UK Viewpoint

Growing too much to fix entrenched inflation

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Economics
United Kingdom

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Weak supply = persistent inflation

The UK economy has an entrenched inflation problem in our view because of weak potential supply growth and modestly deanchored inflation expectations. The UK suffered four supply shocks: energy prices, supply chains, Brexit, workforce sickness. That is how no growth since 2019 has resulted in strong domestic inflation pressure.

Raise growth forecasts

We raise our 2Q-4Q 2023 growth forecasts to 0.0%, 0.4% and 0.0%. Business surveys and consumer confidence have improved as energy prices have fallen from their peak. Big picture the UK economy stagnated since early 2022 as consumers real incomes were squeezed by energy prices, and weak growth returned as the squeeze eases.

Labour market not likely to ease quickly

Recruitment difficulties have fallen from the peak but labour demand has stabilised and vacancies seem to have stopped falling. Unemployment rose a little as students returned to work but the chronic labour supply problem – sickness – has not improved. Pay surveys are holding at levels too high to be consistent with hitting 2% inflation. We estimate UK potential growth at around 1% a year. This means the weak growth we expect in 2023 would be too strong for capacity constraints to ease much in our view.

Inflation persistence worsens

As the tide of supply shocks has gone out it's revealed a more serious than, we or markets, expected inflation persistence problem. All our measures of the persistent component of inflation rose in April. While near-term inflation prospects have improved since mid-2022 as the energy shock eased medium-term prospects have worsened. We do not expect core inflation to return to the 2% inflation target by end-2024.

More, and more persistent, hikes

The Bank of England (BoE) has more to do. In our view modest growth cannot be consistent with fixing an entrenched inflation problem when supply growth is very weak. How much spare capacity is needed and how much the BoE needs to hike to deliver that is extremely uncertain. We assume the BoE keeps hiking until it sees evidence of core inflation sustainably falling. That means three more 25bp hikes to terminal of 5.25%. With entrenched inflation we assume the BoE will hold rates higher for longer, with one rate cut in 2024 leaving end-2024 Bank Rate at 5.0%. We see large risks to our call.

Weaken forecast GDP growth in 2024

Our higher forecast Bank Rate cuts our growth forecasts through 2024. We now see the economy growing 0.2% yoy in 4Q 2024 compared to 0.8% previously. The more entrenched the UK's inflation problem becomes the weaker we think growth will have to be to eventually return inflation sustainably to target.

Big picture: structurally weak and deanchored expectations = inflation

- UK macro driven by four main shocks: global supply chain problems; rising workforce sickness; Brexit; energy prices. The UK has an entrenched inflation problem in our view because of weak supply. Stagnant GDP and high domestic inflation show potential supply growth weak.

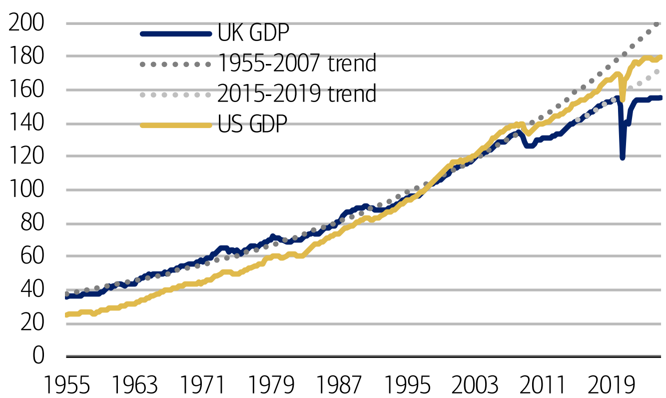
- Key macro developments in first quarter were easing of energy shock and global supply chain problems, boosting growth prospects, and lowering inflation. In the second quarter it was inflation even more persistent than expected.

- While two supply shocks have eased, two remain. And even the easing shocks have left behind some entrenched inflation in the form of deanchored inflation expectations. Growth is running too strong to fix it in our view.

- We estimate UK potential growth of 1% a year and we see inflation expectations as modestly deanchored. This means persistent inflation if growth remains modestly positive or alternatively that the BoE needs to keep interest rates higher for longer than other developed economies.

Exhibit 1: UK and US GDP, BofAf

GDP below pre-Covid level, running well below previous trends…



Source: BofA Global Research, ONS, BEA

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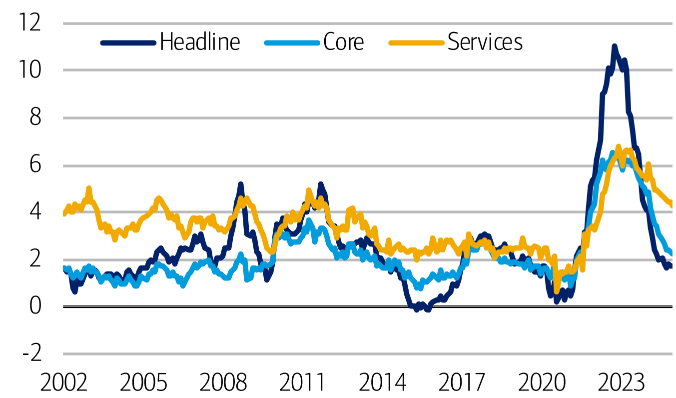
Exhibit 2: CPI inflation, BofAf

… While core, not just headline, inflation surged



Source: BofA Global Research, ONS

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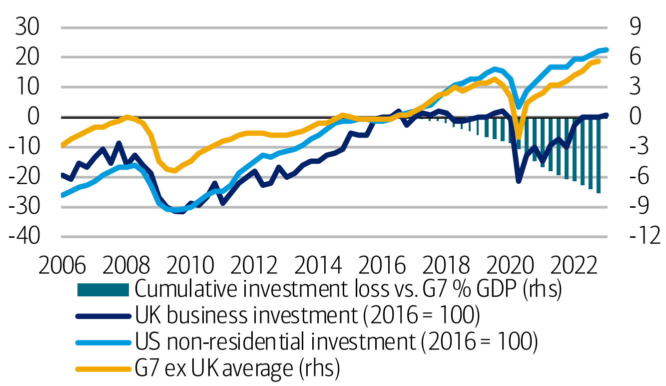
Exhibit 3: Exhibit 4: Business investment, change since 2016

Brexit resulted in cumulative £170bn, c. 8% GDP, investment loss



Source: BofA Global Research, BEA, Eurostat, ONS

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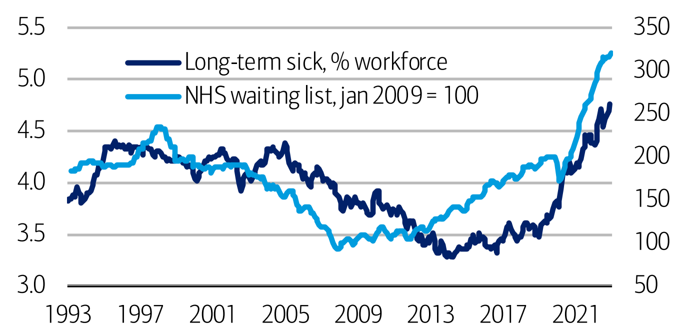
Exhibit 5: % population not looking for a job due to long-term sickness

Rocketing long-term sickness cut the workforce



Waiting list series splices monthly and quarterly data on different definitions, treat with caution.

Source: BofA Global Research, ONS

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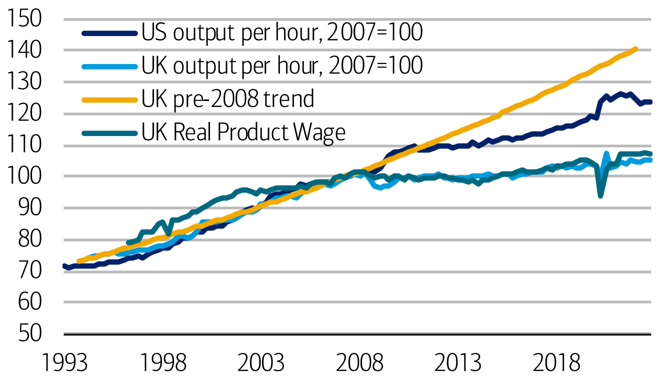
Exhibit 6: Productivity and real product wage

UK productivity growth has been weak for 15 years, likely to continue



Real product wage = regular pay deflated by GDP deflator. **Source:** BofA Global Research, BEA, ONS.

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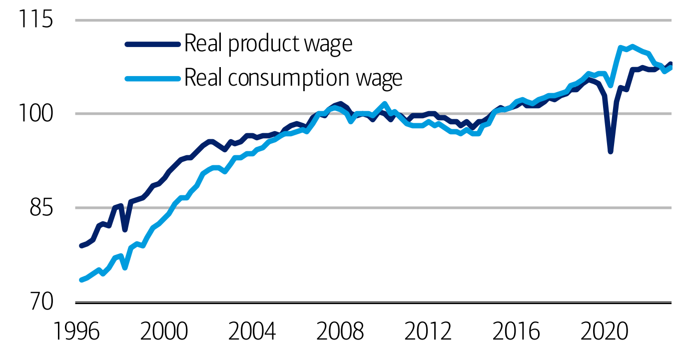
Exhibit 7: Real product and consumption wages

Consumer spending power structurally squeezed by import costs as well as productivity. Wage rose faster than productivity in late 90s/early 2000s as import prices fell, reverse process now



Real product wage = regular pay deflated by GDP deflator, real consumption wage = pay deflated by consumption deflator. **Source:** BofA Global Research, ONS

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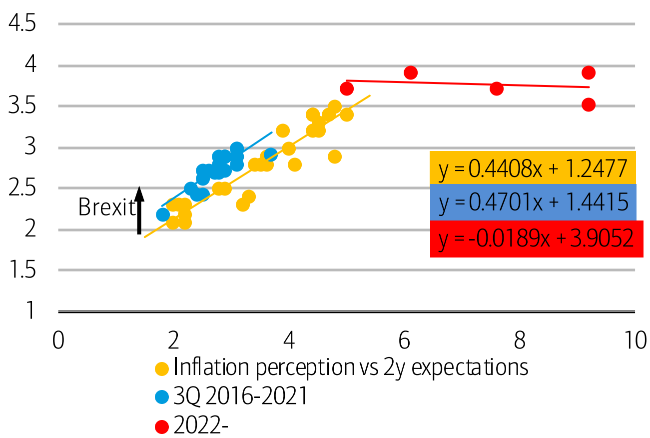
Exhibit 8: Inflation perceptions vs expectations

UK inflation expectations modestly deanchored



Source: BofA Global Research, BoE.

