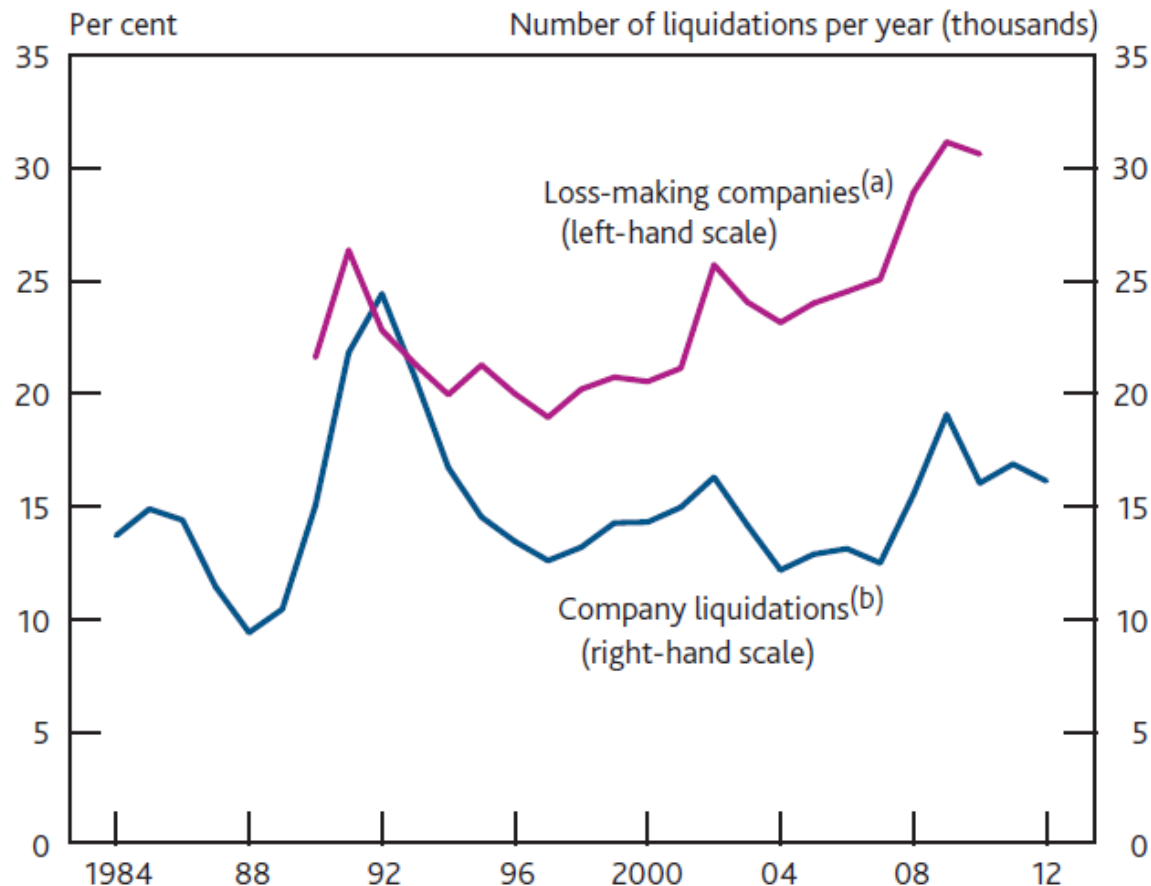
# Private sector labour productivity



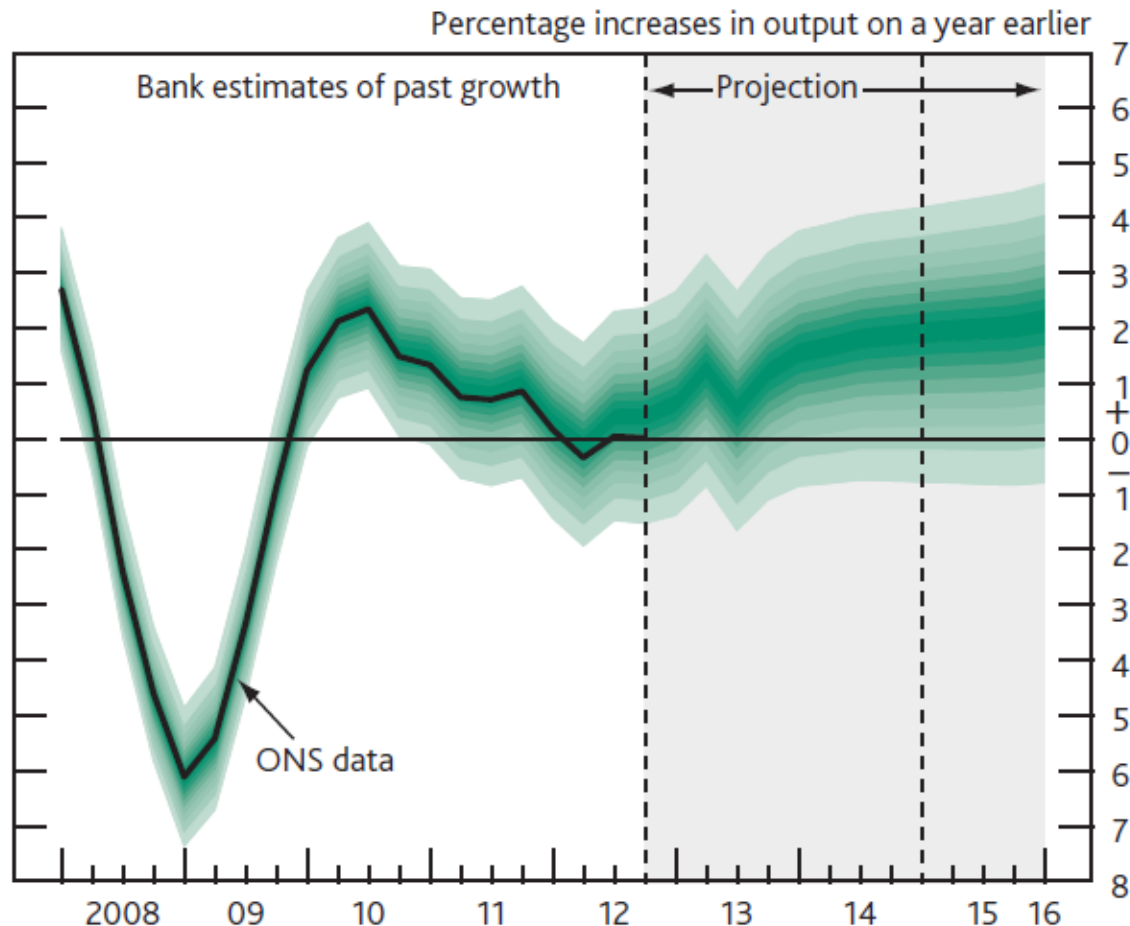
# Survey indicators of capacity utilisation



