MPC MEMBERS

COPIES OF THE MAY 2015 PRE-MPC MEETING PRESENTATIONS

In advance of the MPC meeting, please find attached copies of all presentations given at the May 2015 Pre-MPC meeting.

Monetary Policy COO Division (TS-02)
01 May 2015

1: Financial Markets

Financial Markets

May 2015 Pre-MPC
FED, MFAD & SMD

Plan

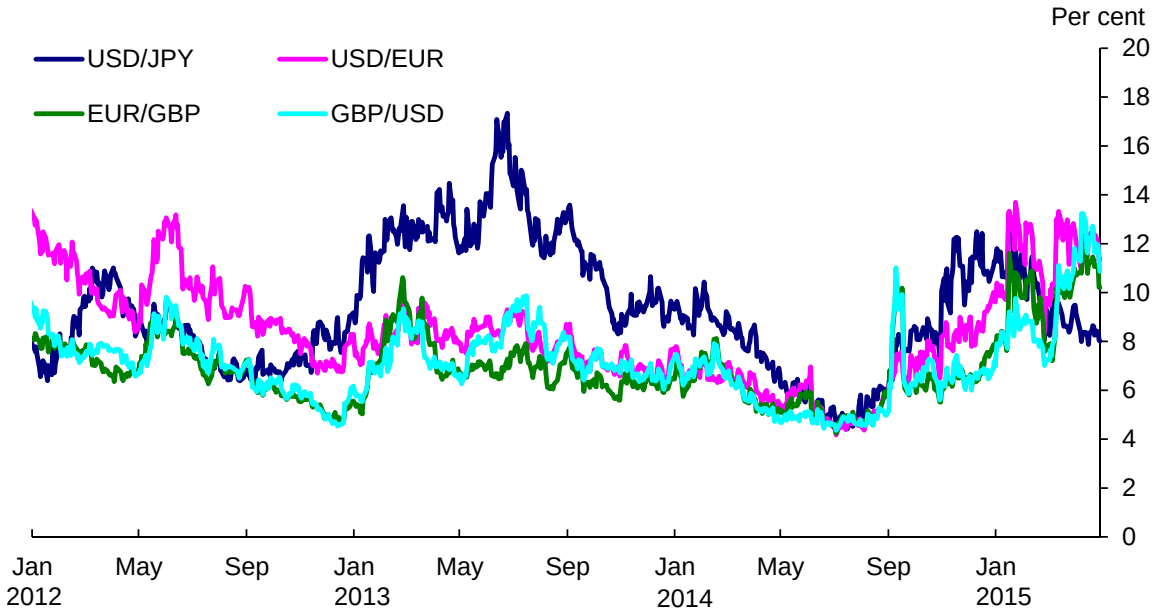
- General election
- Policy expectations
- Exchange rates
- Euro area and risky assets

Summary table of moves since Feb IR and April MPC

	Latest (29 Apr 2015)	Change since Feb IR (04 Feb 2015)	Change since Apr MPC (8 Apr 2015)
UK 1-year, 1-year OIS rate	0.90	11 bps	14 bps
UK 10-year gilt yield	1.93	36 bps	26 bps
US Treasury 10-year yield	2.15	29 bps	15 bps
German 10-year bund yield	0.29	-6 bps	11 bps
£ ERI	91.3	2.4%	1.3%
FTSE All Share	3754	2.0%	0.0%

