

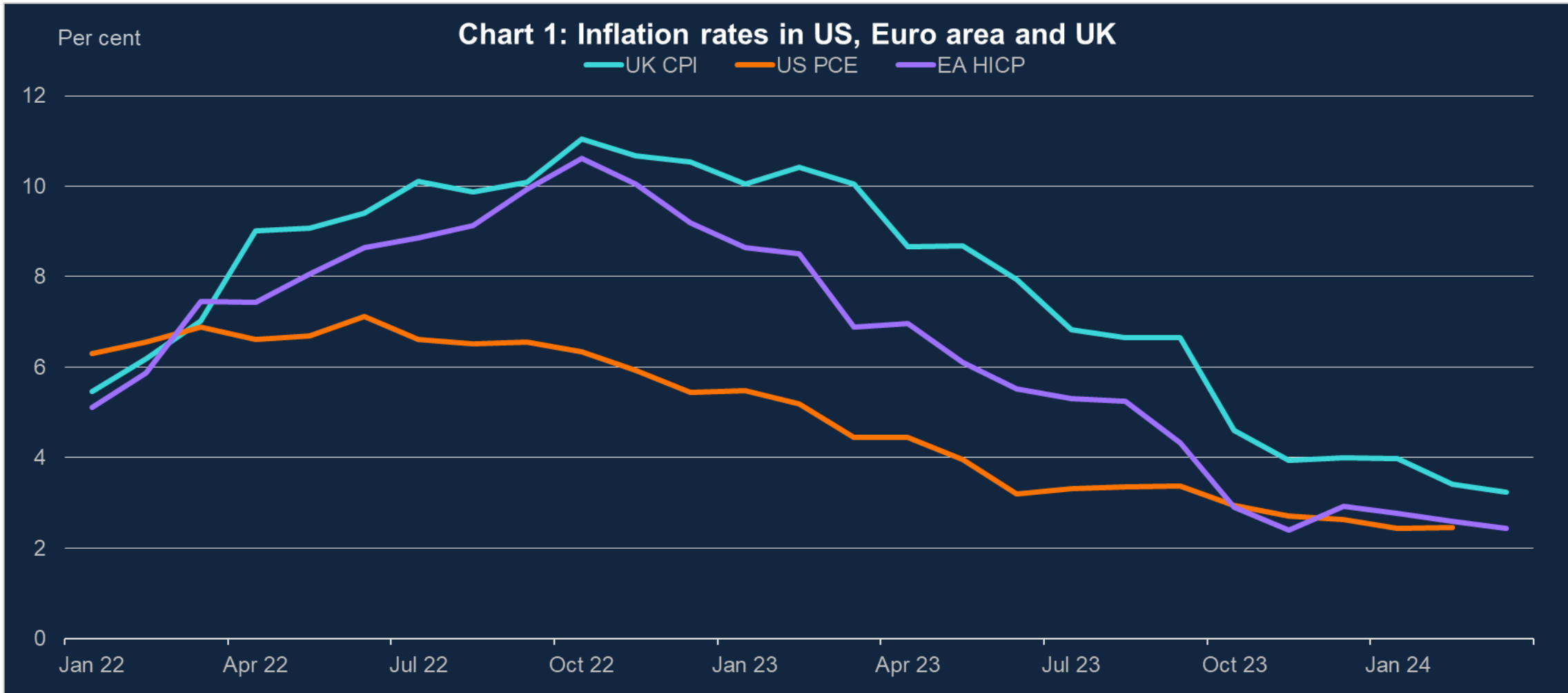
Bank of England

**Outlier or laggard:
divergence and
convergence in the UK's
recent inflation performance**

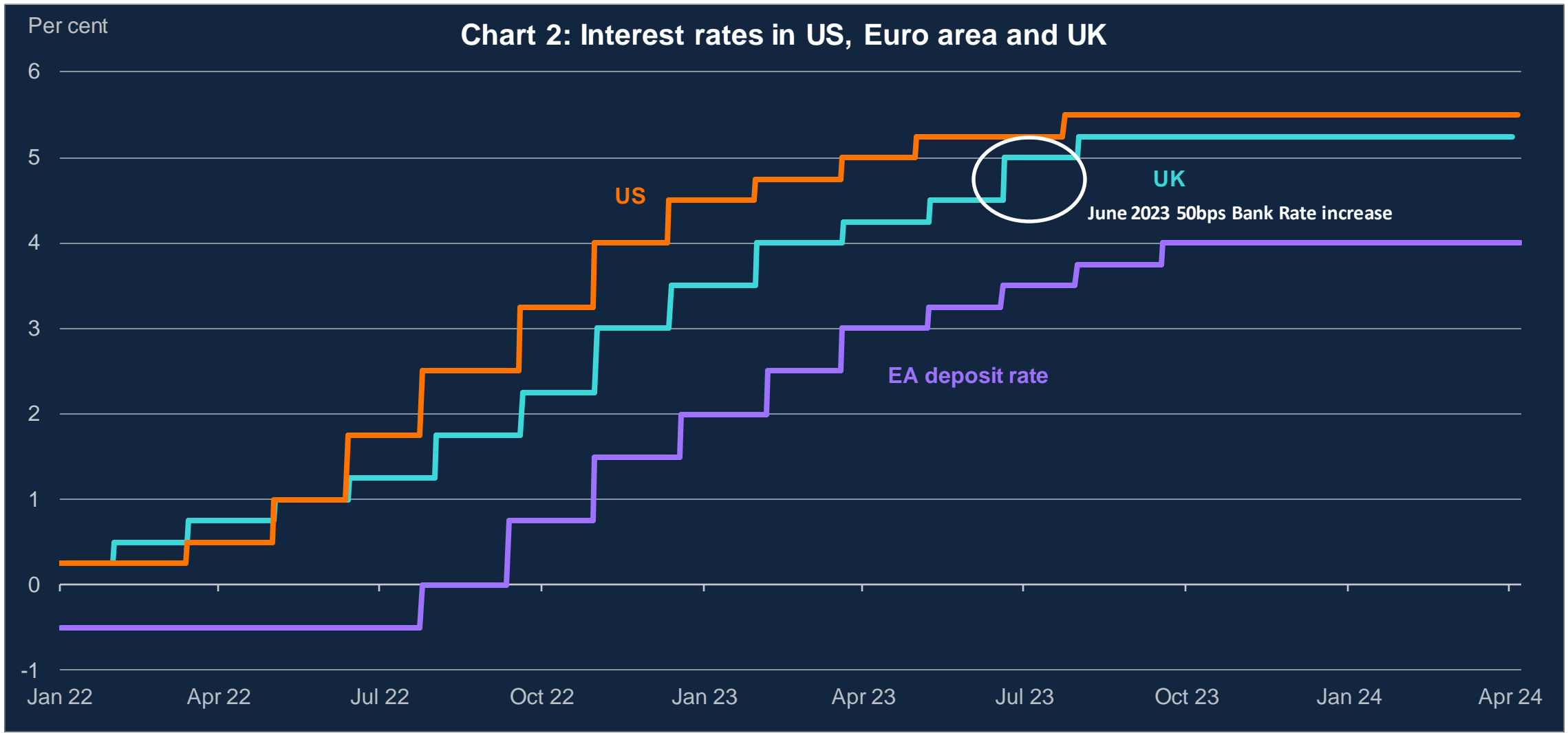
Peterson Institute of International
Economics