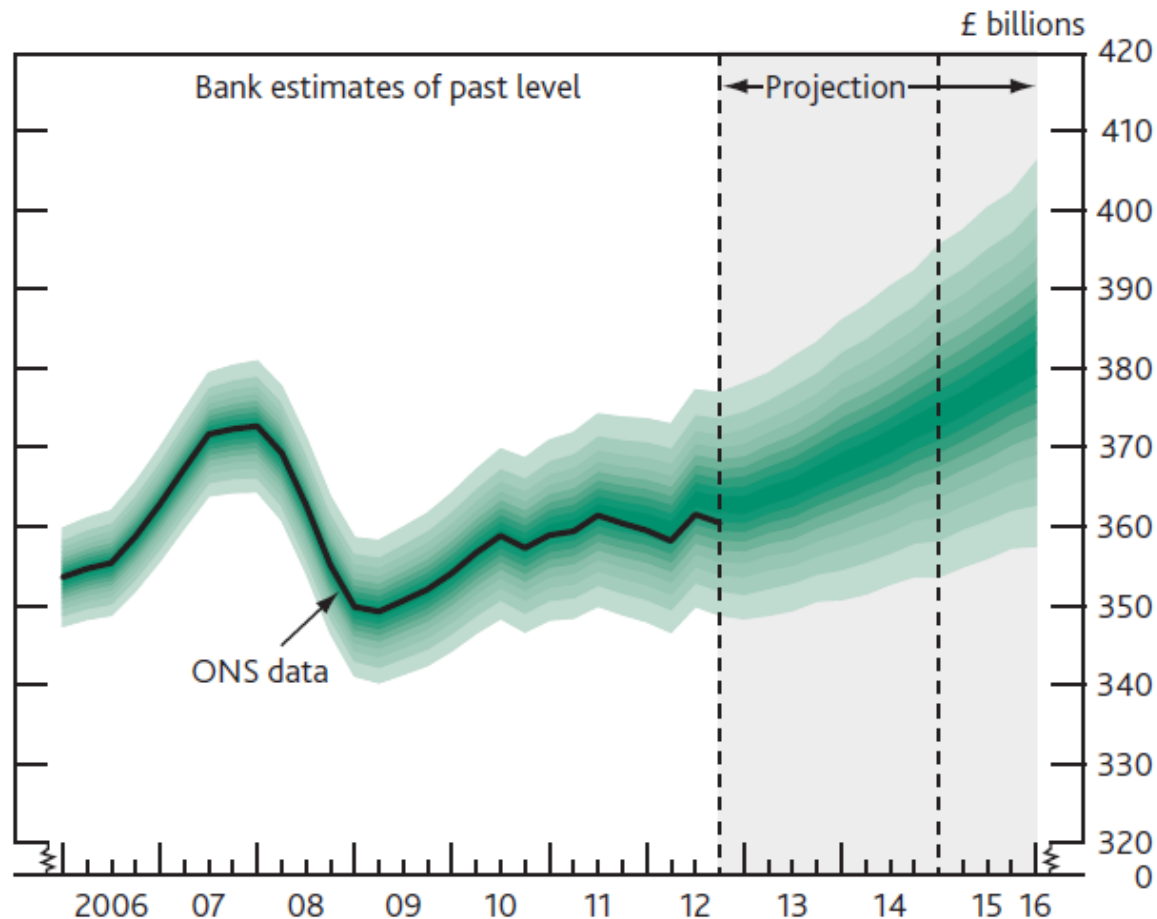
# Company liquidations in England and Wales and an estimate of loss-making companies



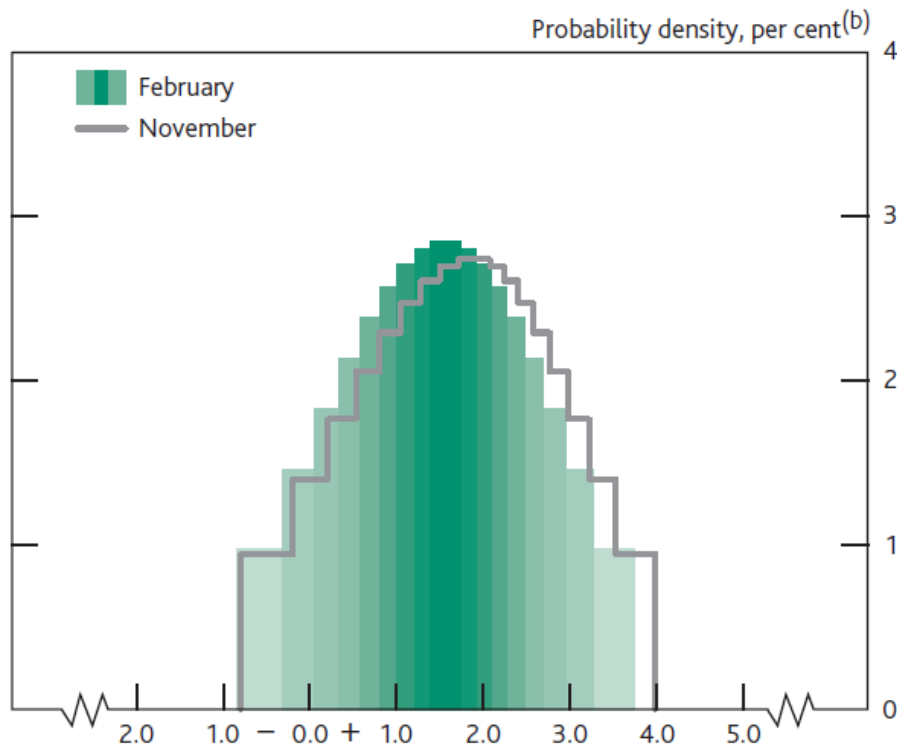
# GDP projection based on market interest rate expectations and £375 billion asset purchases



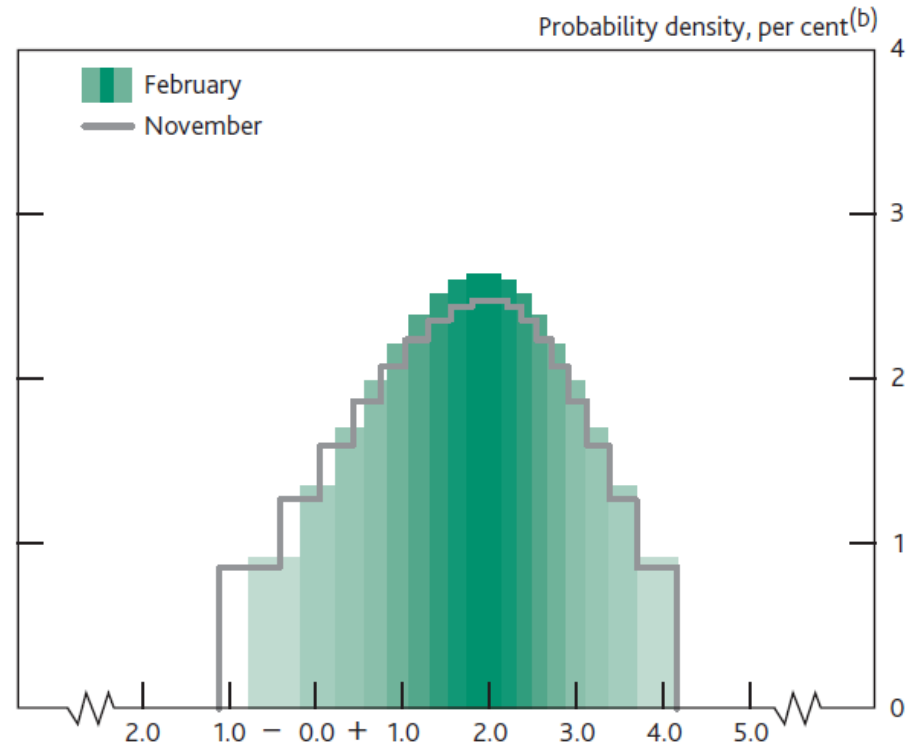
# Projections of the level of GDP based on market interest rate expectations and £375 billion asset purchases