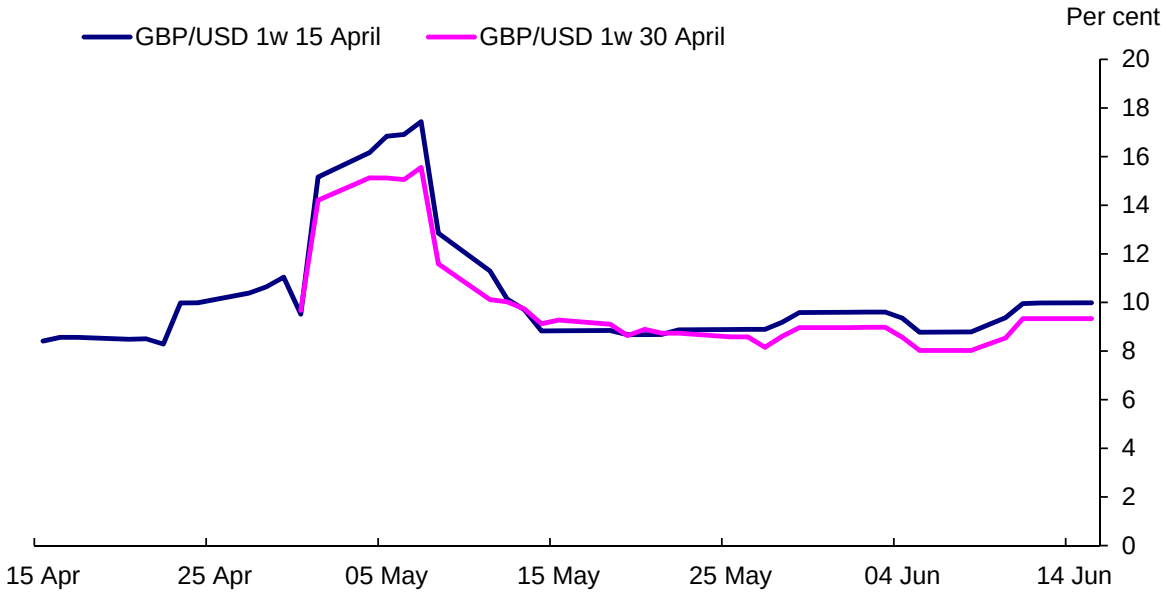
General election

Foreign exchange 1-month implied volatility



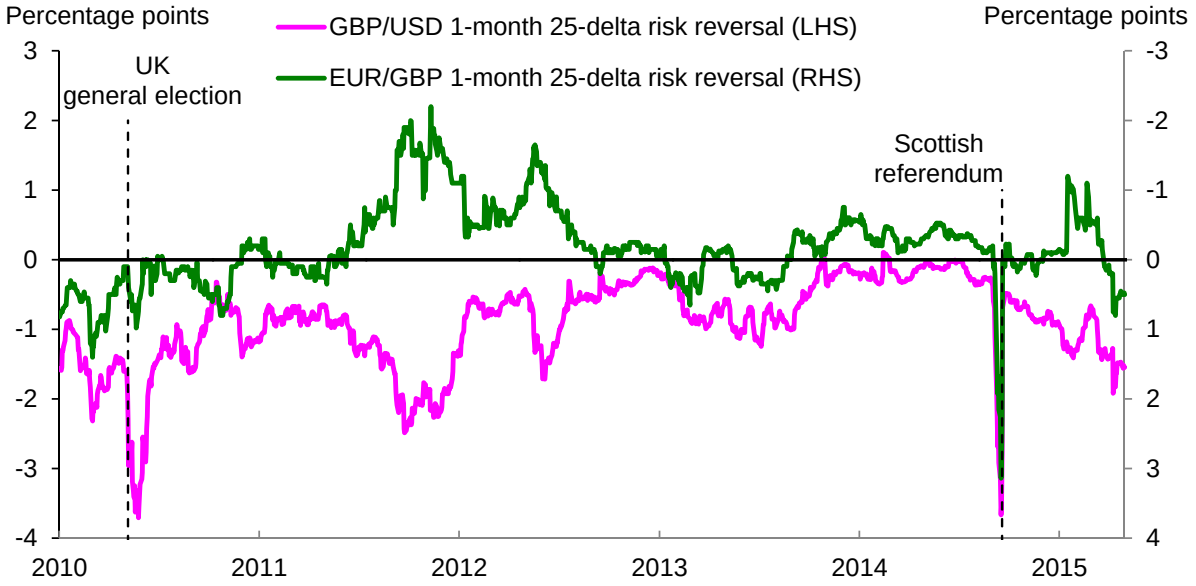
- Implied volatility remains elevated across major currencies

Forward one-week implied volatility in sterling-dollar



- Evidence of some sterling specific risk evident in options
- Pickup in sterling volatility is not expected to persist for long

1-month, 25-delta 'risk reversal' in sterling against the dollar and euro



- FX option markets now pricing only a modest amount of downside risk to sterling
- Dealers unwinding hedges on continued lack of interest in hedging FX risk around the election