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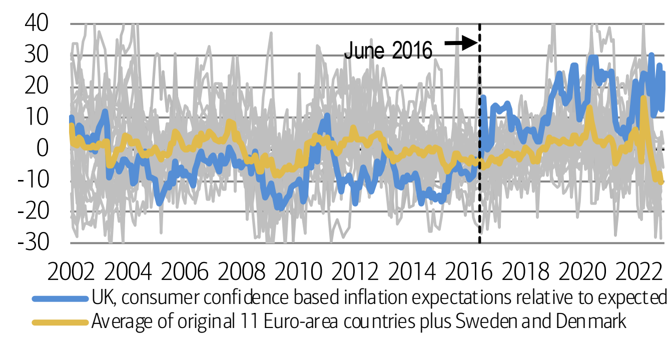
Exhibit 9: Consumer confidence based inflation expectations relative to expected

UK inflation expectations deanchored to the upside



Yellow line shows the fitted values from a regression of the net balance of consumers expecting prices to rise on the net balance of consumers saying prices rose over the past twelve months, the net balance of consumers expecting unemployment to rise, food and oil price inflation. EA 11 average excludes the Netherlands which is an outlier, seeing an extreme rise in expectations vs. predicted values. **Source:** BofA Global Research, GfK, EC.

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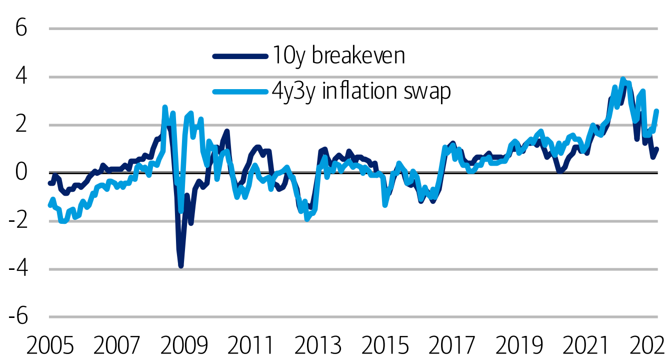
Exhibit 10: Market inflation pricing

Market expects persistently above target inflation



Standard deviations from pre-2019 average. **Source:** BofA Global Research, Bloomberg.

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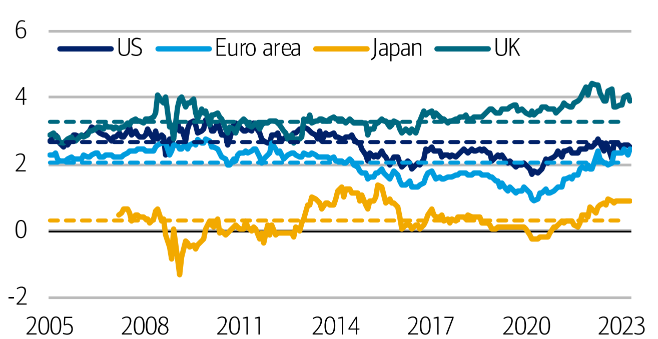
Exhibit 11: 5y5y market inflation expectations (4y3y for UK)

Markets price UK having a unique problem, building since the Brexit referendum



Source: BofA Global Research, Bloomberg

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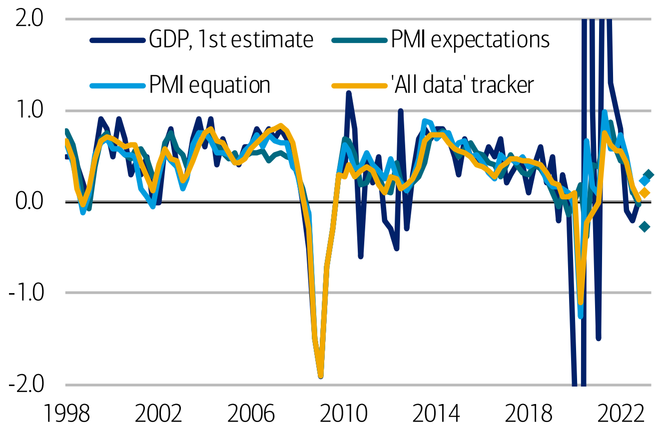
Recession narrowly avoided, economy stagnating

- Surveys suggest improving growth so we raise our 2Q-4Q growth forecasts to 0.0%, 0.4% and 0.0%. Surveys suggest 0.2% qoq growth. We expect growth below that in 2Q because of strikes and the Coronation Bank Holiday but that unwinds in 3Q.
- The growth signals from different surveys have diverged an unusually large amount (Exhibit 12). The last time the PMI diverged from the other surveys persistently, from 2010-2013, the PMI was too optimistic. We aim below the PMI signal now.
- The big picture remains a UK economy stagnating since May last year when household real income began to fall and the reopening boost to hospitality ended (Exhibit 14).

Exhibit 12: GDP growth qoq and survey-based trackers
Surveys suggest UK will avoid recession



Source: BofA Global Research, S&P global, ONS

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Exhibit 13: GDP nowcast
We track 0.0% growth in 2Q

	Weight, %	Jun-23	Contribution to qoq GDP growth
Index of production	13.5	0.0	0.0
o/w			
Manufacturing	9.7	-0.3	0.0
Extraction	1.1	1.2	0.0
Utilities	2.7	0.7	0.0
Index of services	79.6	-0.1	0.0
o/w			
PNDS	50.7	-0.2	-0.1
Distribution	10.5	-0.4	0.0
Government	18.4	0.4	0.1
Construction	6.2	0.8	0.1
Agriculture	0.7	0.0	0.0
GDP			0.0
GDP*	96.2		0.0
GDP**	90		-0.1

GDP* excludes construction, GDP** additionally excludes energy, PNDS = private non-distribution services. **Source:** BofA Global Research, ONS

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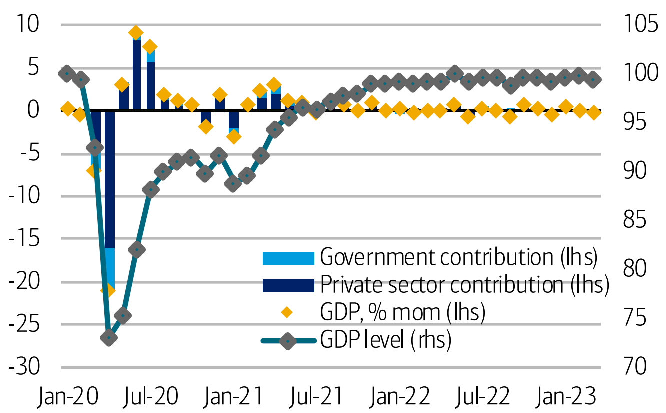
Exhibit 14: UK GDP and contributions to growth (% mom)
UK economy stagnating since end-2021



Source: BofA Global Research, ONS

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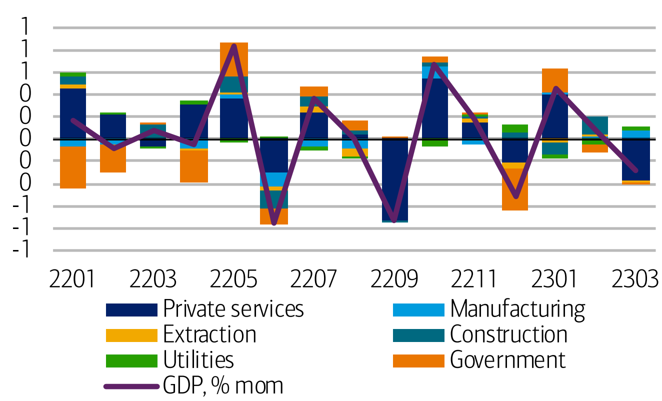
Exhibit 15: Contribution to GDP, % mom
Strikes, and World Cup, drive GDP volatility around turn of year. Private services weak in March, in contrast to PMI



Source: BofA Global Research, ONS.

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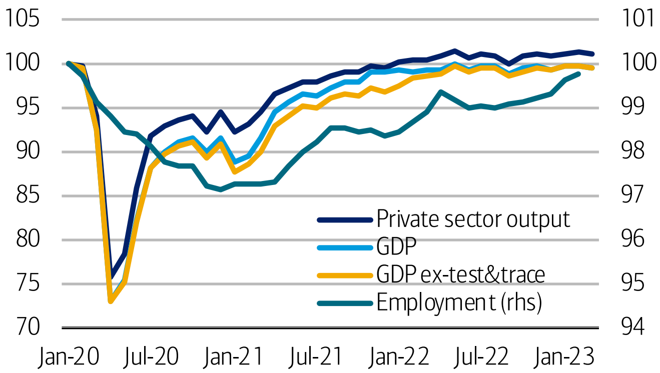
Exhibit 16: UK GDP, January 2020=100
Ex-test-and-trace economy stopped growing in May 2022



Source: BofA Global Research, ONS.