**Dave Ramsden
Deputy Governor of Markets and Banking;
Bank of England
Friday 19 April 2024**

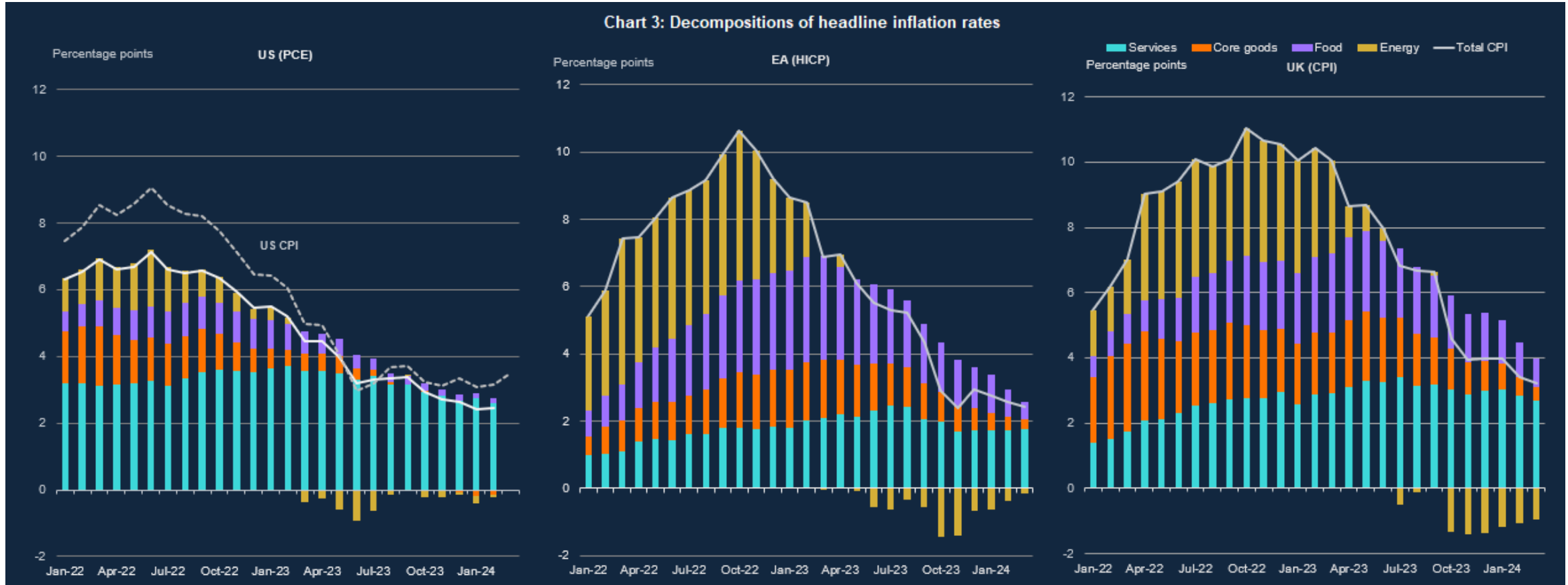




Sources: ONS for the UK, BEA for the US, Eurostat for the EA and Bank calculations.



Sources: Bank of England, European Central Bank and Federal Reserve.