## Projected probabilities of GDP growth in 2014 Q1 (central 90% of the distribution)



## Projected probabilities of GDP growth in 2015 Q1 (central 90% of the distribution)





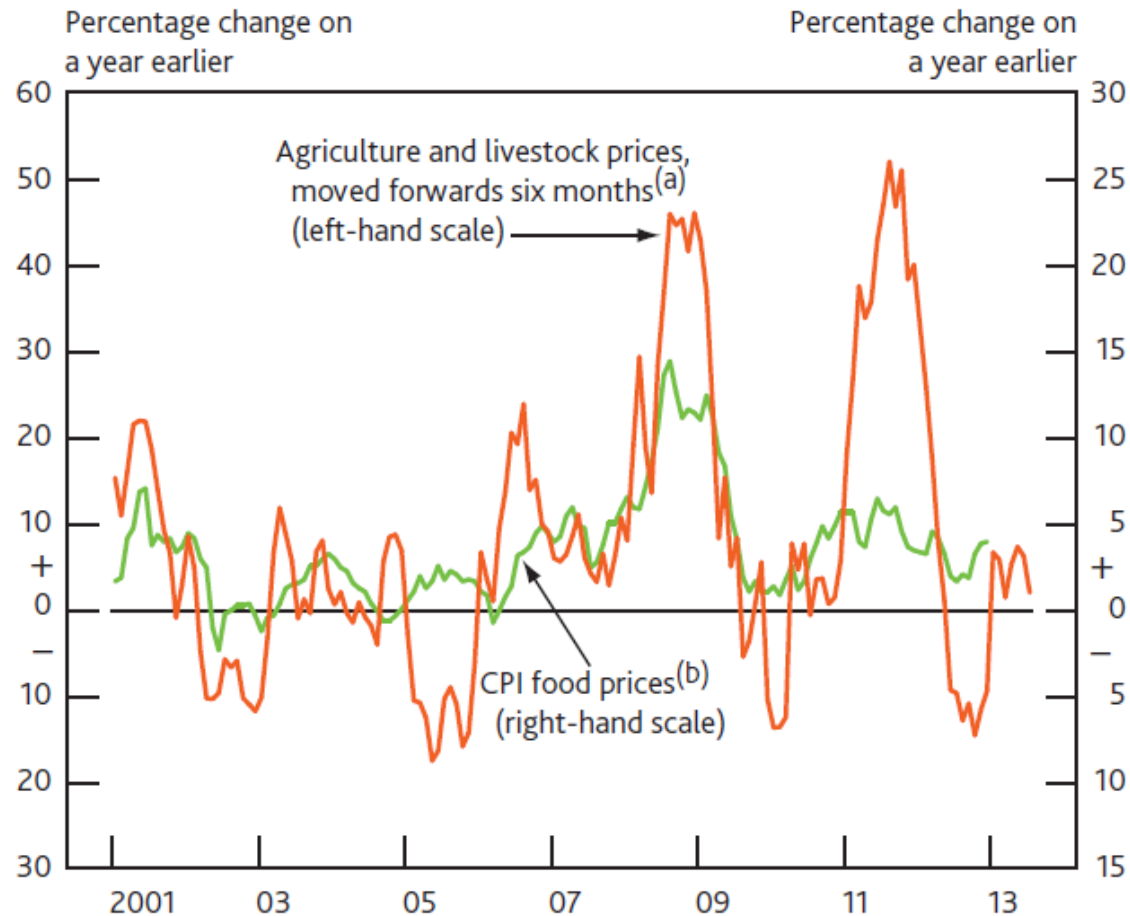
# INFLATION



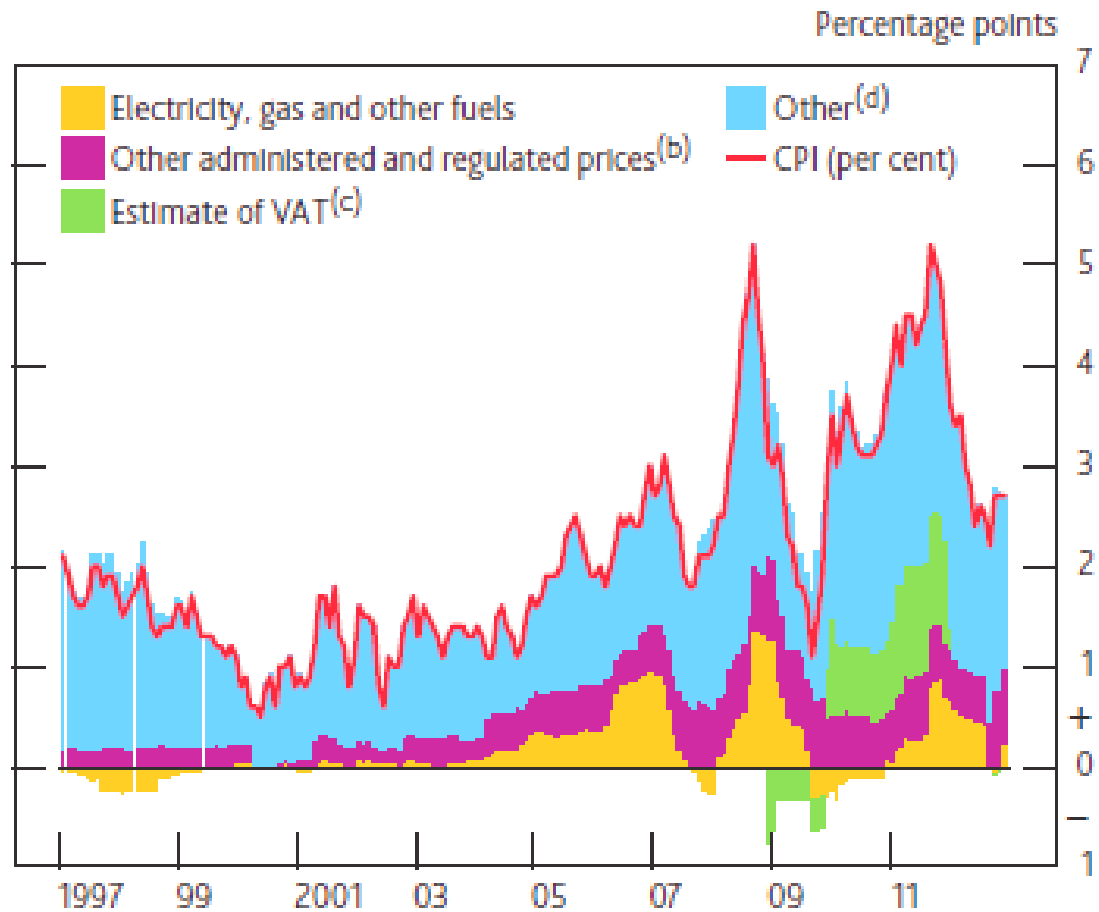
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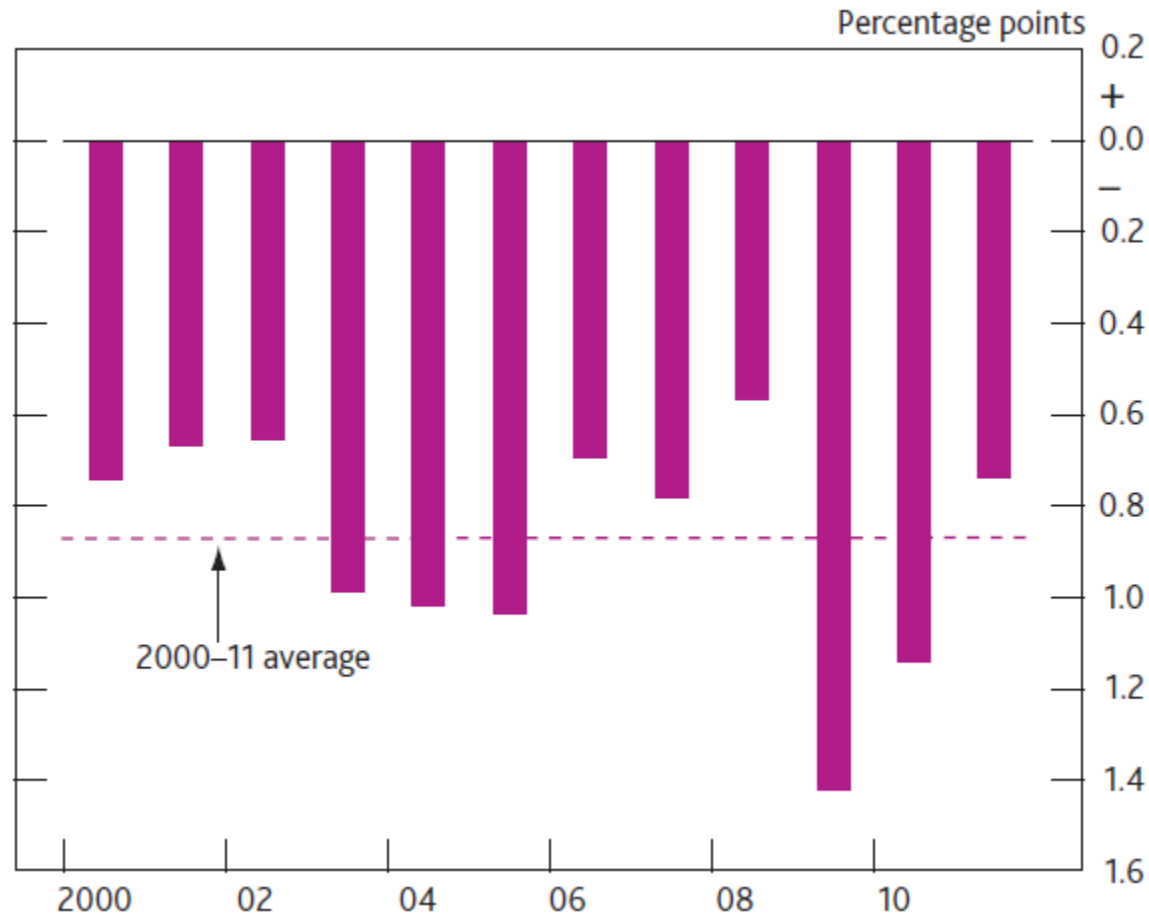
# Sterling food prices