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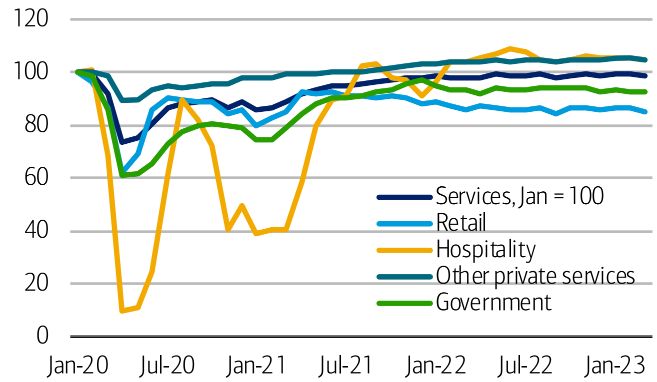
Exhibit 17: Sectoral output, Jan 2020 = 100
As reopening boost to hospitality ended



Source: BofA Global Research, ONS

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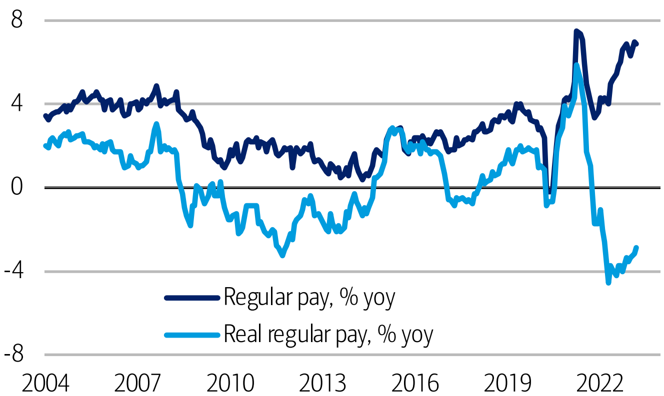
Exhibit 18: Nominal and real pay, % yoy
Economy stopped growing around six months after real pay began falling



Source: BofA Global Research, ONS

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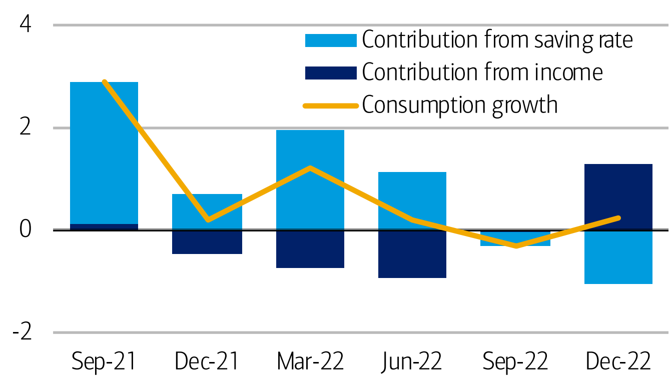
Exhibit 19: Consumption growth, % qoq, and contributions from income and saving
Consumers cut saving rate to keep spending through real income falls



Source: BofA Global Research, ONS

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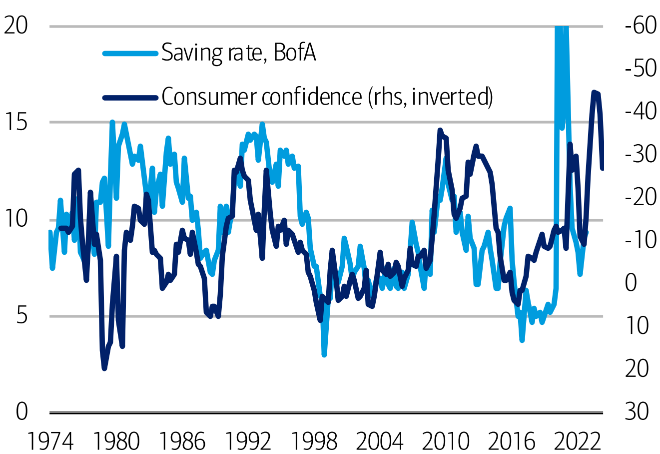
Exhibit 20: Household saving rate and consumer confidence
Consumer confidence suggests households' precautionary saving motives rose



Source: BofA Global Research, ONS, GfK

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Exhibit 21: Consumer spending, actual and implied by determinants
Consumption growth turned out weaker than would have been expected given income growth, wealth and interest rates. But growth was better than forecast last year. Reconciling those two points.... Growth turned out better than forecast because income was stronger than forecast last year.

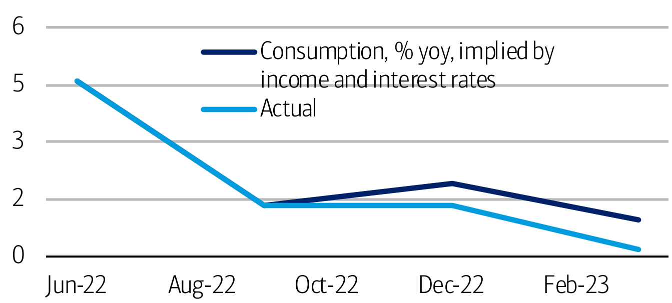

Chart shows an out-of-sample forecast for consumption based on a standard consumption function and data for income, wealth, house prices and interest rates. It shows what a standard model would expect to have happened. The light blue line shows the actual consumption growth outturn. **Source:** BofA Global Research, ONS.

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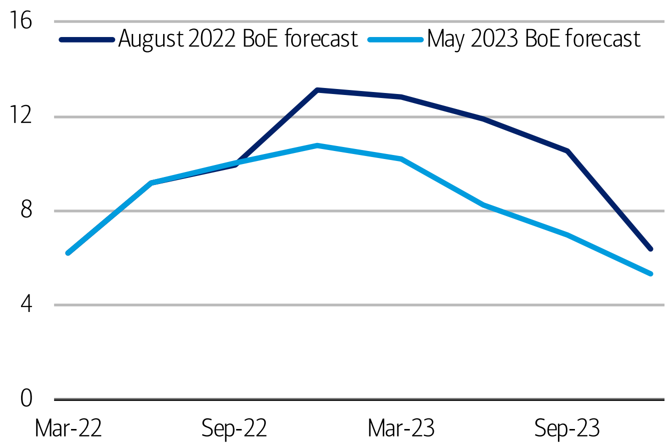
Near-term outlook improves as supply shocks ease

- Easing supply shocks brightened the near-term growth outlook. Falling energy prices and easing supply chain disruptions meant faster falls in inflation, stronger real incomes, and better growth. This statement sits oddly with inflation recently surprising on the upside. But recall that wholesale energy prices last summer suggested CPI inflation could peak above 13% (BoE forecast 13.1%) and still be 12% now vs. the 8.7% recorded for April. We have progressively raised near-term growth forecasts as energy prices fell.

Exhibit 22: BoE inflation forecasts
Easing supply shocks cut near-term inflation, improving real income and growth outlook



Source: BofA Global Research, BoE, ONS

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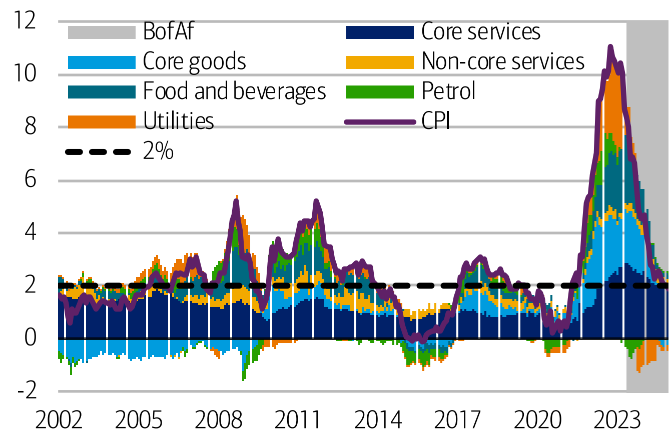
Exhibit 23: Contributions to CPI inflation, BofAf
We expect headline inflation to drop sharply through 2023 and 2024 as energy and goods price inflation continues to fade



Source: BofA Global Research, BoE, ONS

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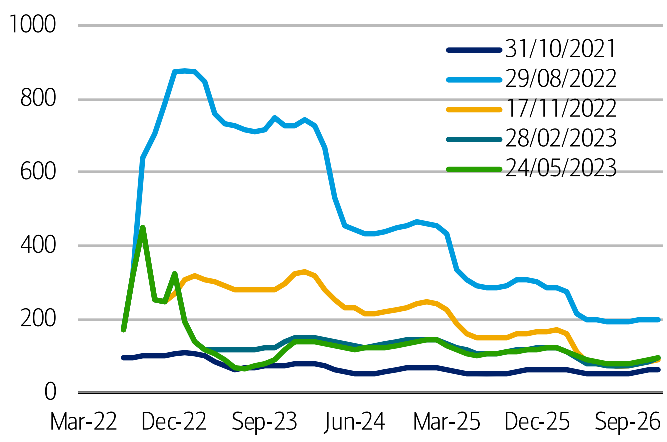
Exhibit 24: Natural gas futures, pence per therm
Falling wholesale gas prices will cut utility bills



Source: Bloomberg

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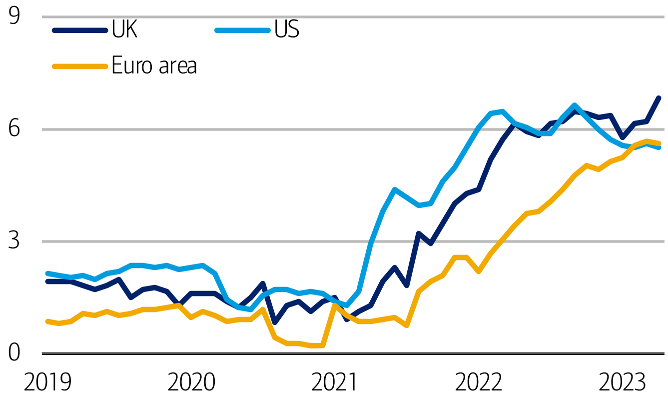
Inflation persistence worsens

- As the tide of supply shocks has gone out it's revealed a more serious than, we or markets, expected inflation persistence problem. While near-term inflation prospects have improved since mid-2022 medium-term prospects have worsened.