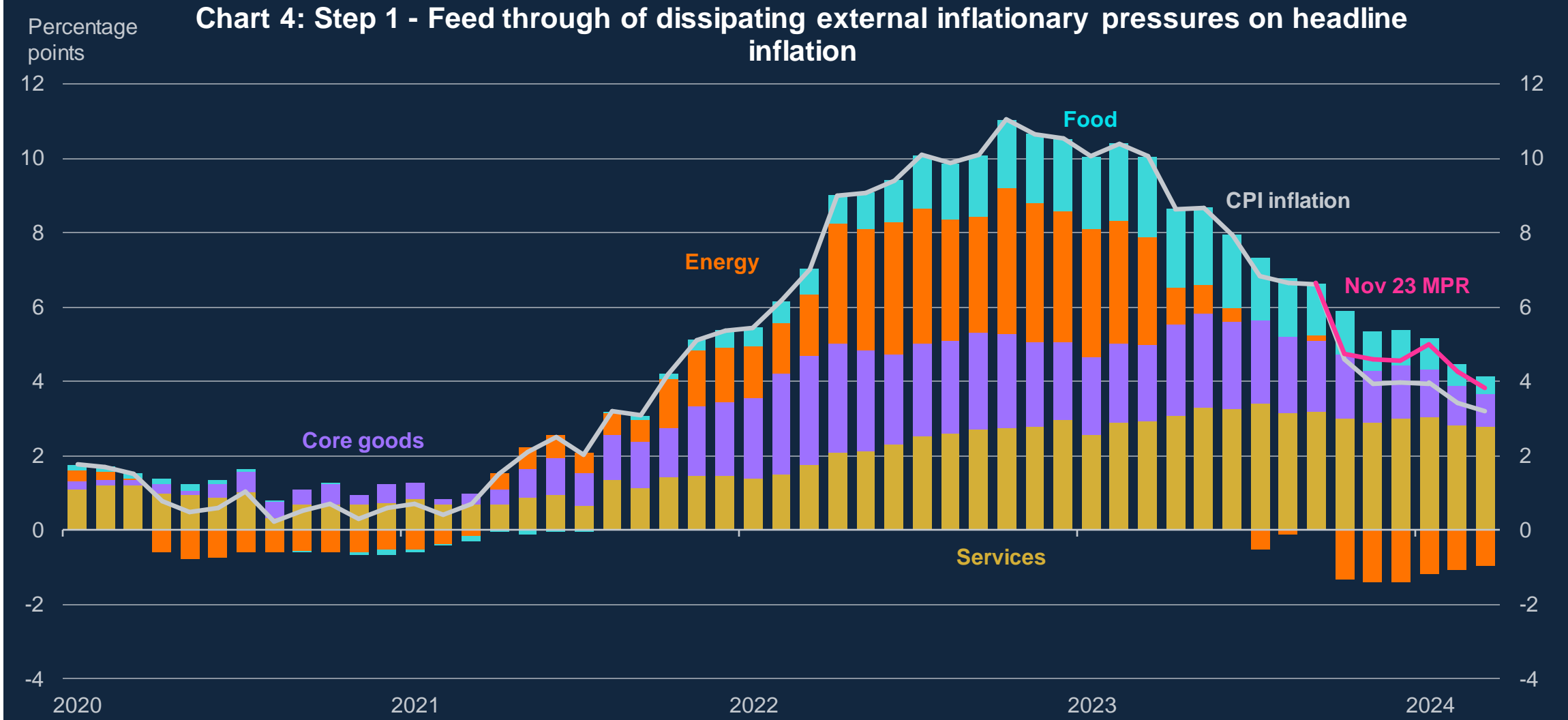
Sources: ONS for the UK, BEA for the US, Eurostat for the EA and Bank calculations.

Table 1: February 2024 and November 2023 MPR inflation forecasts

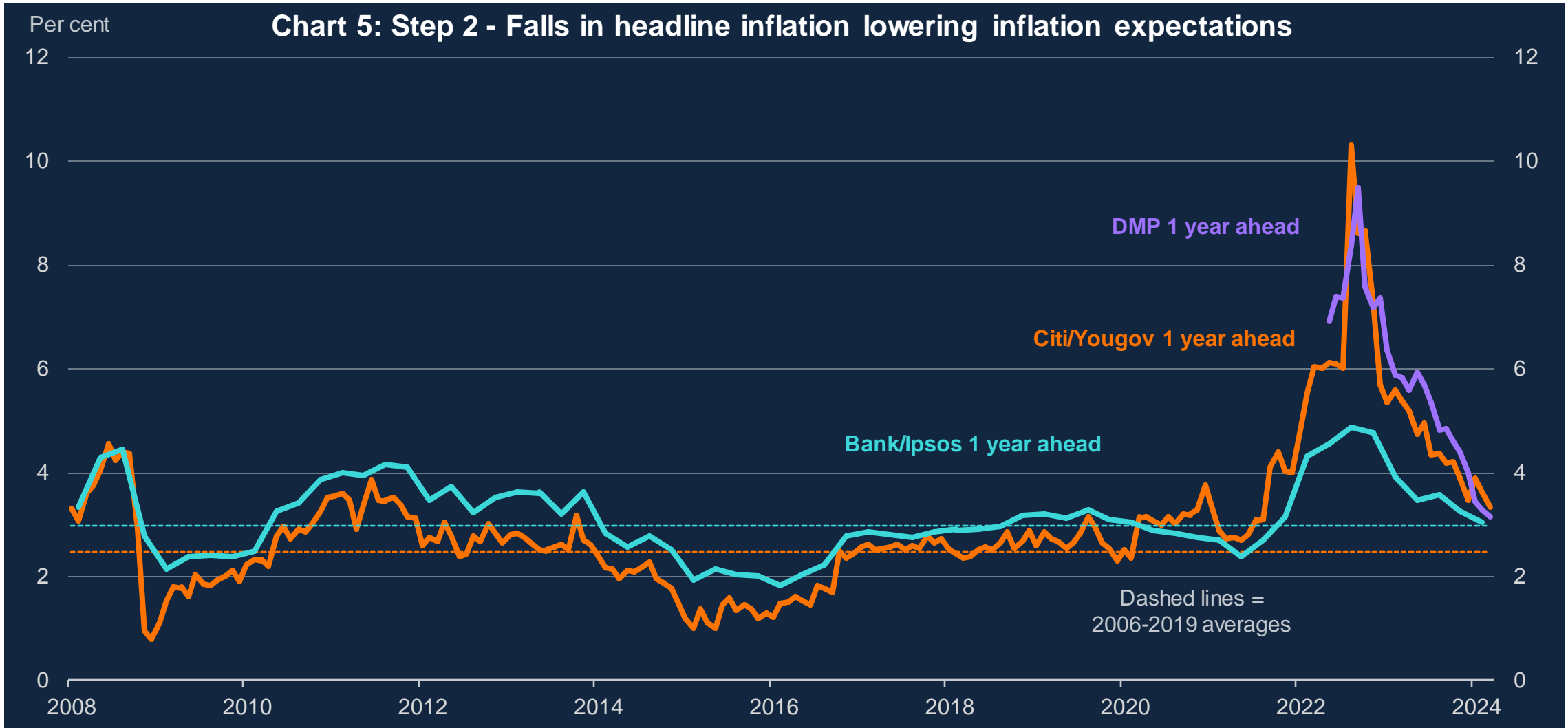
	2024 Q1		2024 Q2		2025 Q1		2026 Q1		2027 Q1
	Feb 2024 MPR	Nov 2023 MPR	Feb 2024 MPR	Nov 2023 MPR	Feb 2024 MPR	Nov 2023 MPR	Feb 2024 MPR	Nov 2023 MPR	Feb 2024 MPR
Modal CPI Inflation	3.6	4.4	2.0	3.6	2.8	2.5	2.3	1.9	1.9
Mean CPI Inflation	3.7	4.4	2.2	3.7	3.0	2.8	2.3	2.2	1.9