by FED Analysis Team and FX and Money Markets Desk

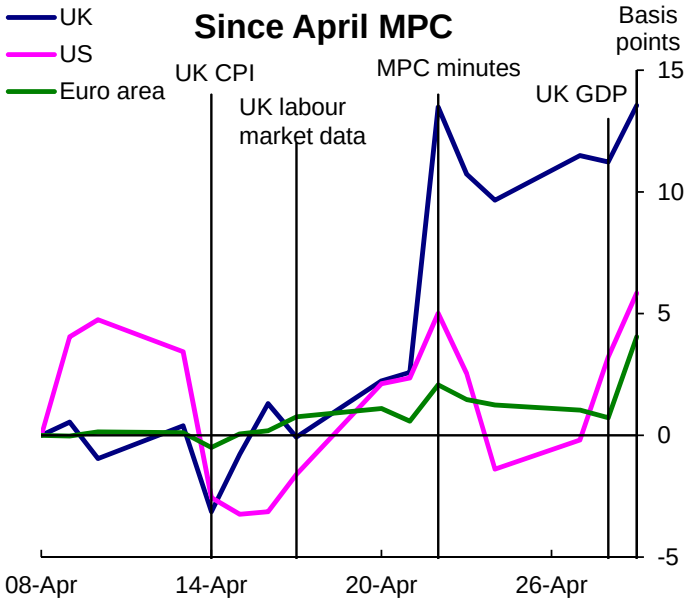
Market impact of election uncertainty

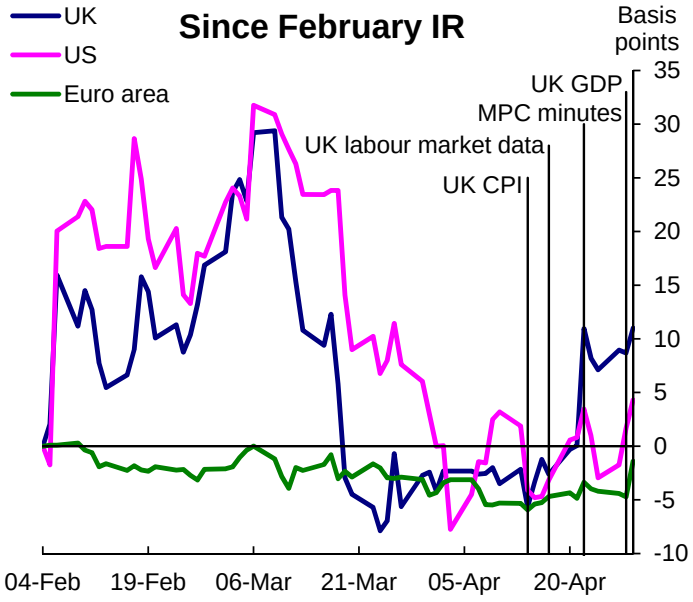
Market	Impact
Rates	Little effect. Short-term implied volatility in sterling rates slightly elevated compared to US.
FX	Kink in term structure of FX option implied volatility has decreased. Little evidence of risk premium in spot.
Equities	Little evidence in level of share prices. Implied volatility is very slightly elevated around the election date.
Credit	Some evidence of front-loading of issuance by banks in advance of the election. No sign of a risk premium.

- Lack of impact might speak to under-pricing of the risks surrounding the general election

Policy expectations

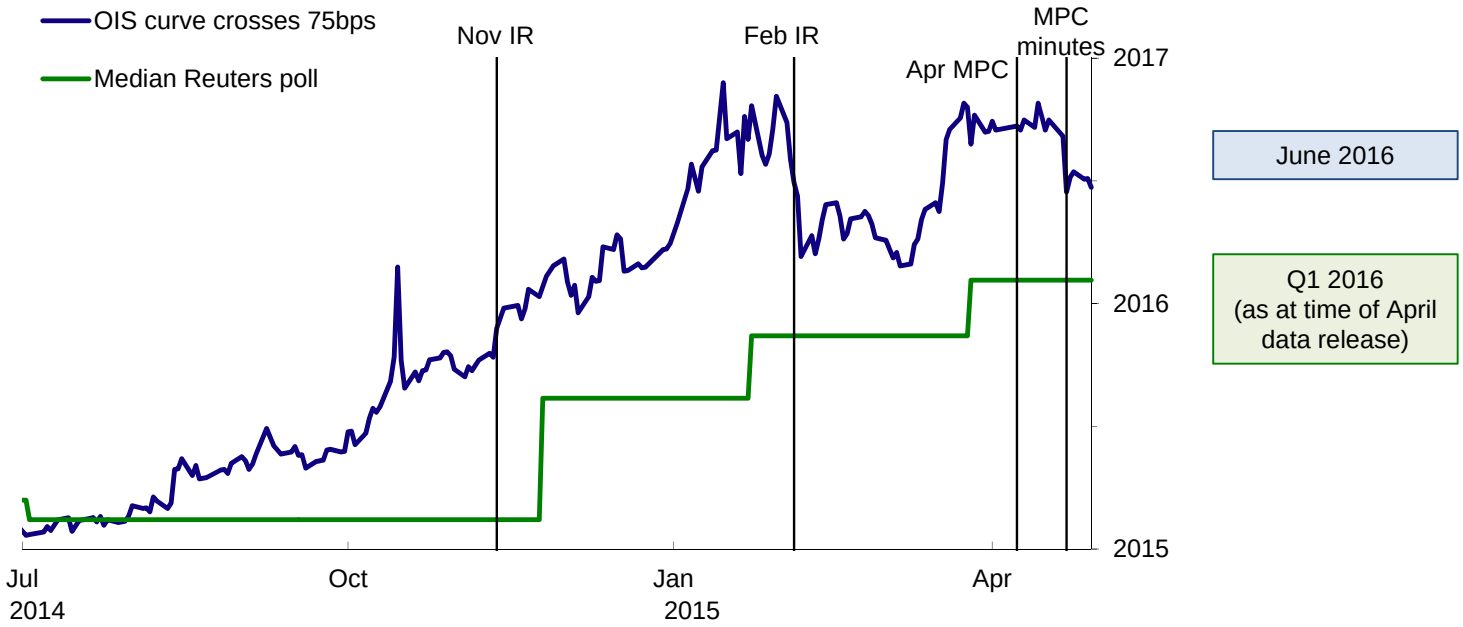
Cumulative change in UK, US and euro area 1-year, 1-year forward OIS rates since April MPC and February IR