- Core inflation accelerated above its previous peak in April in a large upside surprise to expectations. The upside news was widespread, with goods inflation rising in April and services inflation accelerating above the rate in the US (detail on April inflation in [UK Watch: Inflation forecast update: big problem 24 May 2023]). The trajectory of UK core inflation seems to be diverging from the Euro area and US.
- Surveys of pay growth have stabilised at levels too high to be consistent with hitting 2% inflation. Workforce improvement recently has been driven by students returning – perhaps also consistent with the rise in pat-time work – making it a one off. The persistent issues of long-term sickness and retirement have not begun to reverse. Labour demand appears stable and vacancies have stopped falling. Risk labour market does not ease much more in near-term.
- Cyclical and persistence weighted inflation continue rising and inflation expectations appear to have modestly deanchored to the upside in contrast to other countries. Markets price the UK to have a unique problem with persistence.
- We expect core inflation to fail to return to the 2% inflation target within our forecast horizon (by end-2024).

Exhibit 25: Core CPI inflation
UK trajectory diverges from US and Euro area



Source: BofA Global Research, ONS, BEA, Eurostat
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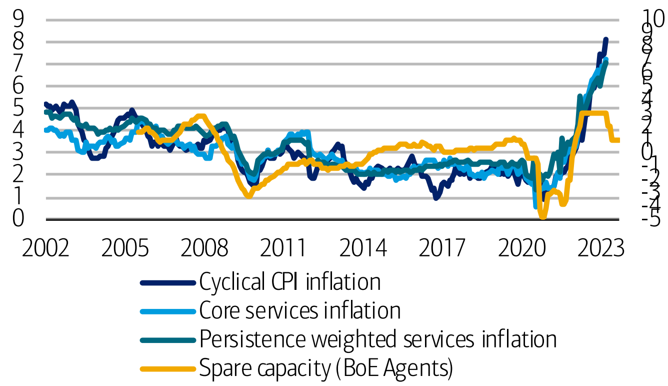
Exhibit 26: Cyclical CPI inflation and spare capacity
Core services inflation, cyclical inflation and persistence weighted inflation surge, increasingly disconnected from spare capacity



Source: BofA Global Research, BoE
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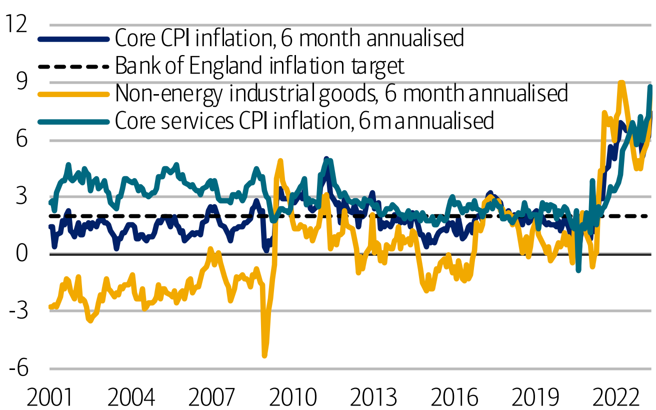
Exhibit 27: 6 month annualised seasonally adjusted inflation
6-month annualised core services inflation reaches 8.8%



Seasonally adjusted with X12. **Source:** BofA Global Research, ONS.
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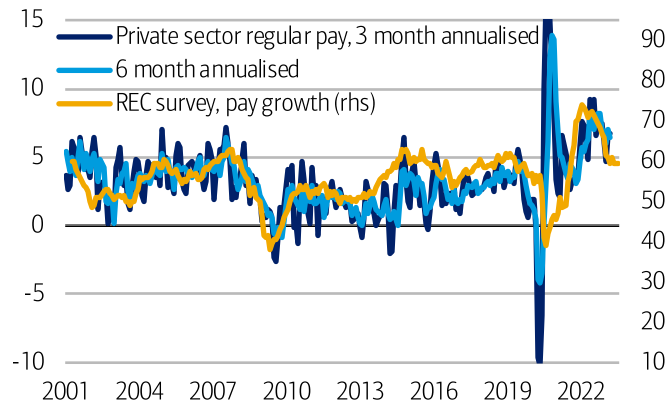
Exhibit 28: Private sector ex-bonus pay growth and REC survey
Pay growth slowed from peak but REC survey suggests stabilising at c.5%



Source: BofA Global Research, REC/S&P Global
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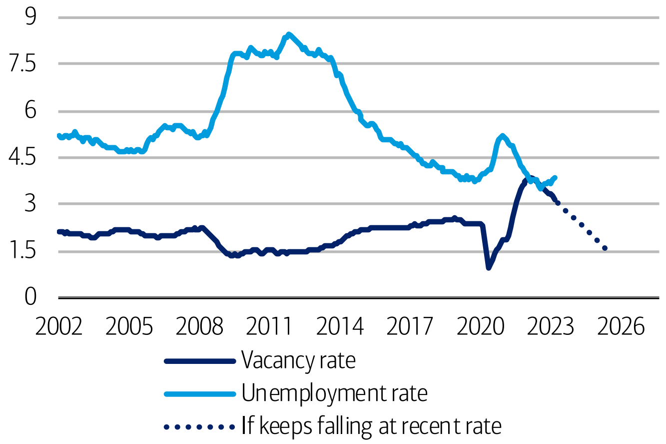
Exhibit 29: Vacancy and unemployment rate

Will not return to pre-Covid level until 2Q 2024 if continues falling at recent pace



Source: BofA Global Research, ONS

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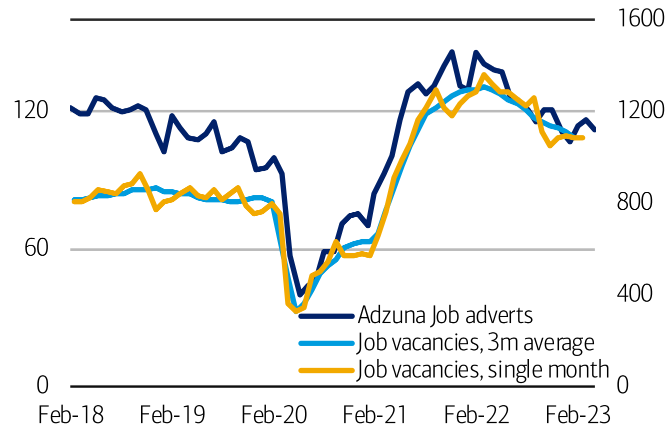
Exhibit 30: Vacancies and job adverts

But vacancies seem to have stopped falling



Source: BofA Global Research, ONS

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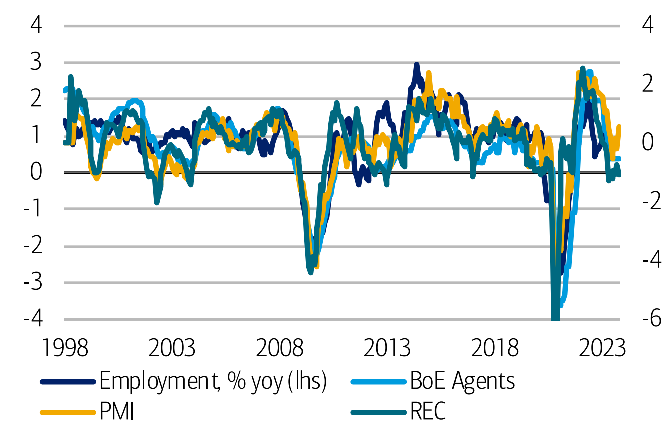
Exhibit 31: Employment and survey indicators of recruitment

Employment stabilising at low growth



Source: BofA Global Research, ONS, REC, S&P Global, BoE

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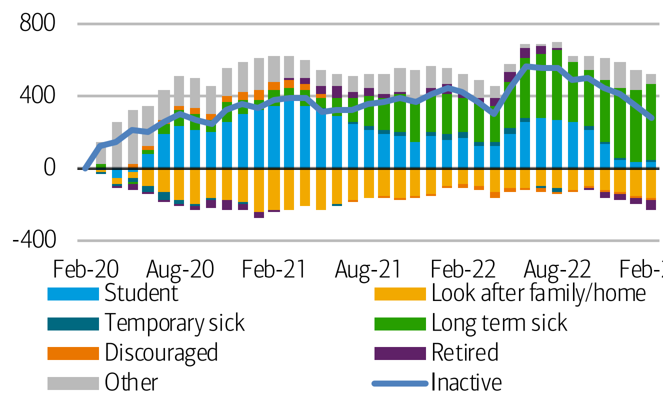
Exhibit 32: Change in inactivity since February 2020, thousands

One off improvement in inactivity as students return to work. Structural labour supply weakness is not improving.