Inflation/inflation expectations/wage nexus

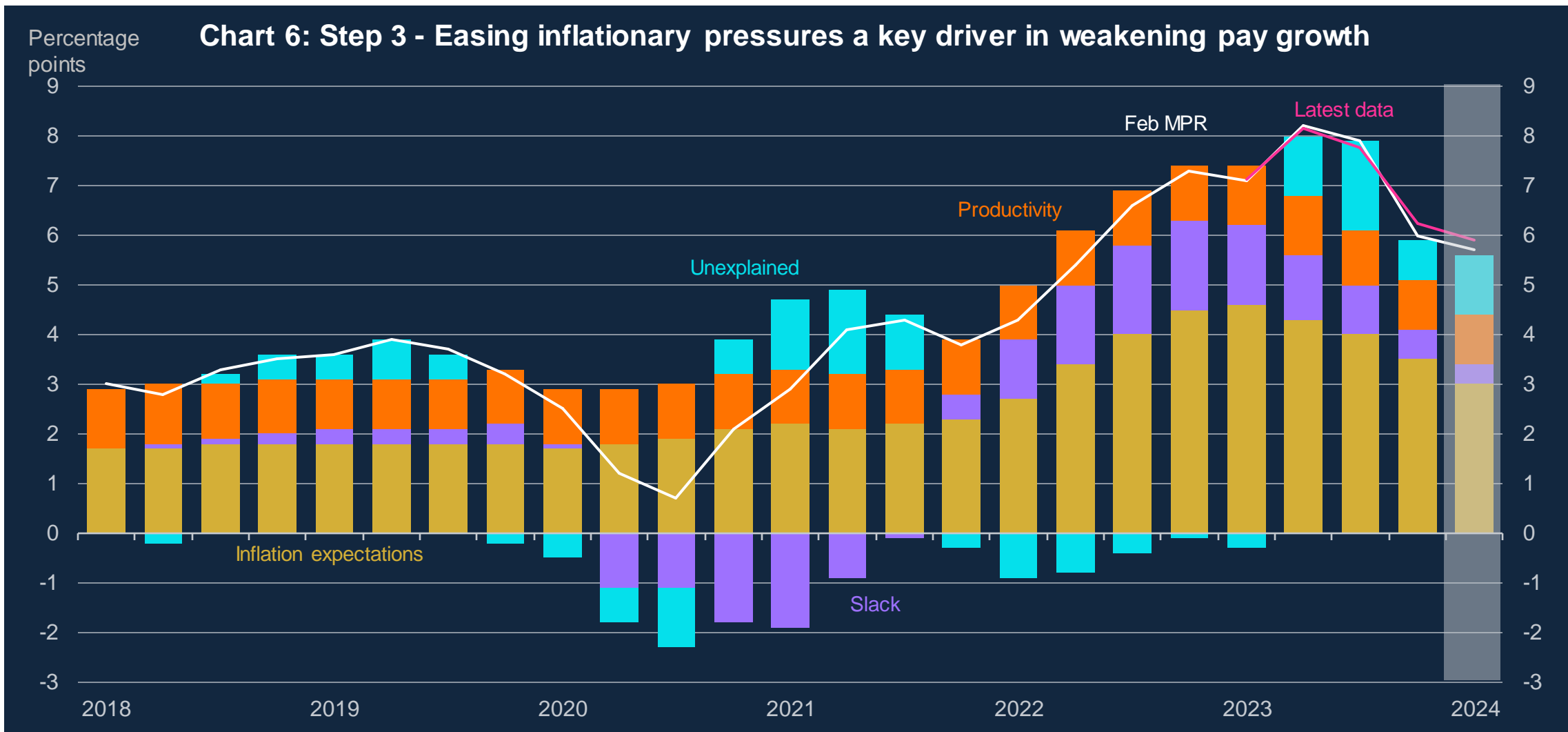
- **Step 1:** Feed through of dissipating external inflationary pressures on headline inflation
- **Step 2:** Falls in headline inflation lowering inflation expectations
- **Step 3:** Easing inflationary pressures, a key driver in weakening pay growth
- **Step 4:** Weakening pay growth feeds into lower services inflation



Sources: Bloomberg Finance L.P., Department for Energy Security and Net Zero, ONS and Bank calculations.



Sources: Bank of England, Bloomberg Finance L.P., Citigroup, DMP Survey, YouGov and Bank calculations.