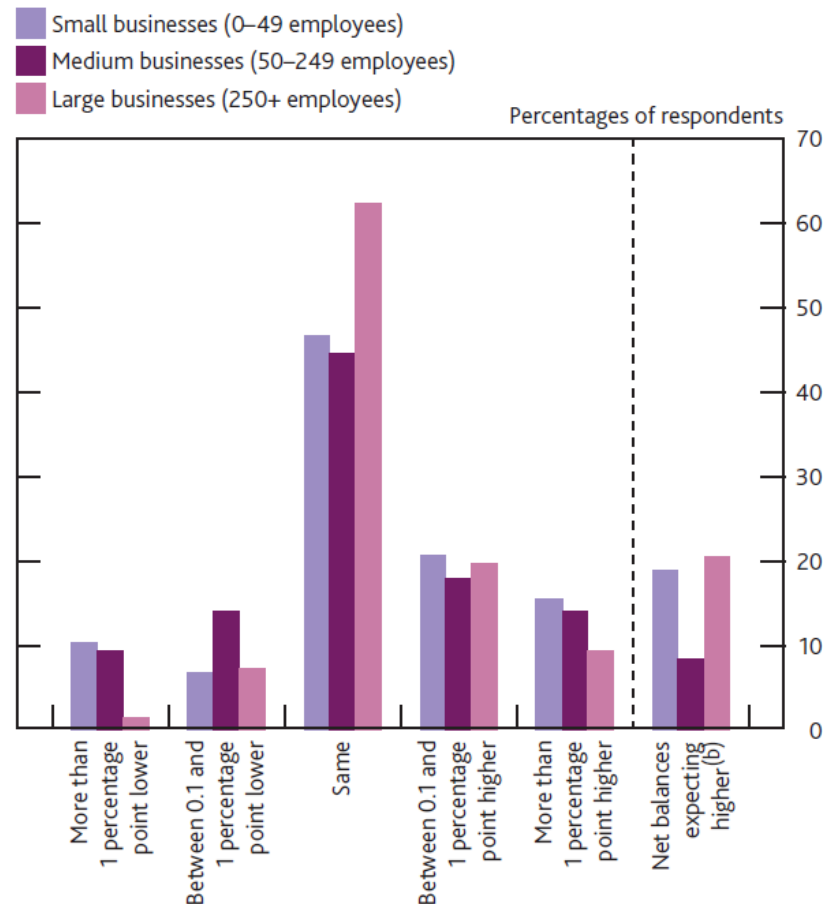
# Contributions to CPI inflation



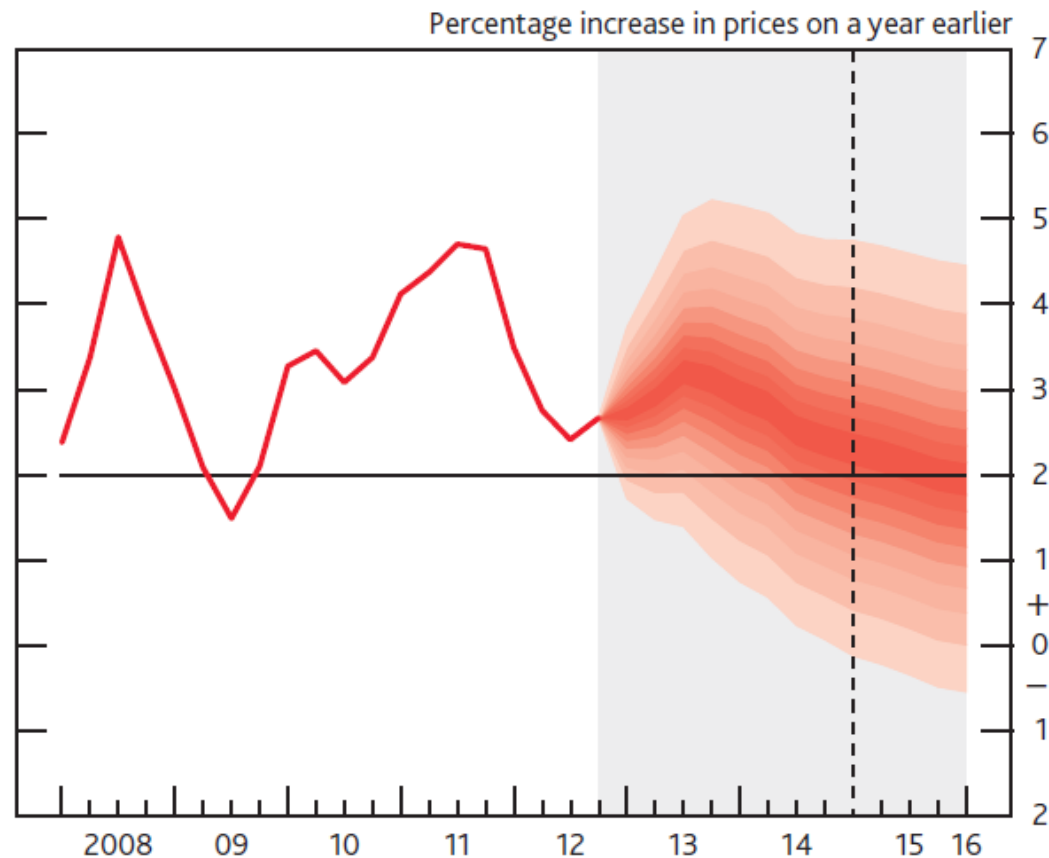
# Estimated effect on UK imported manufactured goods price inflation of China gaining market share



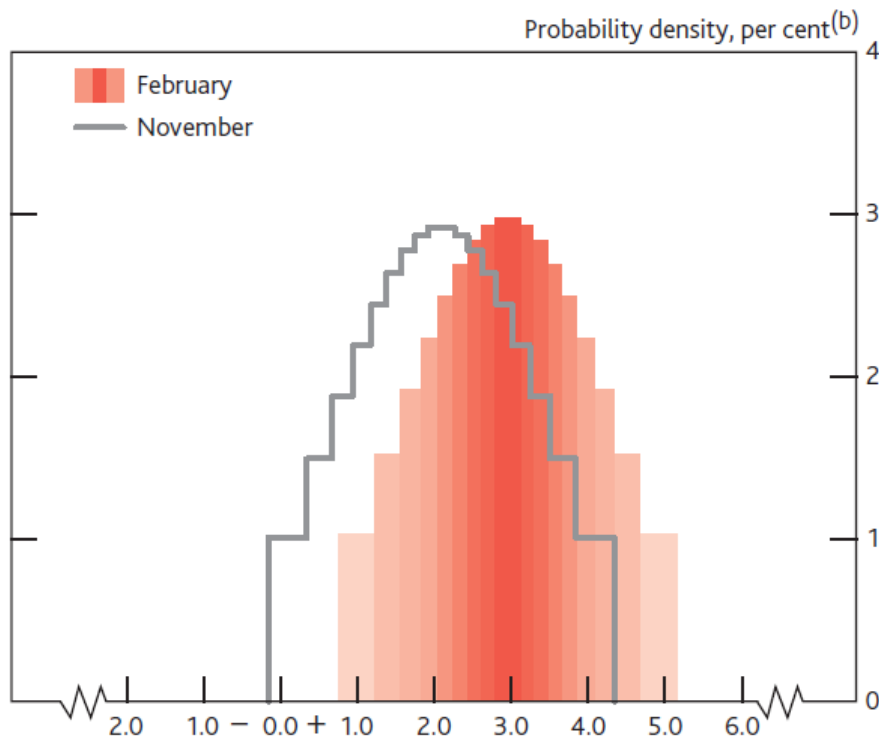
# Agents' survey: growth in labour costs per employee, expected change, 2013 on 2012