Source: BofA Global Research, ONS

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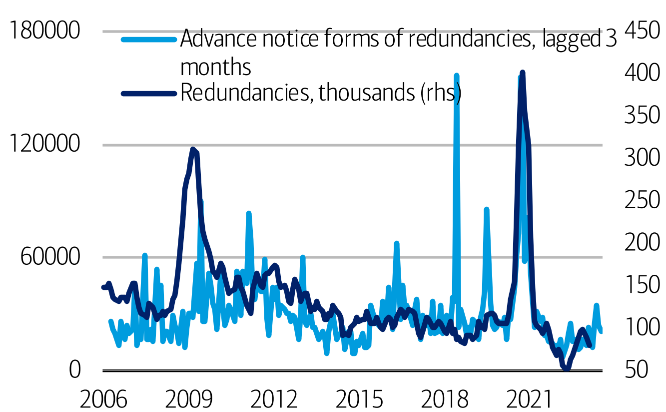
Exhibit 33: Redundancies and HR1 form advance notices

Redundancies remain low



Source: BofA Global Research, ONS

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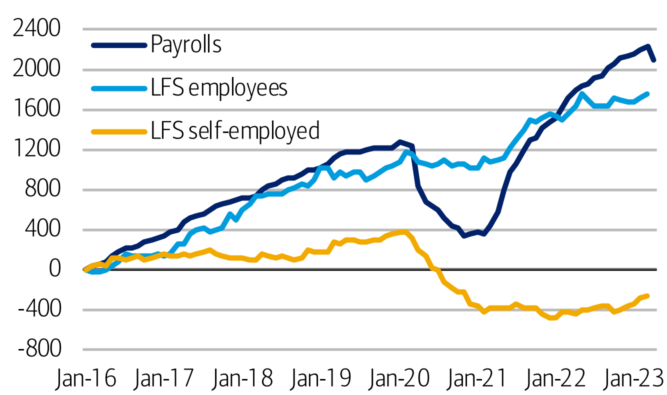
Exhibit 34: Labour Force Survey (LFS) employment vs payrolls

Tentative signs of labour market turning but weakest employment signal recently from an relatively unreliable indicator



Source: BofA Global Research, ONS.

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Exhibit 35: Decision Maker Panel Recruitment Difficulties

Recruitment difficulties eased but remain elevated and unchanged this year

Source: BofA Global Research, BoE.

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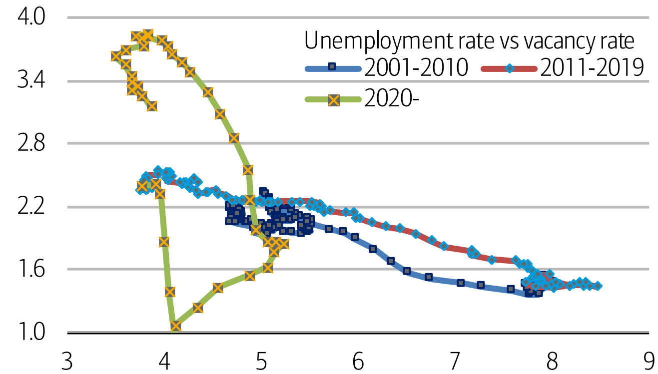
Exhibit 36: Beveridge curve

Beveridge curve continues gradual shift back to normal but suggests tight labour market, uncertain where curve settles



Source: BofA Global Research, ONS.

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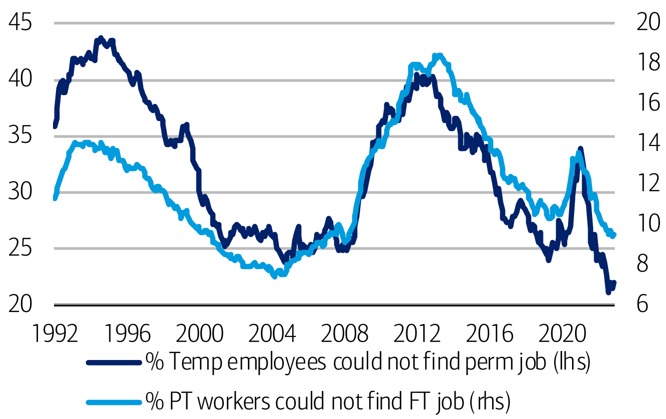
Exhibit 37: Underemployment

Underemployment bottoming but not increasing yet



Source: BofA Global Research, ONS.

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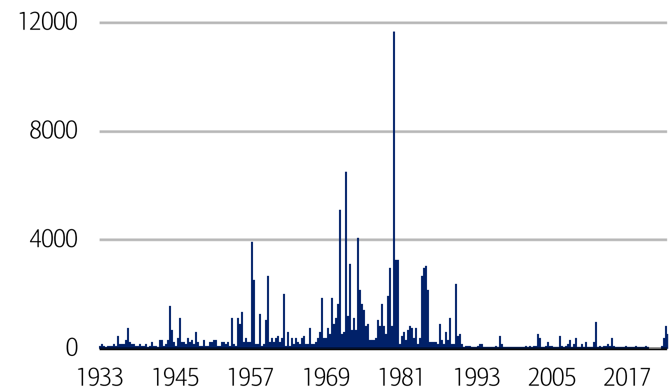
Exhibit 38: Days lost to strikes

Public sector strikes show real wage resistance, but not at levels of labour unrest from 1970s



Source: BofA Global Research, ONS

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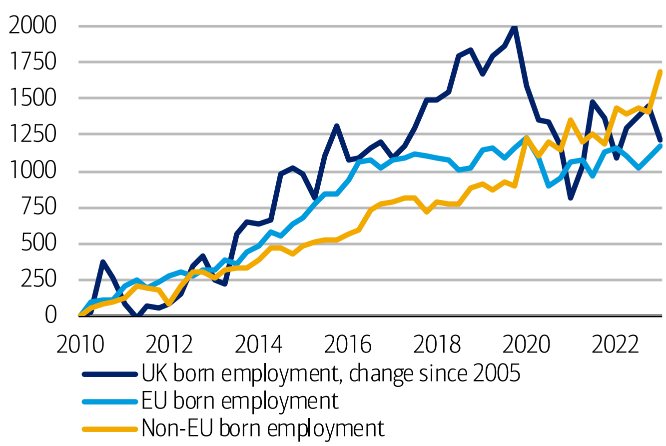
Exhibit 39: Employment by country of birth, change since 2010, thousands

Immigration making up for some of drop in UK born workers



Source: BofA Global Research, ONS

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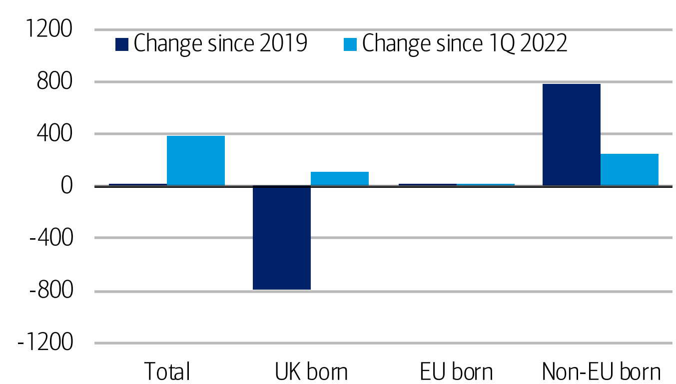
Exhibit 40: Employment by country of birth, change, thousands

Higher immigration may be helping to ease labour supply difficulties, would need to continue for extended period to fill vacancies. Immigration brings demand as well as supply so uncertain how much this changes aggregate labour supply imbalance vs. sectoral pressures



Source: BofA Global Research, ONS

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More BoE rate hikes

- We struggle to see how the Bank of England and Consensus outlook stack up: roughly growth in line with potential from mid-year, inflation falling to target with unemployment peaking at 4.4% in 2024 (for consensus) with one more Bank Rate hike and multiple cuts in 2024 for consensus.

- Near-term growth and labour demand appears to be holding up too well in our view to allow the labour market to ease much in the near-term. And bigger picture in our view the inflation problem is entrenched enough that the BoE needs to open-up spare capacity persistently to correct it.

- How much spare capacity is needed and how much the BoE needs to hike to deliver that is extremely uncertain. The BoE has argued it is placing more weight on near-term data than its forecasts because of that uncertainty. So the latest inflation print intensifies upside interest rate risks.

- We assume the BoE keeps hiking until it sees evidence of core inflation sustainably falling. We now expect core inflation to hold at 6-7%-6.8% until the August data, published in September. Accordingly we see 25bp hikes in June, August and September with the BoE then pausing.

- Uncertainty is high. Inflation could slow faster than we expect if sharply slowing cost growth passes through faster (Exhibit 41). On the other hand measures of the persistent component of inflation continue to accelerate which suggests core inflation may remain higher for longer than we expect (Exhibit 26).

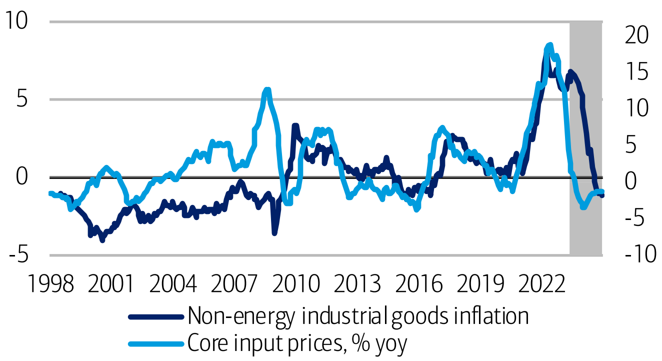
- The number of hikes needed is uncertain in part because the UK monetary policy multiplier may be changing. The BoE seems to have begun considering this issue with a box on the issue in the latest Monetary Policy Report. In the past most UK mortgages were variable rate, now they are mostly fixed for 2-5 years with an average duration a little over 3 years. In our view this substantially slows passthrough of interest rate changes to household cash flow which is a key channel of monetary policy transmission.