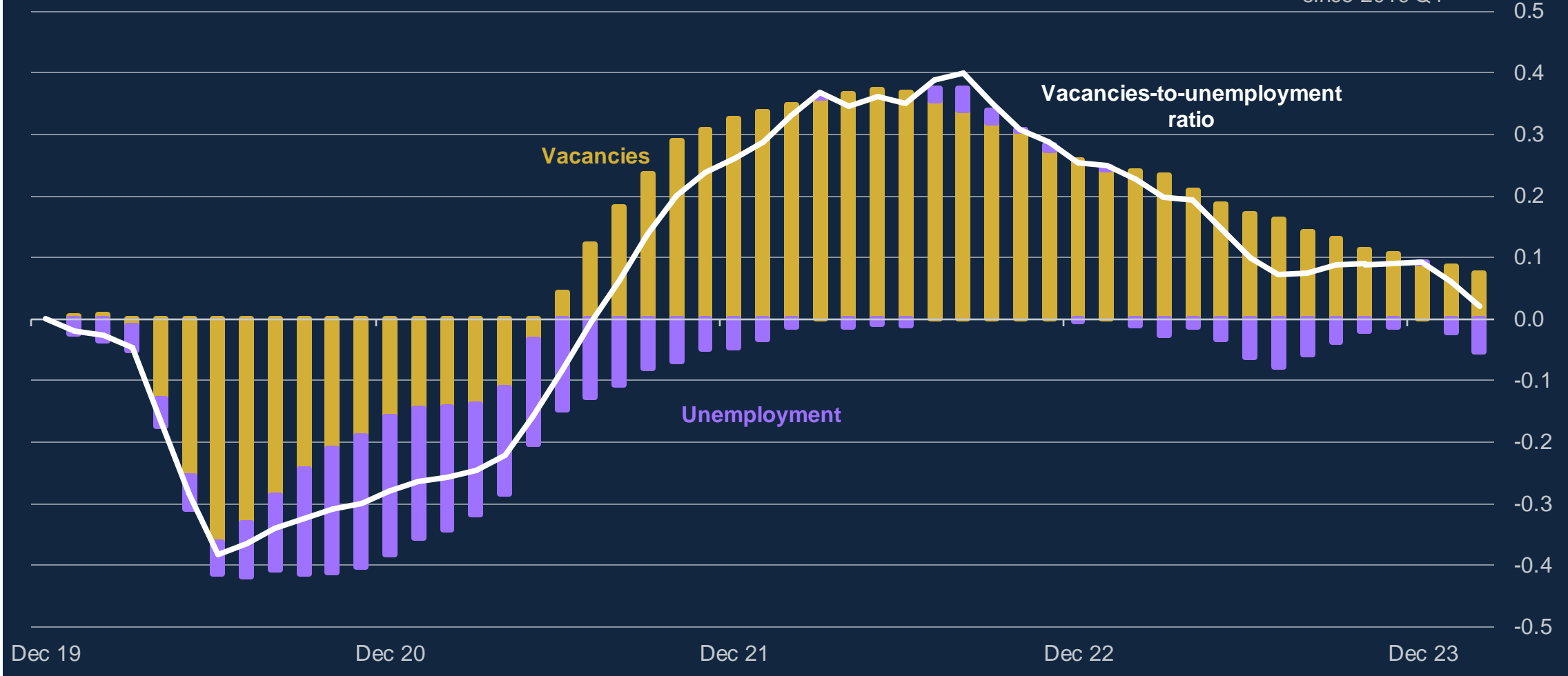


Sources: ONS and Bank calculations.

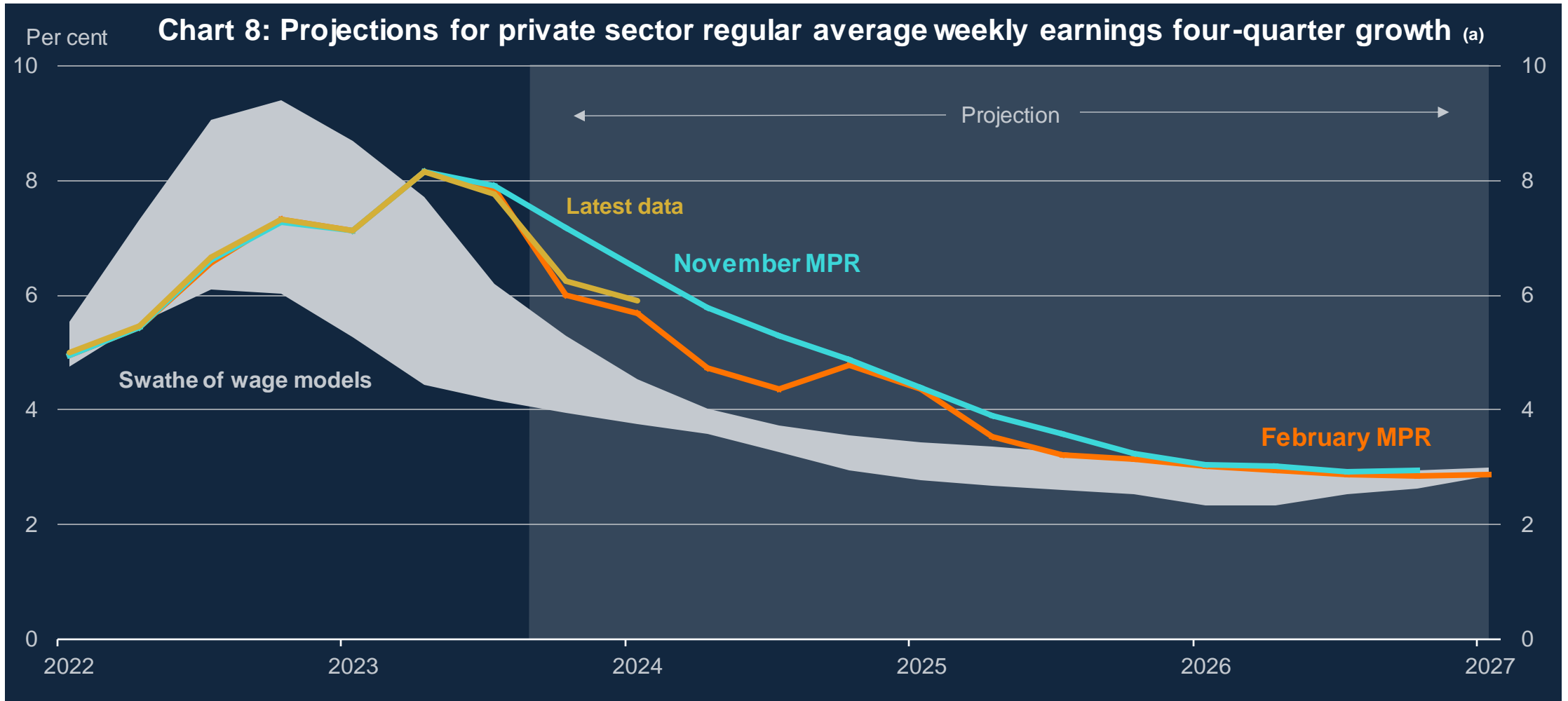
(a) Wage equation based on [Yellen \(2017\)](#). Private sector regular pay growth is Bank staff's estimate of underlying pay growth between January 2020 and March 2022 and ONS private sector regular pay growth otherwise. Short-term inflation expectations are based on the Barclays Basix Index and the YouGov/Citigroup one year ahead measure of household inflation expectations and projected forward based on a Bayesian VAR estimation. Slack is based on the MPC's estimate of the vacancies to unemployment ratio. Productivity growth is based on long-run market sector productivity growth per head. The unexplained component is the residual. Data are to 2023 Q4, projections are for 2024 Q1.