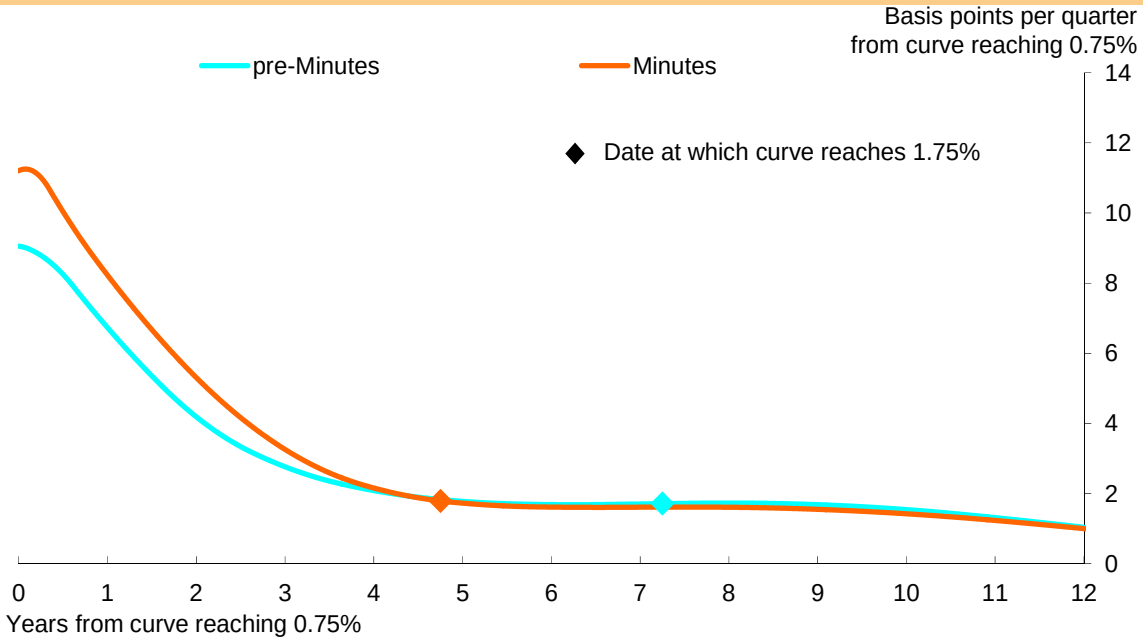
- Little negative reaction to weaker than expected UK GDP data
- Marked increase in sterling short rates on the release of the April Minutes
- Contacts focused on references to pace of tightening

Economists' expectations for timing of first rate rise and date at which OIS rates reach 0.75%