- In addition to the minority of mortgages that are variable rate we estimate only about 15% of mortgages will have been refinanced at rates close to their current level (the % due for refinancing September-April). Mortgages will refinance steadily from here (Exhibit 42). Households may be waiting for fixed rates to fall before locking in rates. 18% of new approvals in 1Q 2023 were on variable rates over 4 times the percentage in 2022. This suggests the shock to households' may be delayed further to the extent households are planning on lower mortgage rates.

- Focusing just on this mortgage channel, either the BoE loses some of its ability to shift economic growth quickly because it has to wait for policy to feed through to households cash flow. Or the BoE has to exert more influence over household expectations to deliver a change in consumption today. There may be other changes that either speed up or slow down transmission via other channels, however. In our view this is likely to be an increasingly important issue for policy.

- With potentially delayed passthrough of policy – or a need to ensure rates remain elevated for a period of time to ensure passthrough – and entrenched inflation we assume the BoE will have to hold rates close to terminal for an extended period. We assume 1 rate cut in 2024 (August) leaving end-2024 Bank Rate at 5.0%

Exhibit 41: Producer price inflation and non-energy goods inflation
Goods inflation could slow faster than we expect if margin rebuild ends sooner



Source: BofA Global Research, ONS.

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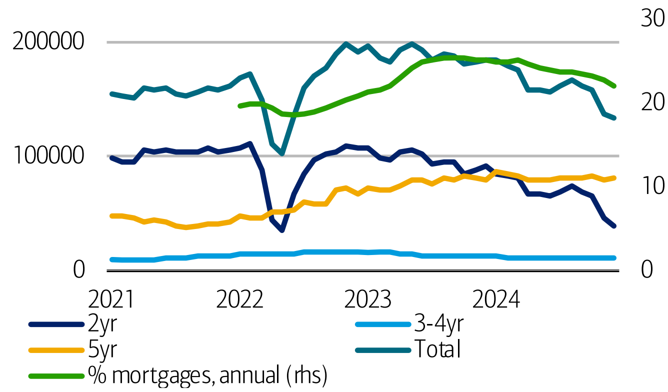
Exhibit 42: BofAe monthly number mortgages at end of fix
A quarter of mortgages will drop off a fixed interest rate in 2023



Source: BofA Global Research, UK Finance, BoE

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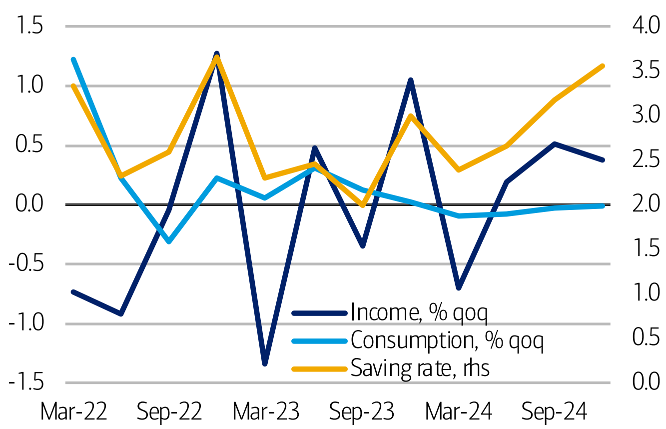
Weaken forecast GDP growth in 2024

- We raise our calendar year growth forecasts, to 0.4% from 0.0% for 2023 and to 0.3% from 0.0% for 2024. This reflects the upgraded prospects for the first half of 2023 as described above. We lower sequential growth through 2024. We now see the economy growing 0.2% yoy in 4Q 2024 compared to 0.8% previously.

- As we argue above, big picture we find it hard to rationalise growth close to potential of around 1% a year, inflation falling to target and few more hikes from the BoE. If growth is stronger near-term, as it seems to be, then the BoE will have to squeeze growth more further out. So we now expect more rate hikes, held for longer, and weaker growth in 2024.

- Improved real income described above boosts our growth forecasts. Our growth forecasts remain weak as real income still falls sharply in 1H 2023 when government support is withdrawn, higher mortgage rates increasingly weigh on consumer spending and households reach the limit of how much they can and/or want to lower saving rates.

Exhibit 43: BofAf household income and consumption growth
We expect consumption to stagnate



Source: BofA Global Research, ONS

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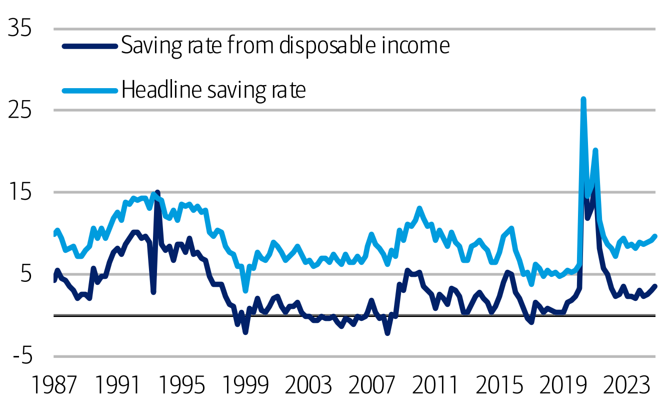
Exhibit 44: BofAf household saving rate
Households use return of income growth to rebuild saving rate a little at end of forecast



Source: BofA Global Research, ONS.

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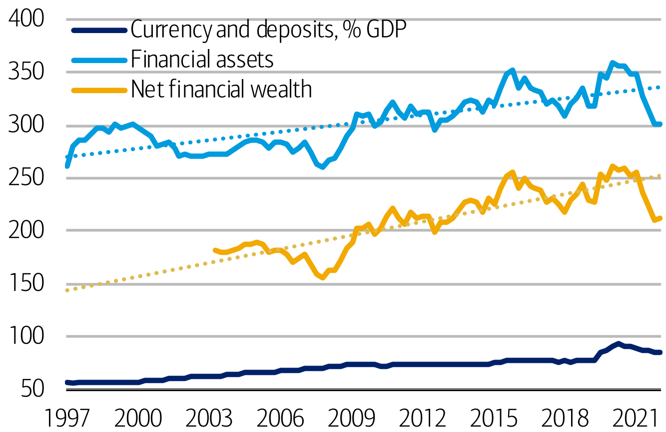
Exhibit 45: Household financial assets, % GDP

Covid savings eaten up by rising inflation and asset price falls



Source: BofA Global Research, ONS

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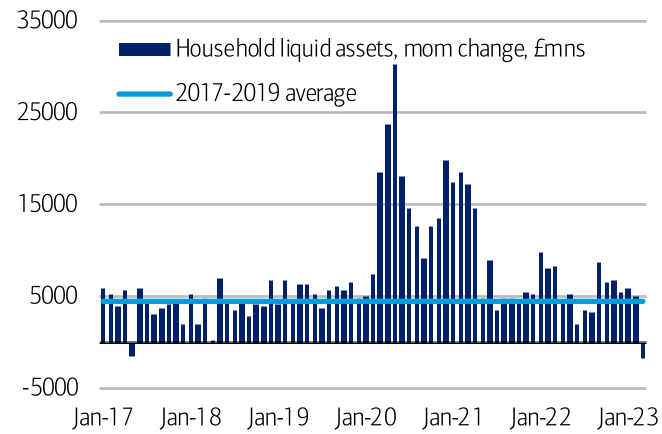
Exhibit 46: Consumer saving flows into liquid assets, % consumption

First monthly dissaving since 2017 helped support consumer spending in March. Slump in CBI retail survey in May suggests this may have reversed



Source: BofA Global Research, BoE

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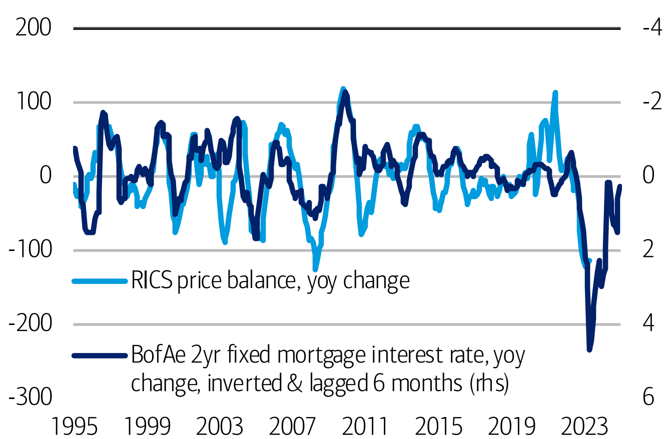
Exhibit 47: RICS price balance and 2yr mortgage rate

Likely renewed rise in mortgage rates to keep house prices falling, weighing on consumer spending



Source: BofA Global Research, RICS (Royal Institution of Chartered Surveyors), BoE.