Chart 7: UK vacancies to unemployment ratio

Contributions to change since 2019 Q4

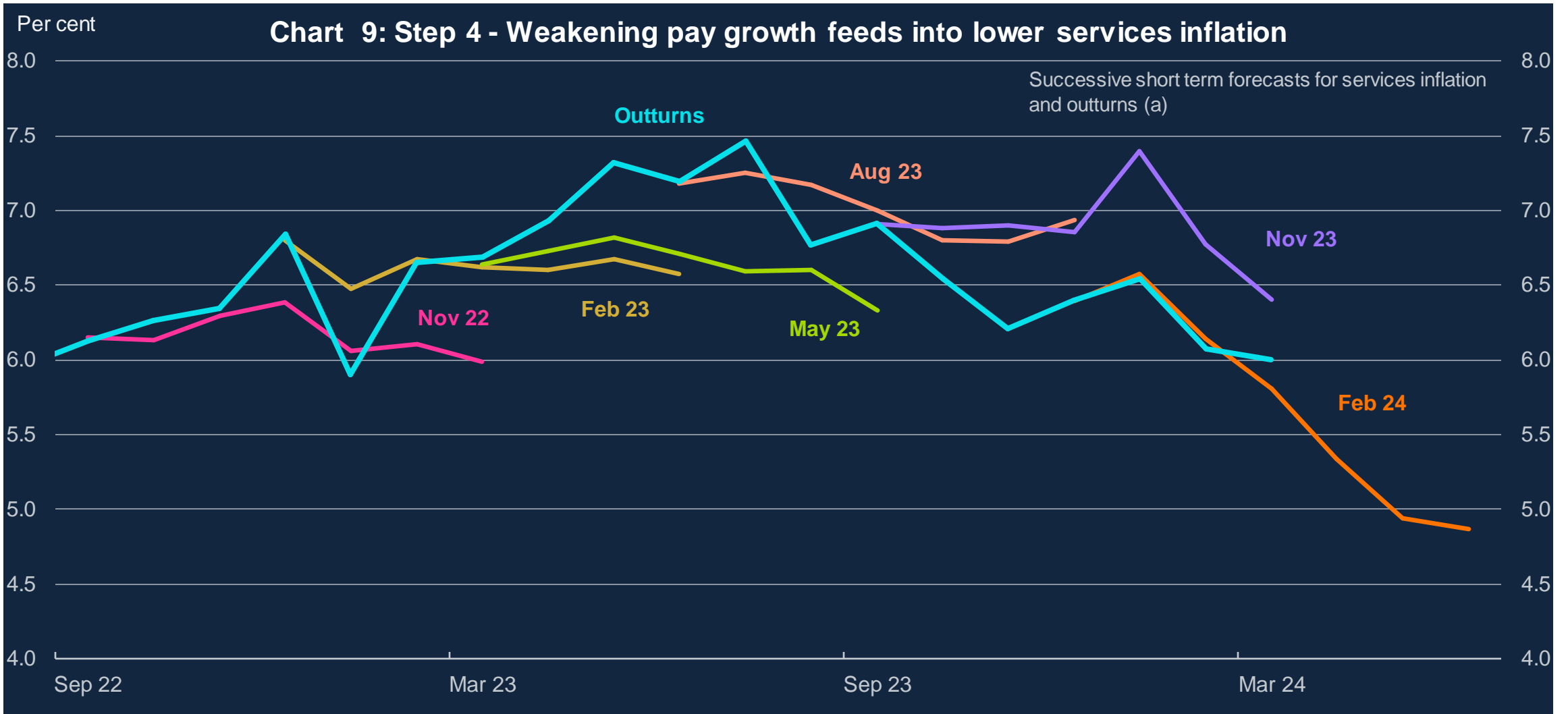


Sources: ONS and Bank calculations.