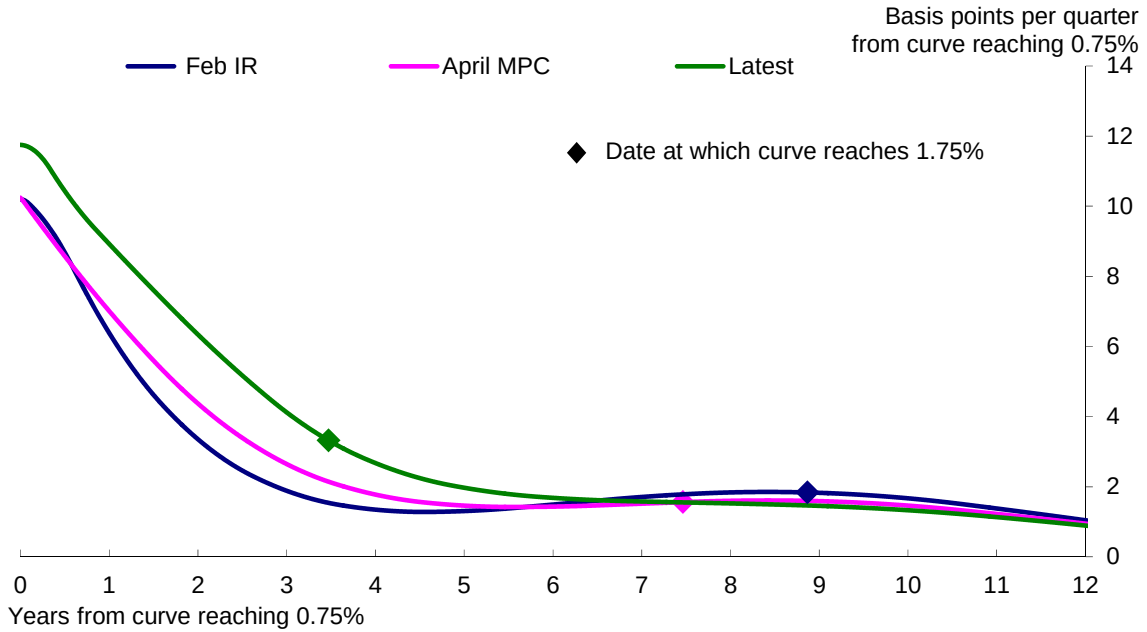
- OIS forward curve now crosses 0.75% around the middle of 2016, several months earlier than last month

Gradient of the UK forward OIS curve over time



- There was a slight increase in the implied pace of tightening following the release of the Minutes

Gradient of the UK forward OIS curve over time



- Further news on the month since the Minutes
- Bank Rate expected to hit 1.75% several years earlier compared with April MPC

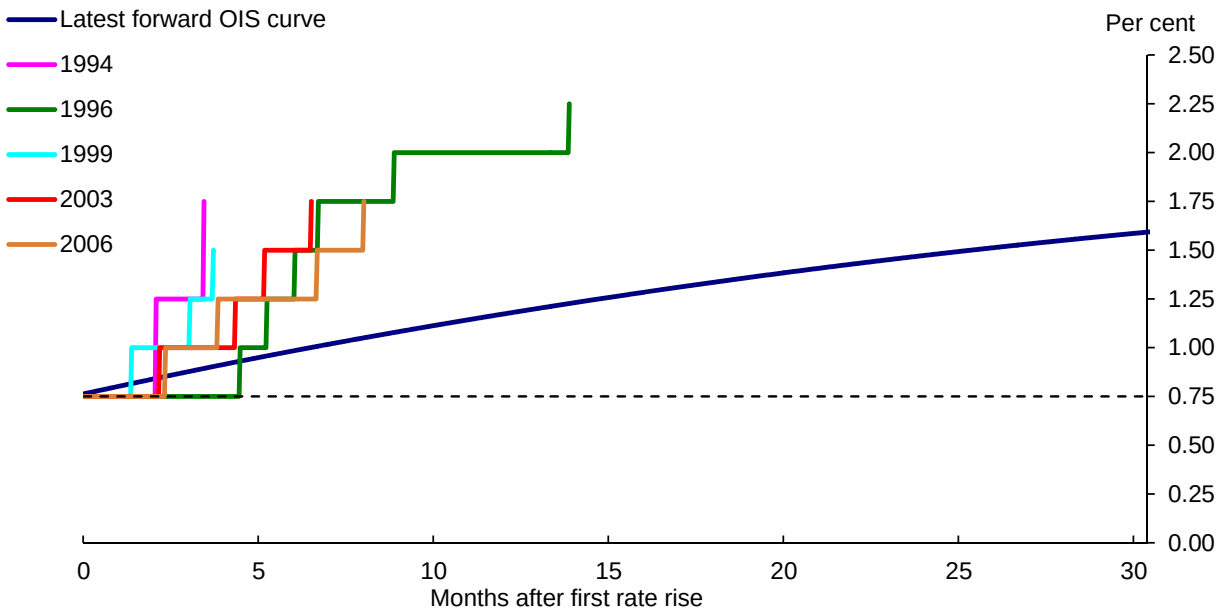
Pace of tightening summary table

	UK		US *
Bps per quarter after lift-off for OIS to rise a further:	MPC meeting (8 Apr)	Latest (29 Apr)	Latest (29 Apr)
25bps	9 (May 2017)	11 (Jan 2017)	17 (Jan 2016)
50bps	8 (May 2018)	10 (Sep 2017)	18 (Apr 2016)
75bps	5 (Mar 2020)	9 (Aug 2018)	17 (Jul 2016)
100bps	3 (Mar 2024)	7 (Dec 2019)	17 (Nov 2016)