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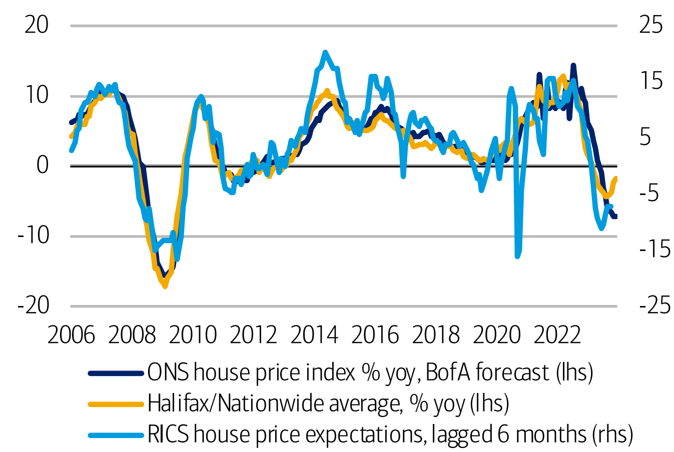
Exhibit 48: BofAf house prices, % yoy

Falling house prices likely to drag on consumer spending



Source: BofA Global Research, RICs, Halifax, Nationwide, ONS

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Heatmaps

Exhibit 66: Output indicators

Services improving, manufacturing weaker, PMI the most optimistic

	Correlation w/ hard data Current vintage	1st release
GDP		
Composite PMI	0.34	0.58
Lloyds business barometer	0.33	0.50
Deloitte CFO survey	0.29	0.15
CBI composite output	0.18	0.44
BCC composite output	0.15	0.43
Manufacturing		
PMI output	0.14	0.52
BCC output	-0.03	0.39
BoE Agents output	-0.07	0.29
CBI output	-0.12	0.40
Services		
PMI output	0.22	0.53
BoE Agents (turnover)	0.16	0.47
CBI output	0.02	0.37
BCC output	-0.05	0.37
Construction		
PMI (output)	0.43	0.17
RICS output	0.34	-0.06
BoE Agents (volumes)	0.34	-0.12

Where data are monthly, figure shows the average reading in the quarter so far. The right- hand panel of data shows the monthly pattern of data. Green denotes data above average, yellow data in line with its average and red below average. Averages, standard deviations and correlations calculated 1997-2019 excluding the financial crisis years so that colours reflect growth relative to more 'normal' times and to avoid spurious correlation (all data were highly correlated during the financial crisis). Source: BofA Global Research, ONS, S&P Global, CBI, BCC, Lloyds, BoE, Deloitte.

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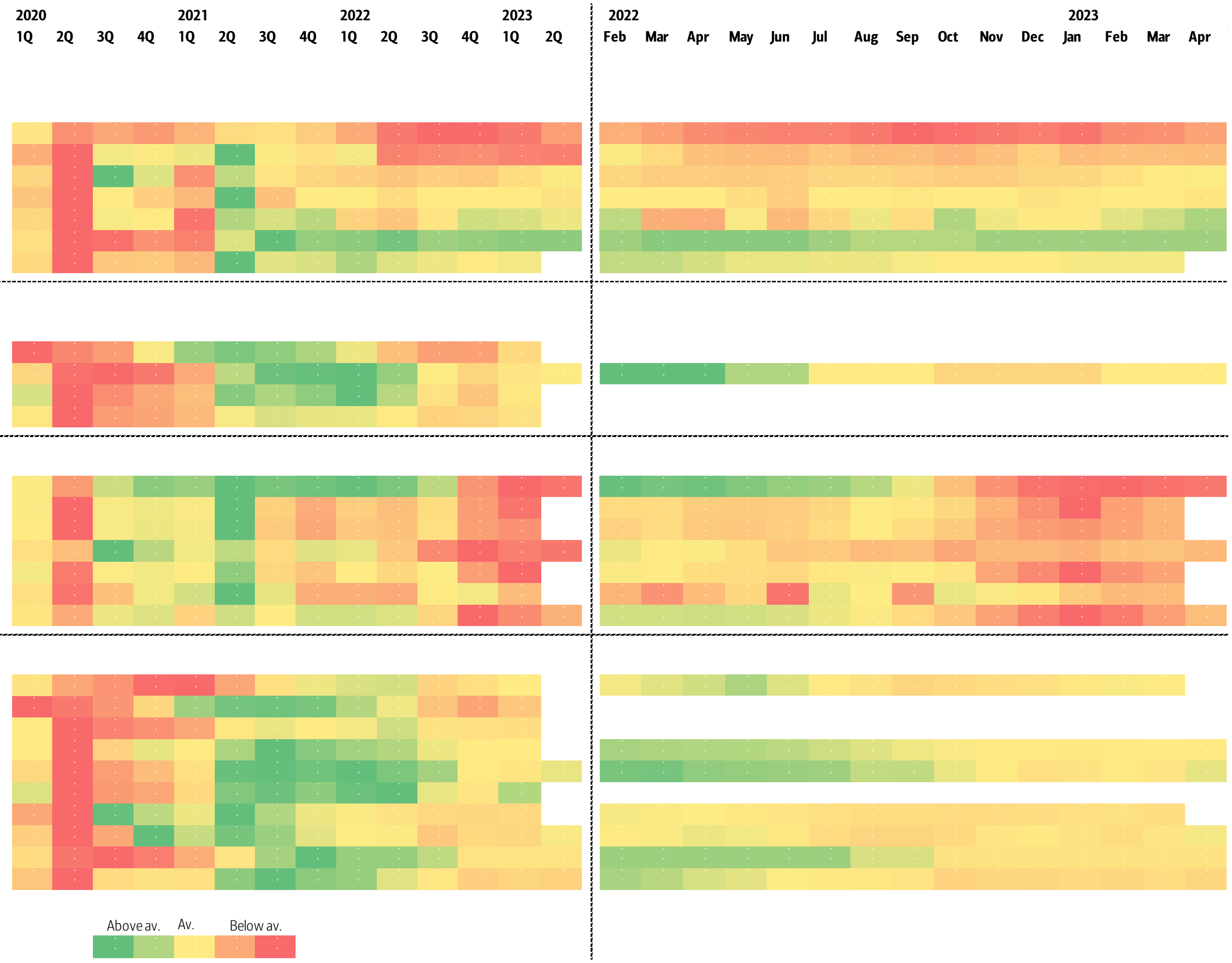
Exhibit 67: Expenditure indicators

Consumer confidence and housing very weak but improving, higher rates may derail the latter. Labour market quantities improving

	Correlation w/ hard data: Consumption	Retail sales
Consumption		
Consumer confidence	0.36	0.48
BRC/KPMG monitor (deflated)	0.35	0.47
Retail sales volumes, ex fuel (% 3m/3m)	0.29	
Car registrations (private, % yoy)	0.23	
CBI distributive trades (volumes)	0.17	0.59
BoE Agents (sales values)	0.17	0.33
Consumer credit (monthly flow)	0.16	0.14
Business investment	**Current vintage**	**1st release**
Deloitte CFO survey investment intentions	0.47	0.21
BoE Agents	0.25	0.20
CBI investment intentions	0.20	0.19
BCC investment intentions	0.25	0.23
Housing		
RICS prices	0.71	
UK finance mortgage approvals (% yoy)	0.65	
BoE mortgage approvals (% yoy)	0.65	
RICS new buyer enquiries	0.64	
UK finance gross mortgage lending (% yoy)	0.43	
HMRC housing transactions (% yoy)		
Av. Hfax/Nwide house price inflation (% 3m/3m)		
Labour market		
Employment (% 3m/3m)		
Deloitte hiring intentions	0.56	
BCC employment	0.54	
Jobless claims (3m av., inverted)	0.55	
PMI (composite employment)	0.51	
BCC emp. Expectations	0.49	
Job vacancies (%3m/3m)	0.44	
Adzuna Job adverts (%3m/3m)		
BoE Agents survey	0.34	
REC (av. Perm/temp placements)	0.25	



Where data are monthly, figure shows the average reading in the quarter so far. The right- hand panel of data shows the monthly pattern of data. Green denotes data above average, yellow data in line with its average and red below average. Averages, standard deviations and correlations calculated 1997-2019 excluding the financial crisis years so that colours reflect growth relative to more 'normal' times and to avoid spurious correlation (all data were highly correlated during the financial crisis).

Source: BofA Global Research, ONS, S&P Global, CBI, BCC, RICS, BoE, UK Finance, Deloitte, ONS.

Exhibit 68: Expectations indicators

Expectations improve

	Correlation w/ hard data: Goods exports	Total
Exports		
BoE Agents	0.39	0.45
CBI export orders	0.30	0.28
PMI new export orders	0.27	0.21
BCC export sales	0.24	0.19
CBI manufacturing export deliveries	0.23	0.20
BCC export orders	0.17	0.12
Confidence/expectations		
Manufacturing		
PMI new orders/inventories	0.11	0.37
PMI new orders	-0.03	0.40
BCC orders	-0.08	0.36
CBI optimism	-0.03	0.35
BCC confidence	-0.11	0.39
CBI expected output	-0.15	0.30
CBI orders	-0.18	0.12
Services		
PMI Future business expectations	0.36	0.56
PMI new orders	0.29	0.48
BCC confidence	0.19	0.61
CBI optimism	0.15	0.37
BCC orders	0.10	0.53
Construction		
Housing starts	0.47	0.38
Construction new orders	0.47	0.22
PMI future business activity	0.47	0.10
RICS expectations	0.38	-0.05
PMI new orders	0.11	-0.15

See previous chart for methodology. Source: BofA Global Research, ONS, S&P Global, RICS, CBI, BCC, BoE,.