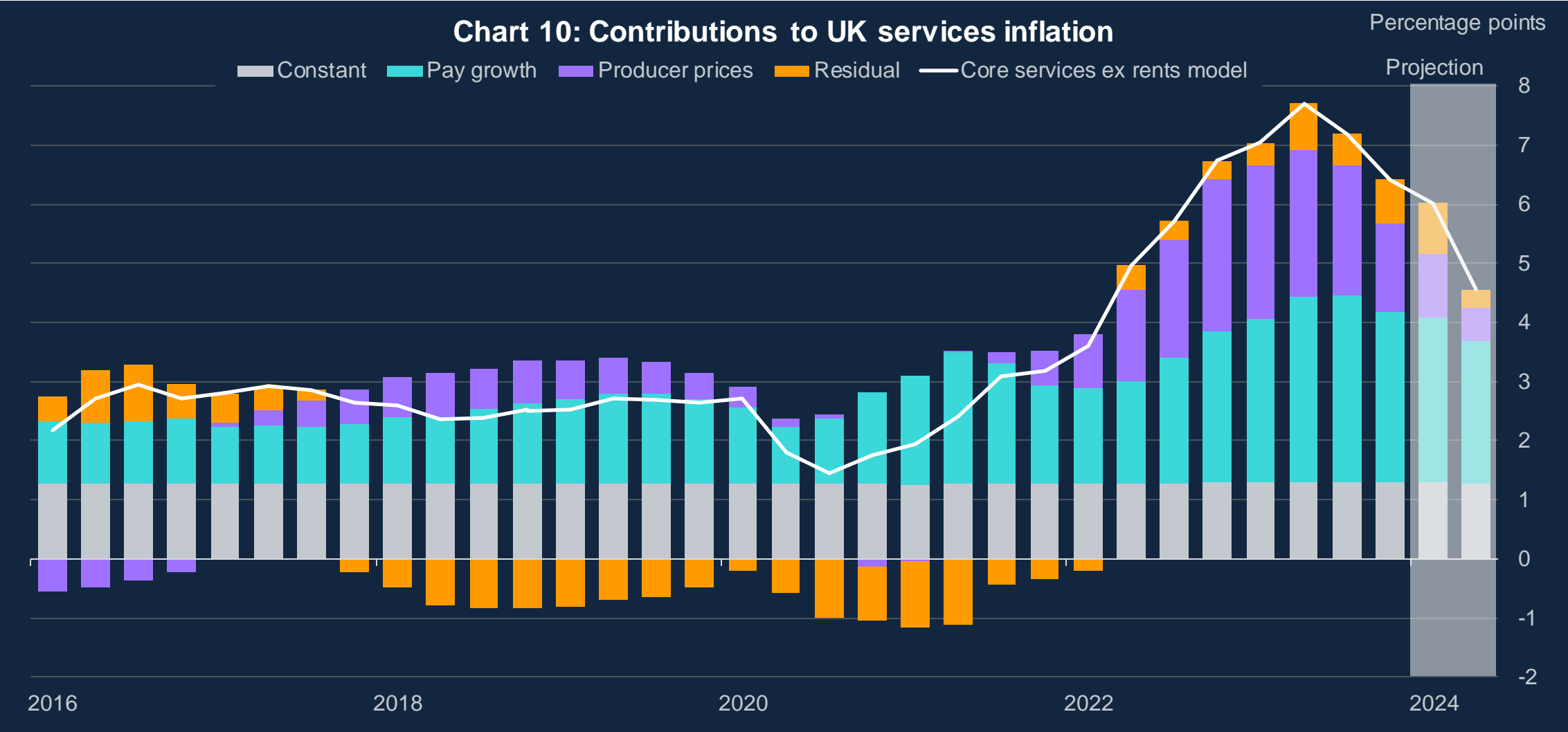
Sources: Bloomberg Finance L.P., Citigroup, ONS, YouGov and Bank calculations.

(a) 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), 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.



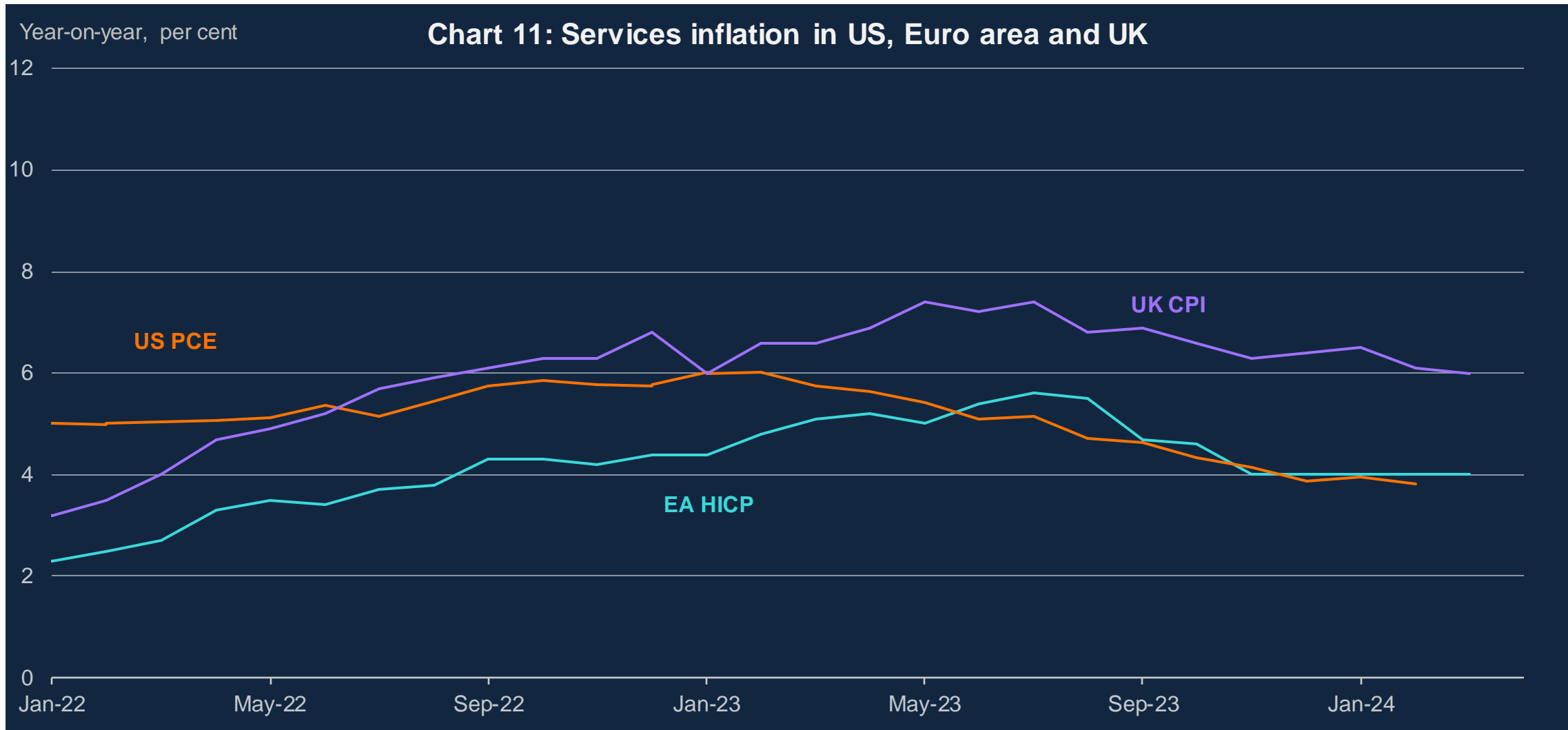
Sources: ONS and Bank calculations.