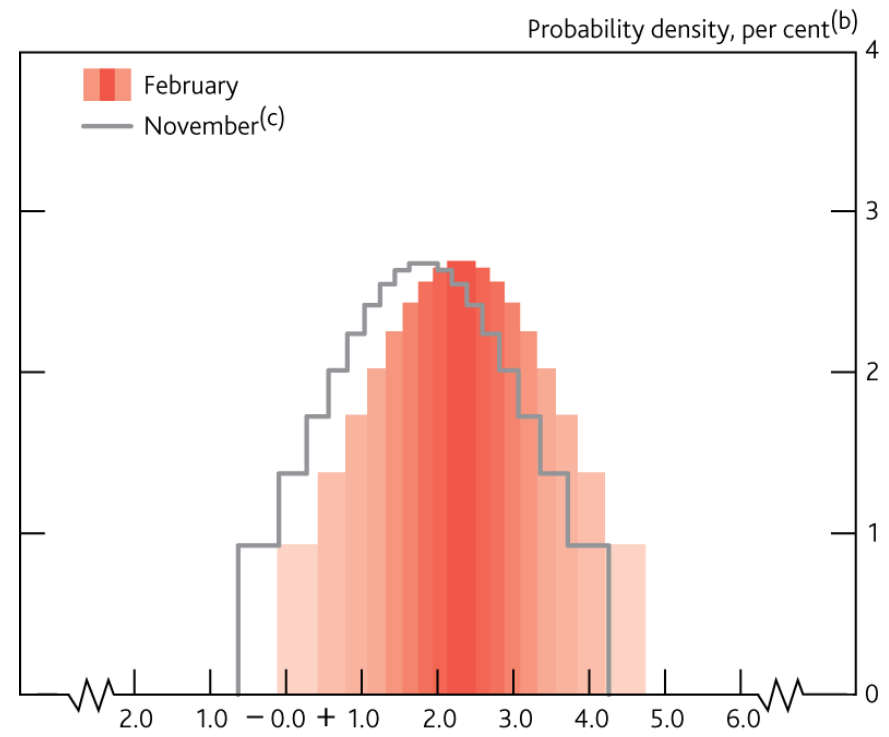
# CPI inflation projection based on market interest rate expectations and £375 billion asset purchases