**policy rate taken to be 10bps on the basis of market expectations for Fed Funds effective rate to be around 35bps after lift-off.*

- The pace of tightening remains gradual, regardless of the particular policy milestone that is chosen

Historical UK tightening cycles following lift-off

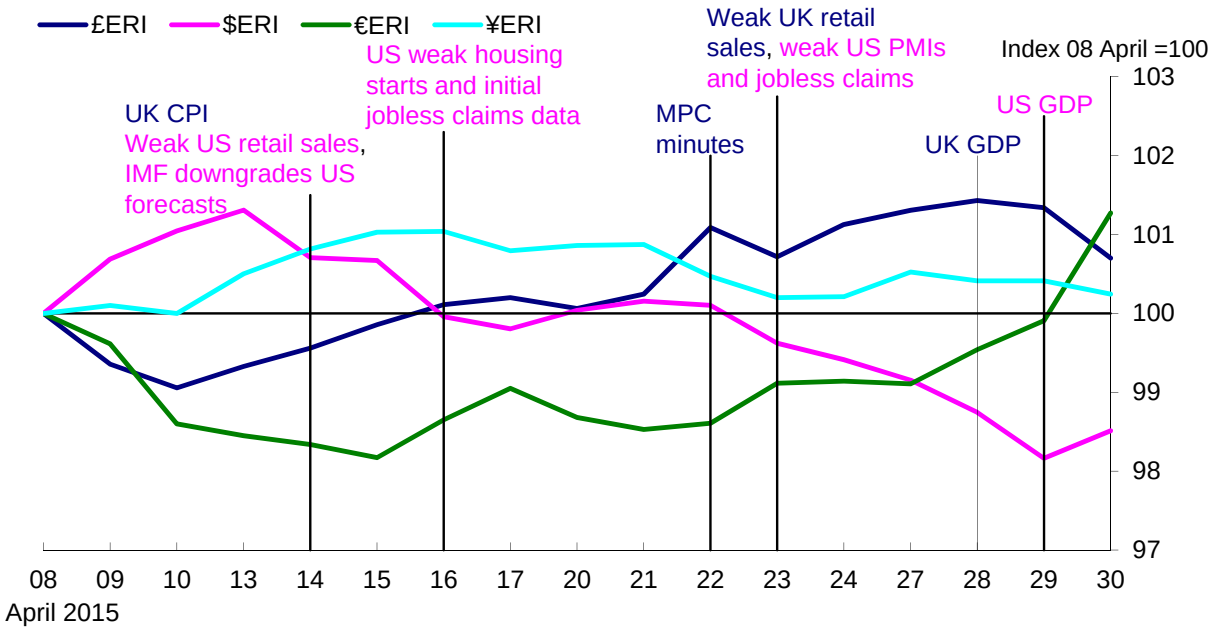


- Speed and extent of tightening after lift-off is much more limited than past experience

For a discussion of the market-implied mean and modal expectations for the path of Bank Rate