(a) For example, Feb 2024 line shows forecasts through to June 2024, consistent with the February MPR CPI forecasts.

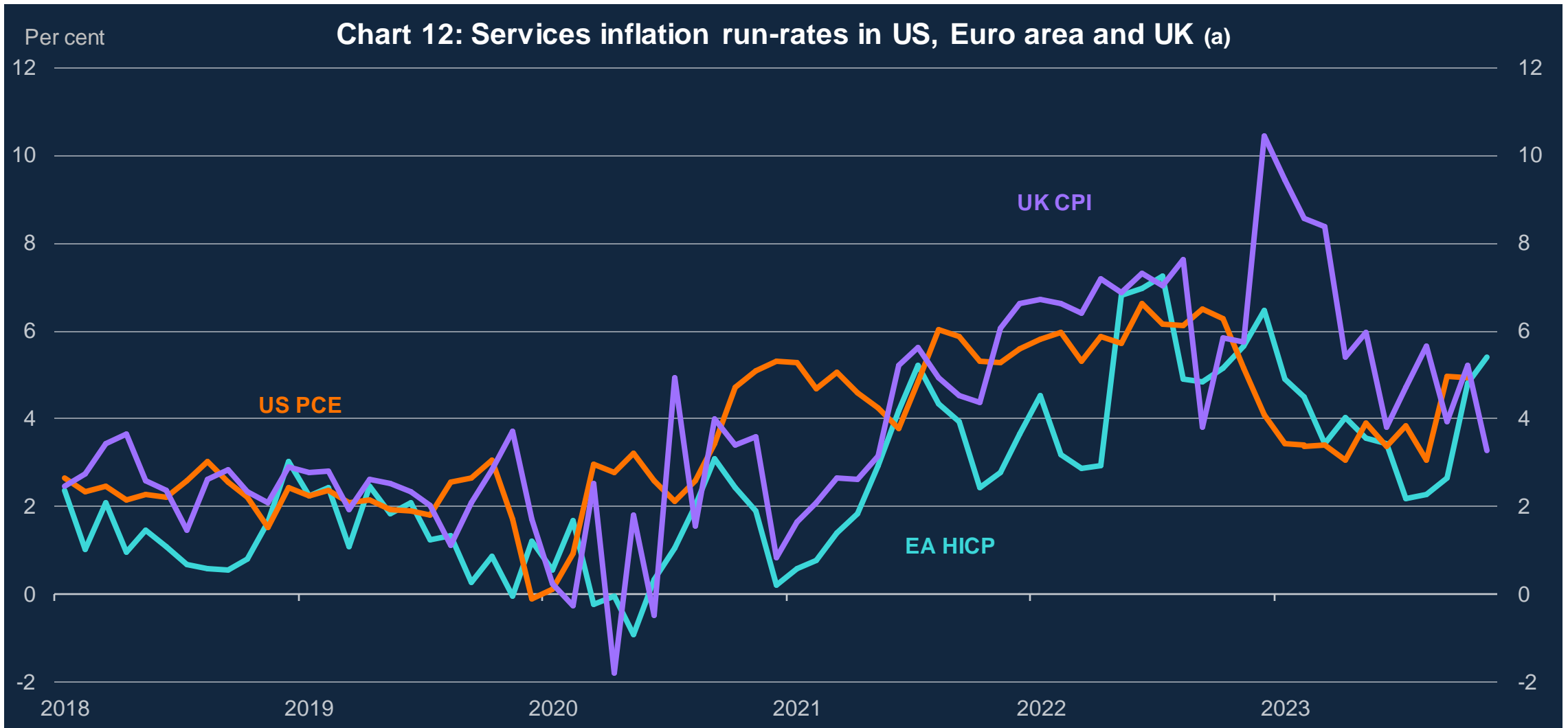


Sources: ONS and Bank calculations.

Notes: Indicative projected bars are from Q1.



Sources: ONS for the UK, BEA for the US, Eurostat for the EA and Bank calculations.



Sources: Bureau of Economic Analysis, Eurostat, ONS and Bank calculations.

(a) 3-month average, monthly annualized. Seasonally adjusted.