## Projected probabilities of CPI inflation outturns in 2014 Q1 (central 90% of the distribution)<sup>(a)</sup>



## Projected probabilities of CPI inflation outturns in 2015 Q1 (central 90% of the distribution)<sup>(a)</sup>

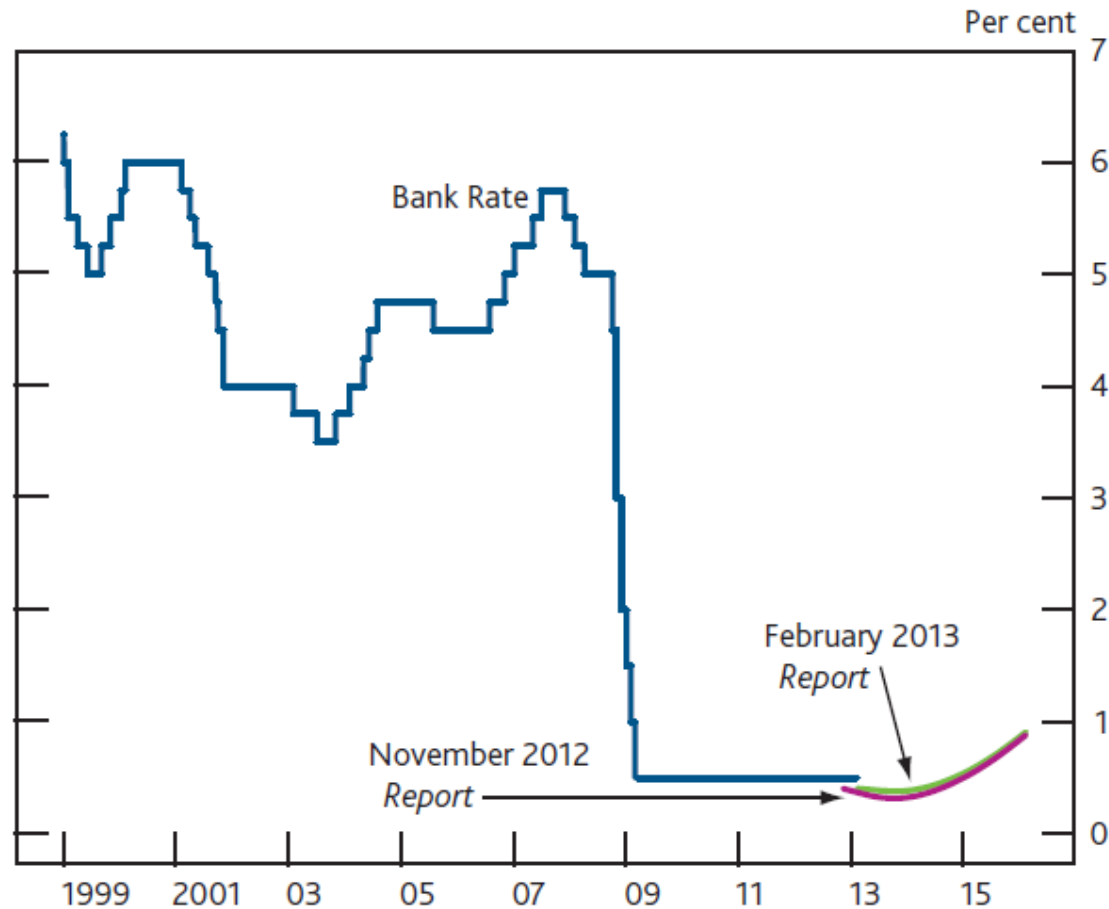


# FINANCIAL CONDITIONS

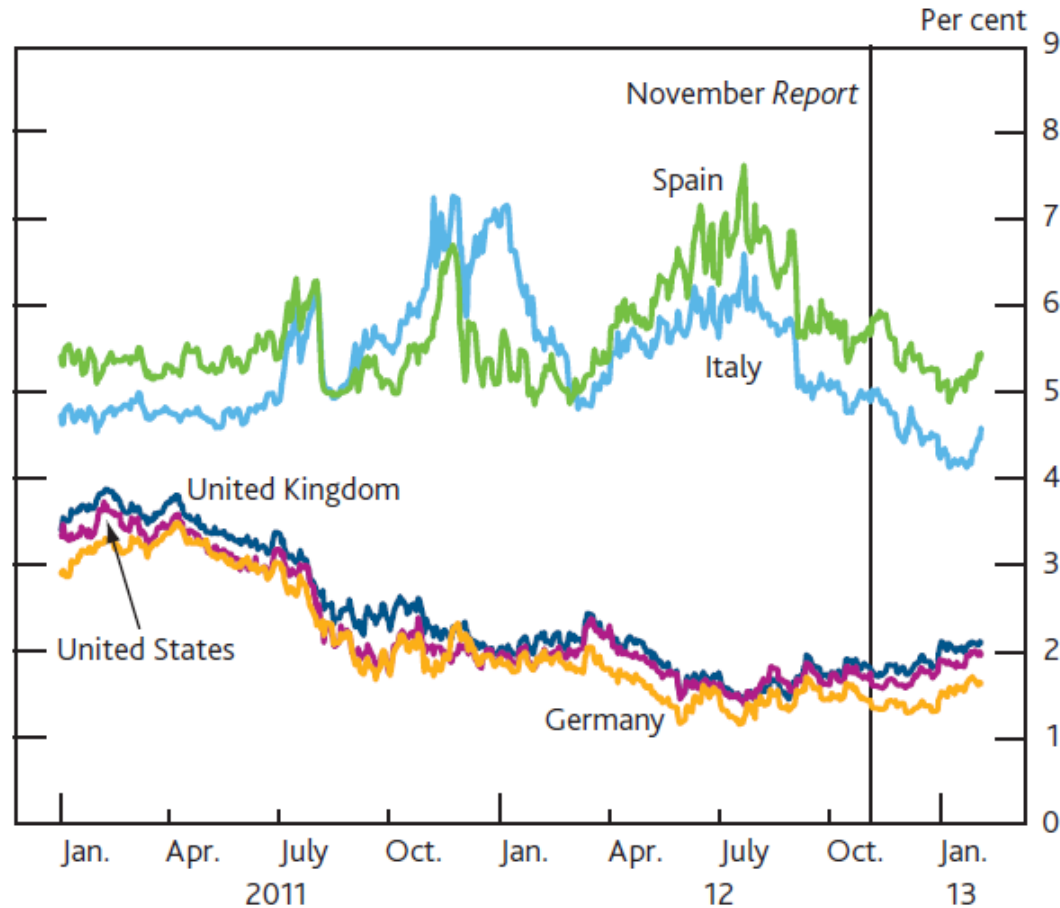




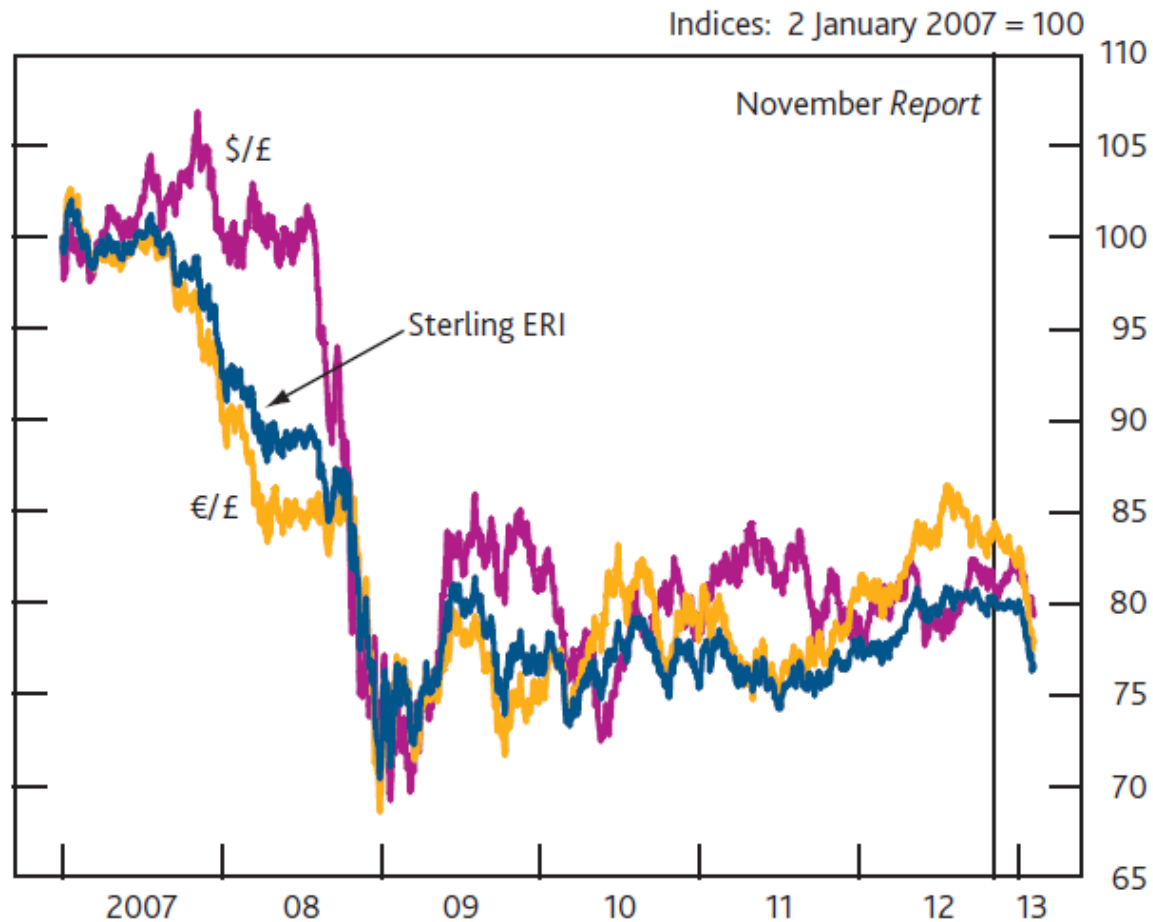
# Bank Rate and forward market interest rates



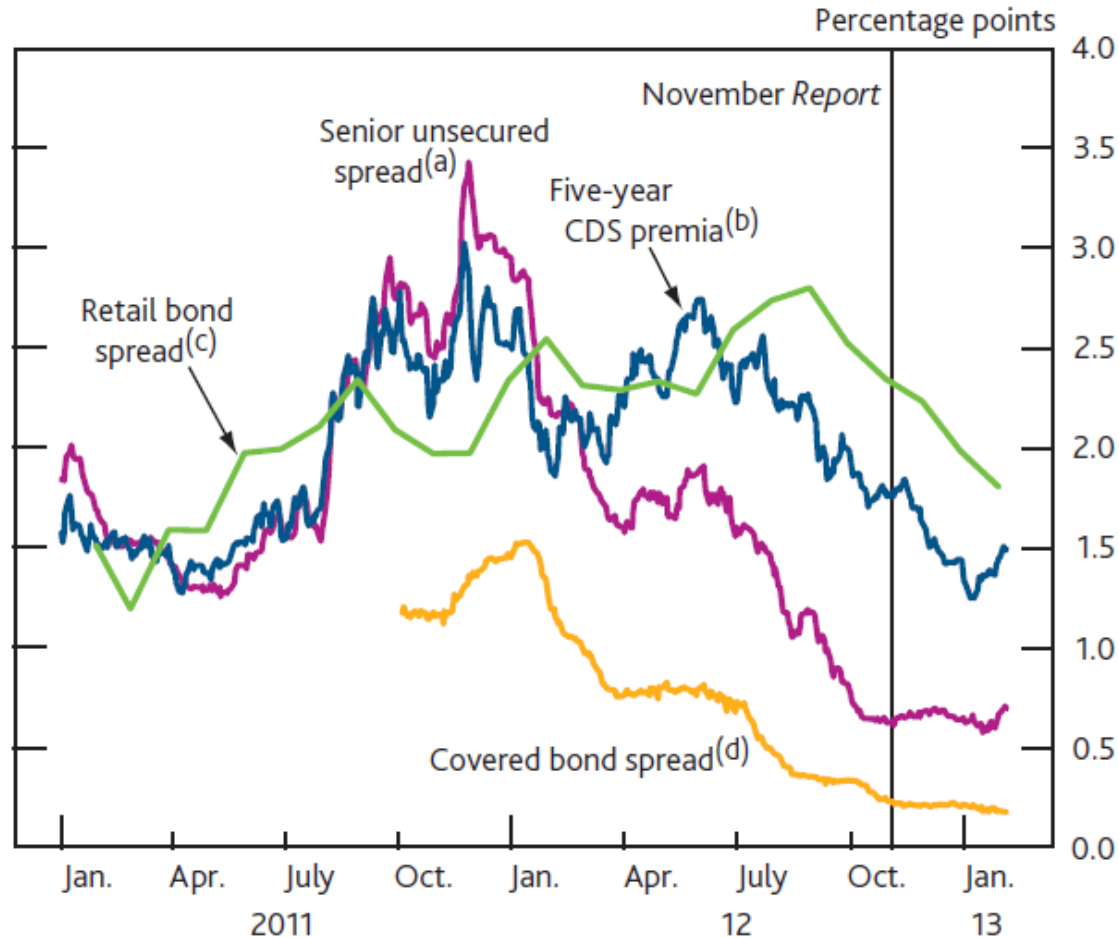
# Selected ten-year government bond yields