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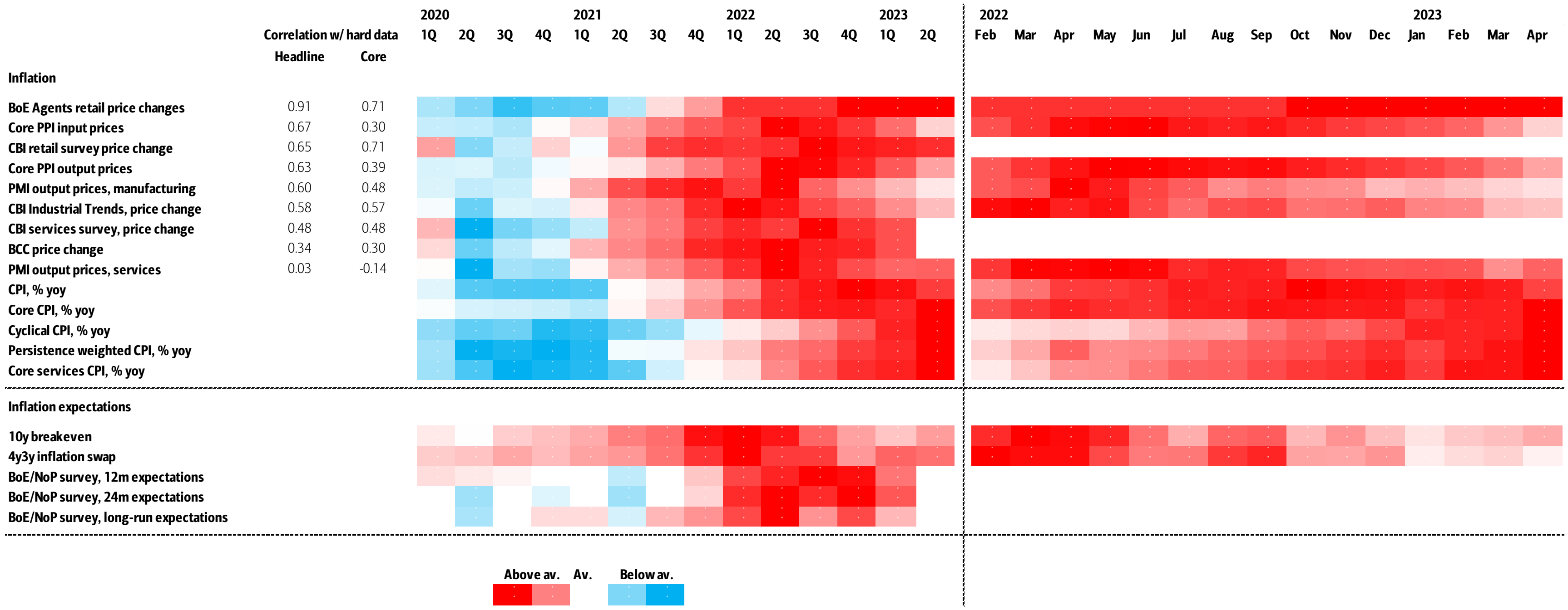
Exhibit 69: Inflation indicators

Continued easing of supply chain pressures but retail signals remain red hot



Source: BofA Global Research, ONS, S&P Global, CBI, BoE, BCC, Bloomberg

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Table 1: BofA UK forecasts

We forecast recession and falling inflation in 2023

		2020	2021	2022	2023	2024	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24
GDP	% qoq						0.5	0.1	-0.1	0.1	0.1	0.0	0.4	0.1	0.0	0.0	0.1	0.1
	% qoq ann.						2.0	0.2	-0.4	0.5	0.5	0.0	1.6	0.4	0.0	0.0	0.4	0.4
	% yoy	-11.0	7.6	4.1	0.4	0.3	10.6	3.8	2.0	0.6	0.2	0.2	0.7	0.6	0.5	0.5	0.2	0.2
Private Consumption	% qoq						1.4	0.3	-0.3	0.2	0.1	0.3	0.1	0.0	-0.1	-0.1	-0.1	0.0
	% yoy	-13.2	6.2	5.6	0.4	-0.1	15.3	4.8	1.6	1.6	0.3	0.3	0.7	0.5	0.3	-0.1	-0.3	-0.3
Government Consumption	% qoq						-0.4	-1.7	0.8	0.5	1.7	1.2	0.9	0.4	0.1	0.3	0.3	0.3
	% yoy	-7.3	12.5	1.8	3.5	1.6	9.1	-0.4	-0.1	-0.8	1.2	4.2	4.4	4.3	2.7	1.7	1.0	0.9
Investment	% qoq						8.6	-2.3	1.1	0.3	1.3	-1.4	-1.3	0.1	0.2	-0.1	-0.2	0.0
	% yoy	-10.5	6.1	8.6	-0.2	-0.9	13.5	6.6	6.8	7.6	0.4	1.3	-1.2	-1.3	-2.4	-1.1	0.1	0.0
Final Domestic Demand[1]	% qoq						2.3	-0.6	0.2	0.3	0.6	0.2	0.0	0.1	0.0	0.0	0.0	0.1
	% yoy	-11.8	7.5	5.4	1.0	0.1	13.7	4.1	2.2	2.2	0.5	1.3	1.1	0.9	0.3	0.1	0.0	0.0
Net exports[1]	% qoq						-4.8	1.3	4.2	-0.4	-0.3	0.0	-0.1	-0.1	0.0	0.1	0.1	0.0
	% yoy	1.5	-1.2	-1.2	1.8	0.0	-4.5	-3.8	3.0	0.3	4.8	3.5	-0.7	-0.4	-0.1	-0.1	0.1	0.1
Stockbuilding[1]	% qoq						3.0	-0.6	-4.5	0.2	-0.2	-0.2	0.5	0.0	0.0	0.0	0.0	0.0
	% yoy	-0.8	1.3	-0.1	-2.4	0.2	1.5	3.5	-3.2	-1.9	-5.1	-4.7	0.3	0.1	0.3	0.5	0.1	0.1
Current Account Balance	% of GDP	-3.2	-1.5	-3.8	-2.5	-2.1	-8.3	-4.6	-2.0	-0.4	-2.3	-2.7	-2.6	-2.5	-2.4	-2.1	-2.0	-2.0
Manufacturing output	% qoq						-1.1	-1.0	-1.9	0.7	-0.4	-0.3	0.0	0.0	0.1	0.3	0.5	0.6
	% yoy	0.1	9.6	-3.7	-1.3	0.6	-1.9	-4.2	-5.2	-3.3	-2.6	-1.9	0.0	-0.7	-0.2	0.4	0.9	1.5
Unemployment rate [2]	%	4.6	4.5	3.7	3.9	4.2	3.7	3.8	3.6	3.7	3.8	3.9	4.0	4.0	4.1	4.1	4.2	4.3
RPI Inflation[2]	% yoy	1.5	4.0	11.6	9.6	4.1	8.3	11.5	12.4	13.9	13.6	11.0	8.6	5.7	5.1	3.8	4.0	3.6
CPI Inflation (harmonised)[2]	% yoy	0.9	2.6	9.1	7.4	2.7	6.2	9.2	10.0	10.7	10.2	8.3	6.8	4.7	4.0	2.6	2.3	2.0
CPI (core)[2]	% yoy	1.4	2.4	5.9	6.3	3.6	5.1	6.0	6.3	6.4	6.1	6.7	6.5	5.8	5.2	3.8	3.0	2.6
General govt balance [5]	% of GDP	-16.3	-6.7	-5.6	-4.7	-3.2												
General govt debt [3,5]	% of GDP	97.5	97.2	96.2	97.1	96.9												
General govt debt	% of GDP	105.6	105.9	102.4	101.5	102.3												
Bank Rate 4	%	0.10	0.25	3.50	5.25	5.00	0.75	1.25	2.25	3.50	4.25	4.75	5.25	5.25	5.25	5.25	5.00	5.00

Source: BofA Global Research

Notes: 1 Contribution to GDP growth 2 Period averages 3 Excludes Nationalised banks, and thus is not on Maastricht basis, 4 End period, 5 Fiscal years

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Exhibit 70: BofA inflation forecasts

Updated forecasts

	CPI		**CPIH**	**RPI**	
	Headline %yoy	Core %yoy	% yoy	Index	Headline % yoy
Mar-23	10.06	6.19	8.86	367.2	13.52
Apr-23	8.66	6.77	7.84	372.8	11.42
May-23	8.36	6.62	7.63	374.4	11.08
Jun-23	8.01	6.75	7.38	376.1	10.61
Jul-23	6.81	6.72	6.40	372.9	8.66
Aug-23	6.86	6.45	6.40	375.8	8.86
Sep-23	6.64	6.22	6.30	376.9	8.42
Oct-23	4.85	6.02	4.92	377.6	6.02
Nov-23	4.59	5.83	4.71	378.6	5.66
Dec-23	4.52	5.65	4.57	380.4	5.55
Jan-24	4.70	5.77	4.76	380.0	5.46
Feb-24	4.01	5.14	4.19	383.2	5.15
Mar-24	3.59	4.75	3.79	384.7	4.76
Apr-24	2.77	3.88	3.13	388.2	4.13
May-24	2.74	3.99	3.10	389.1	3.92
Jun-24	2.25	3.46	2.70	389.2	3.49
Jul-24	2.73	3.22	3.13	388.9	4.29
Aug-24	2.46	2.99	2.90	390.8	3.99
Sep-24	2.26	2.79	2.72	391.1	3.78
Oct-24	2.22	2.64	2.69	391.6	3.69
Nov-24	2.19	2.65	2.64	392.1	3.58
Dec-24	2.06	2.51	2.52	393.3	3.39

Source: BofA Global Research, ONS

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