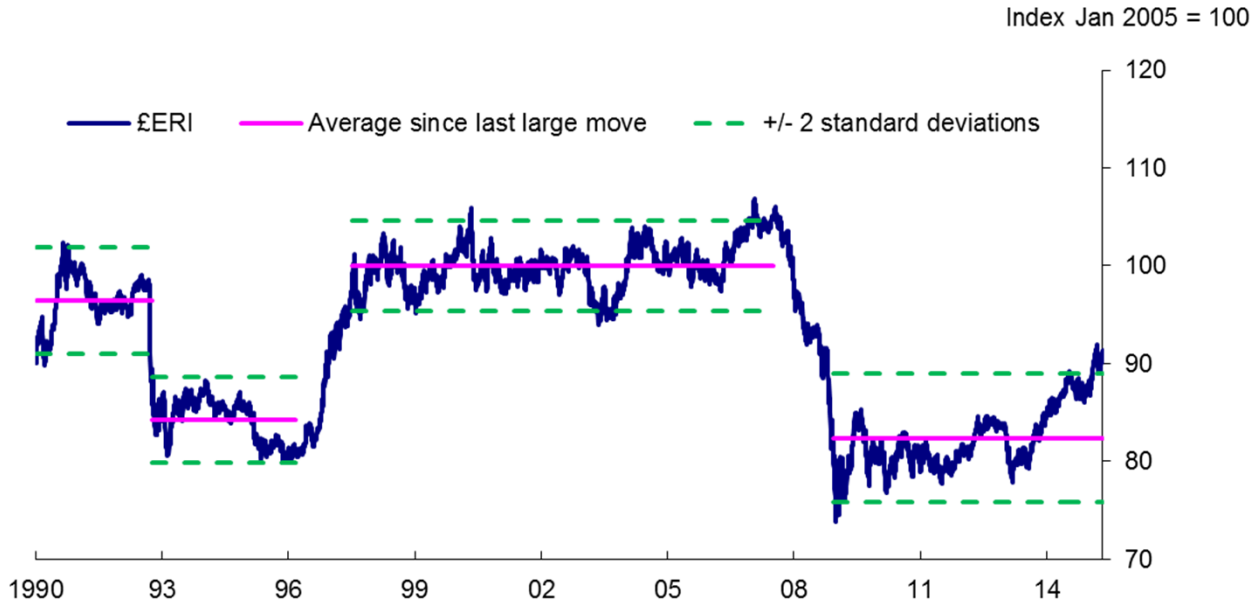
Exchange rates

Cumulative change in selected ERIs since April MPC



- Despite the consensus that the risk is to the downside, sterling has risen over the month
- That is largely a reflection of dollar weakness following disappointing US economic data