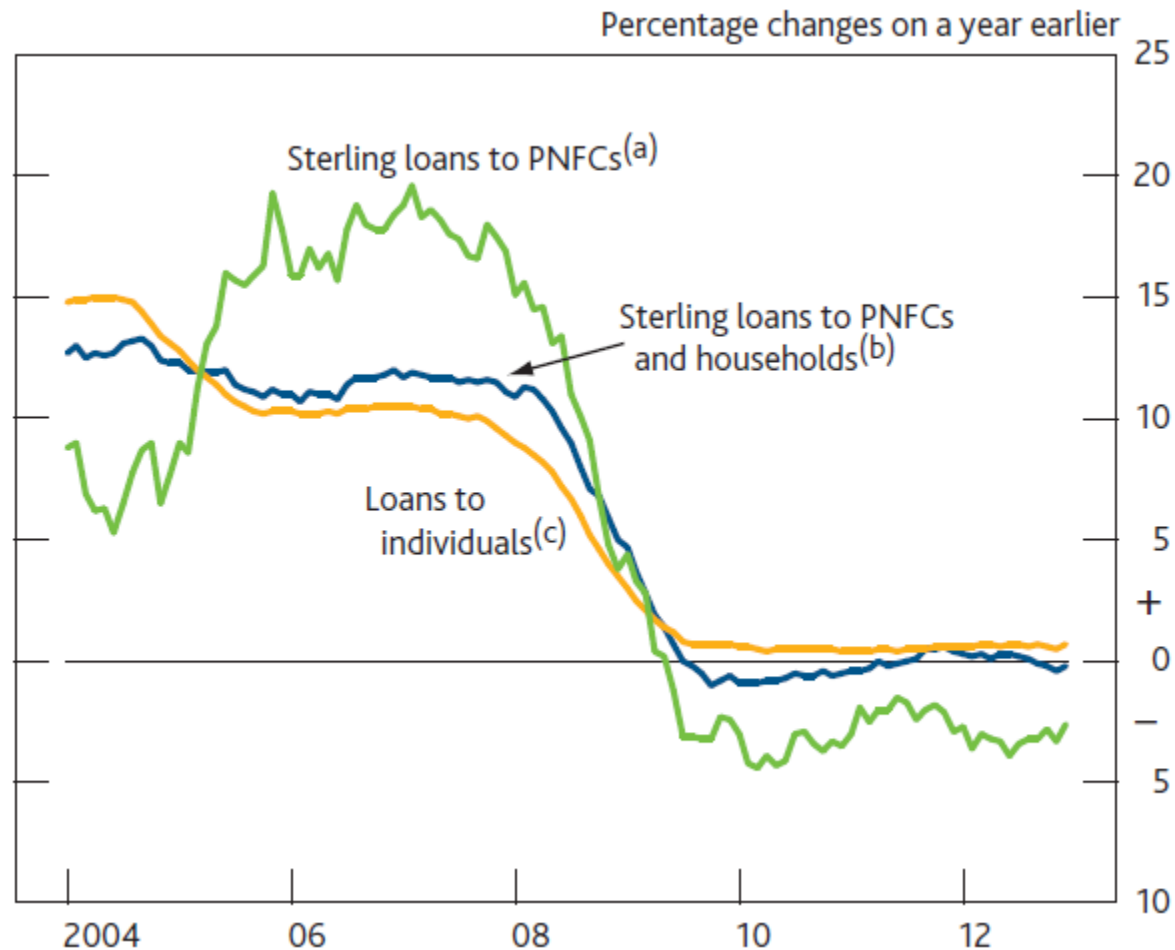
# Sterling exchange rates



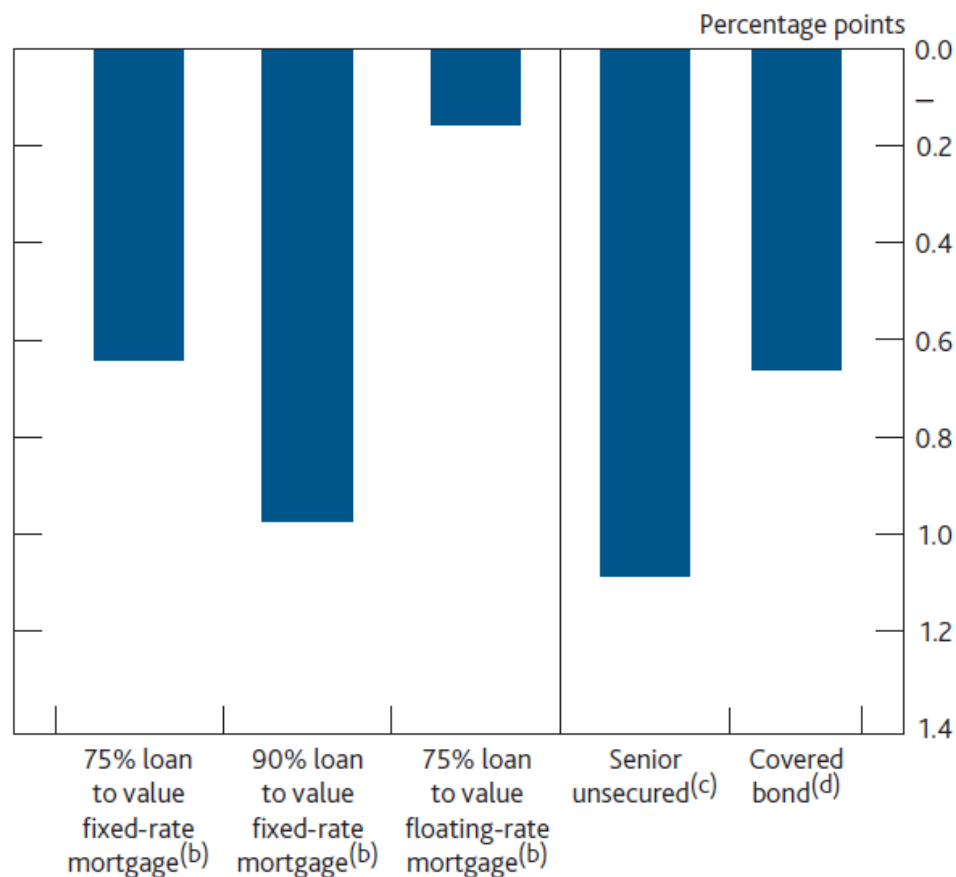
# UK banks' indicative longer-term funding spreads



# Loans to PNFCs and households



# Changes in average quoted new mortgage rates and indicative UK bank funding costs since June 2012



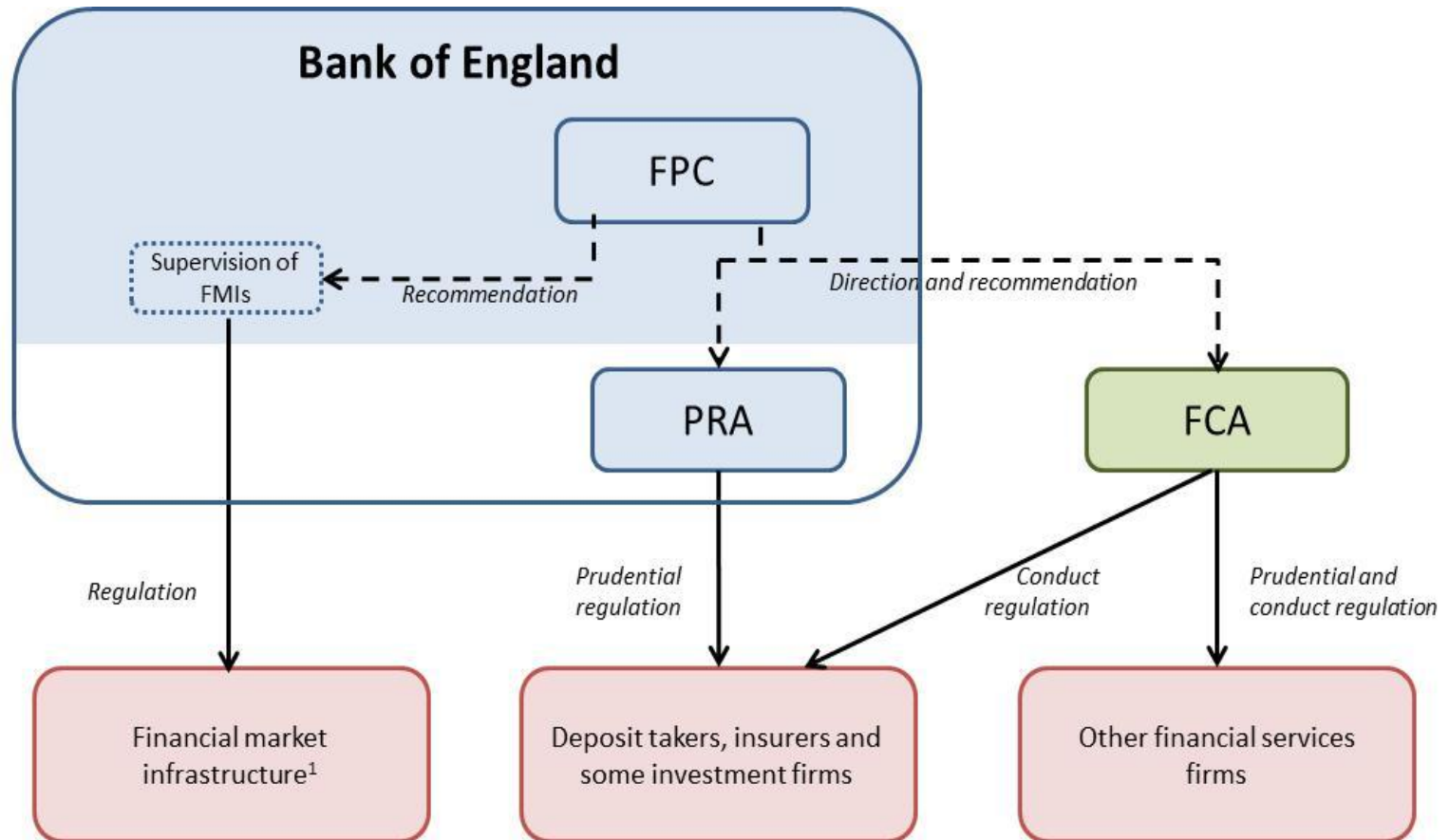
# New responsibilities for the Bank of England



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# The new framework for financial regulation



<sup>1</sup>Excludes regulation of trading infrastructure and market conduct, which are the responsibility of the FCA



# A new framework for financial regulation from April

- The Prudential Regulation Authority to be created as part of the Bank
- The Financial Conduct Authority to be created as a separate body
- The Financial Policy Committee to be formalised as part of the Bank
- The Bank also gains new responsibilities for regulating financial market infrastructures



# The Prudential Regulation Authority

- Prudential supervision of banks, building societies, credit unions, insurers and major investment firms
- Two objectives
  - To promote the **safety and soundness** of all the firms it supervises
  - for insurers, to contribute to the securing of an appropriate degree of policy holder **protection**
- Forward-looking, judgement based approach
- Not a 'zero failure' regime



# The Financial Policy Committee

- Identifying, monitoring and taking action to remove or reduce 'systemic' risks that affect the financial system as a whole.
- A secondary goal of supporting the government's objectives for growth and employment.
- Already operating in interim form since 2011



# Statutory decision making bodies at the Bank of England

## Bank of England

Monetary  
policy

### Monetary Policy Committee

*Created in 1997*

Responsible for maintaining price stability and, subject to that, supporting the Government's economic policies, including its objectives for growth and employment

Microprudential  
regulation

### Prudential Regulation Authority

*Created in 2013*

Responsible for promoting the safety and soundness of all the financial firms it supervises; and, specifically for insurers, contributing to ensuring an appropriate degree of policyholder protection.

Macroprudential  
regulation

### Financial Policy Committee

*Created in interim form 2011, statutory form in 2013*

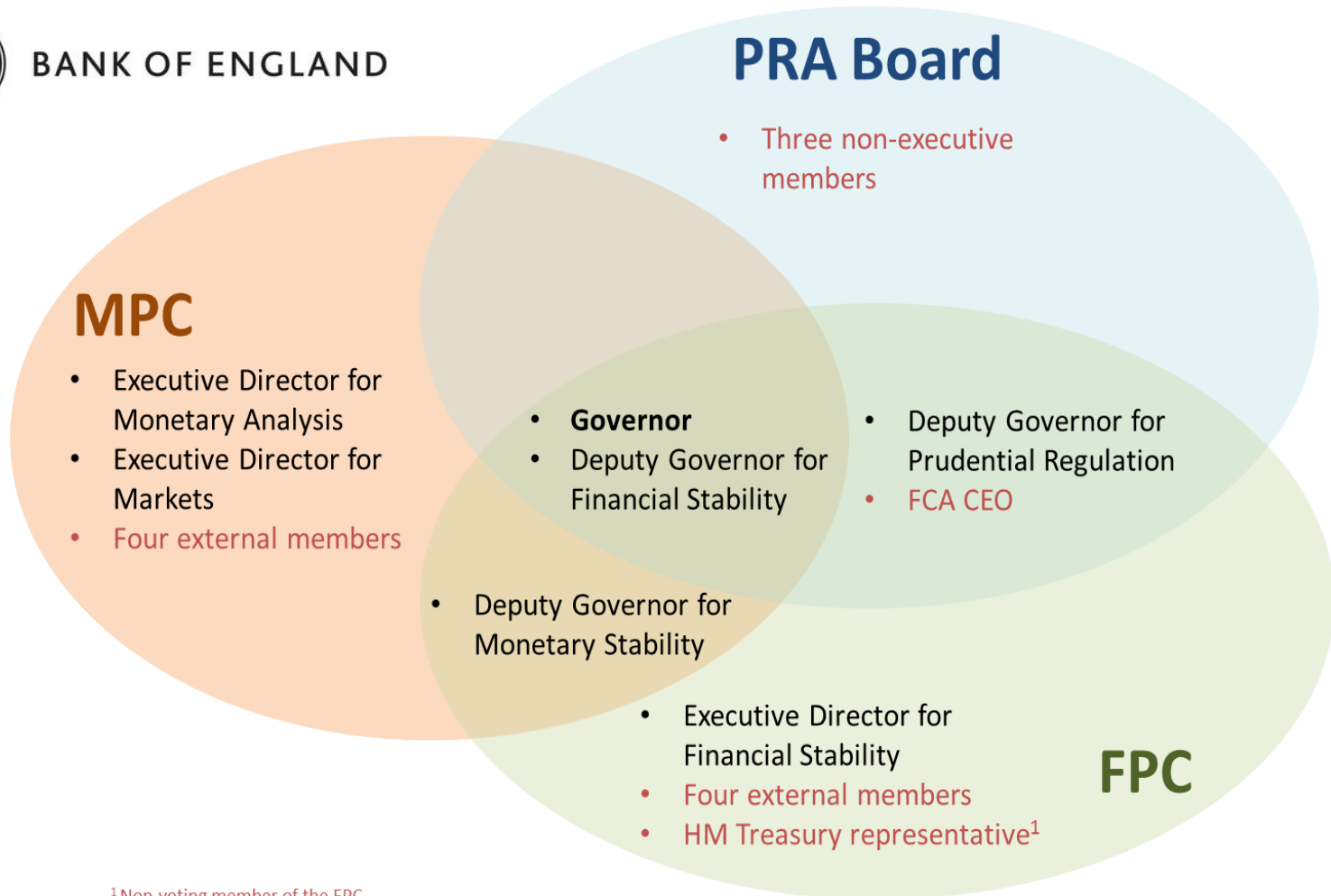
Responsible for identifying, monitoring and taking action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system. And, subject to that, supporting the economic policy of the Government



# Membership of decision making bodies



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<sup>1</sup> Non-voting member of the FPC