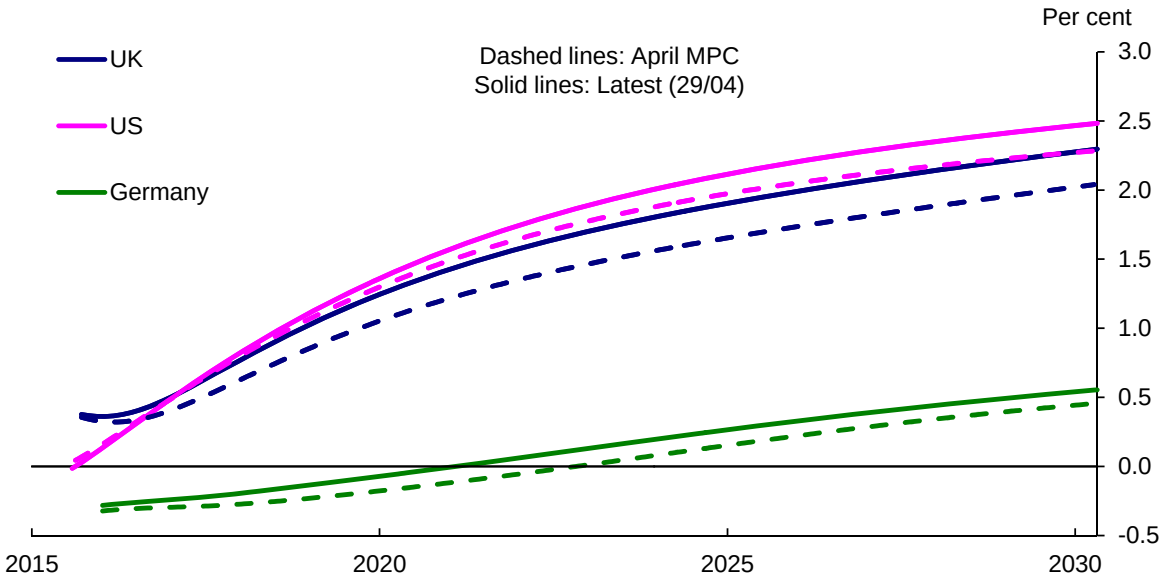
Sterling regimes



- Sterling is now back around recent highs

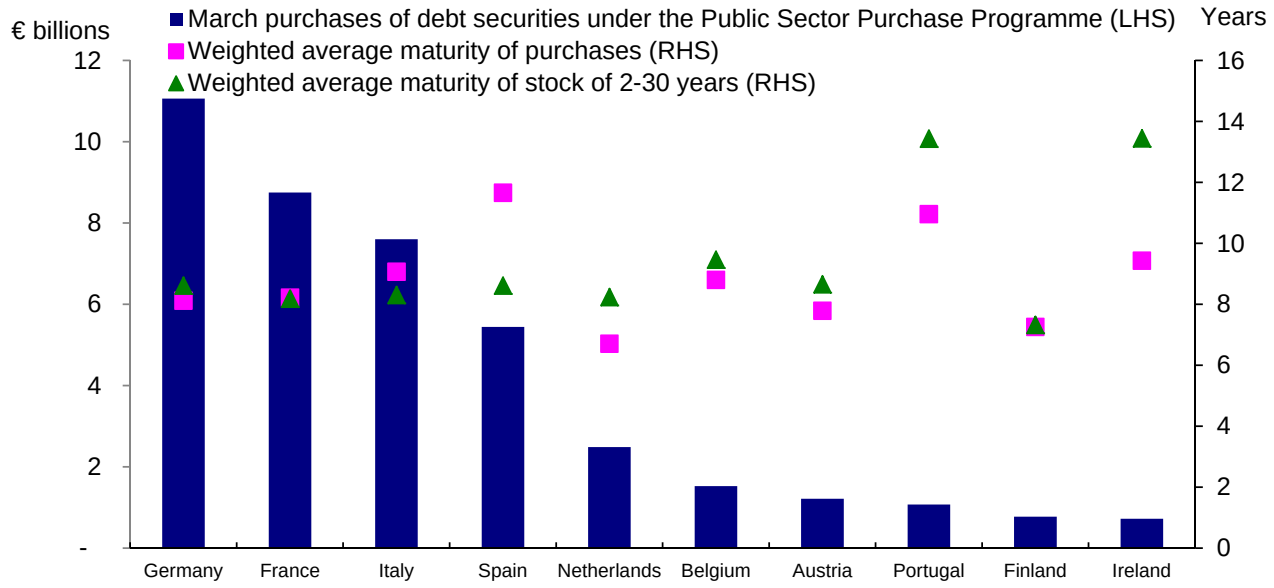
Euro area and risky assets

International instantaneous yield curve



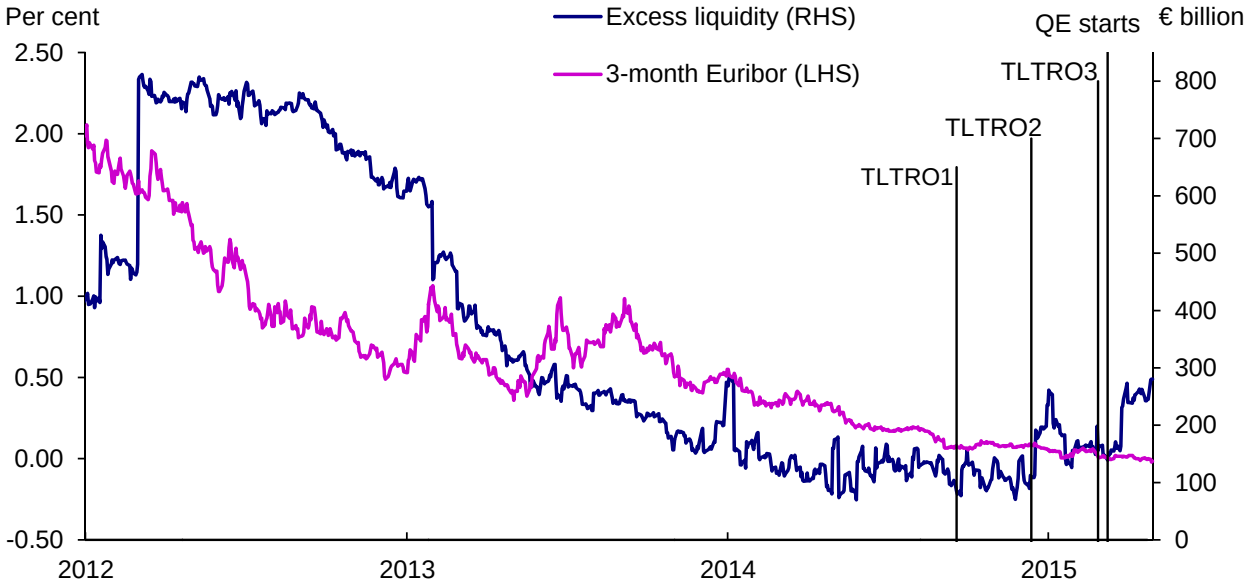
- ECB purchases continued to push down on German bund yields over first part of April
- But sharp sell-off this week leaves German yields higher on the month
- UK and US curves also higher on the month

Maturity of ECB purchases versus maturity of total stock



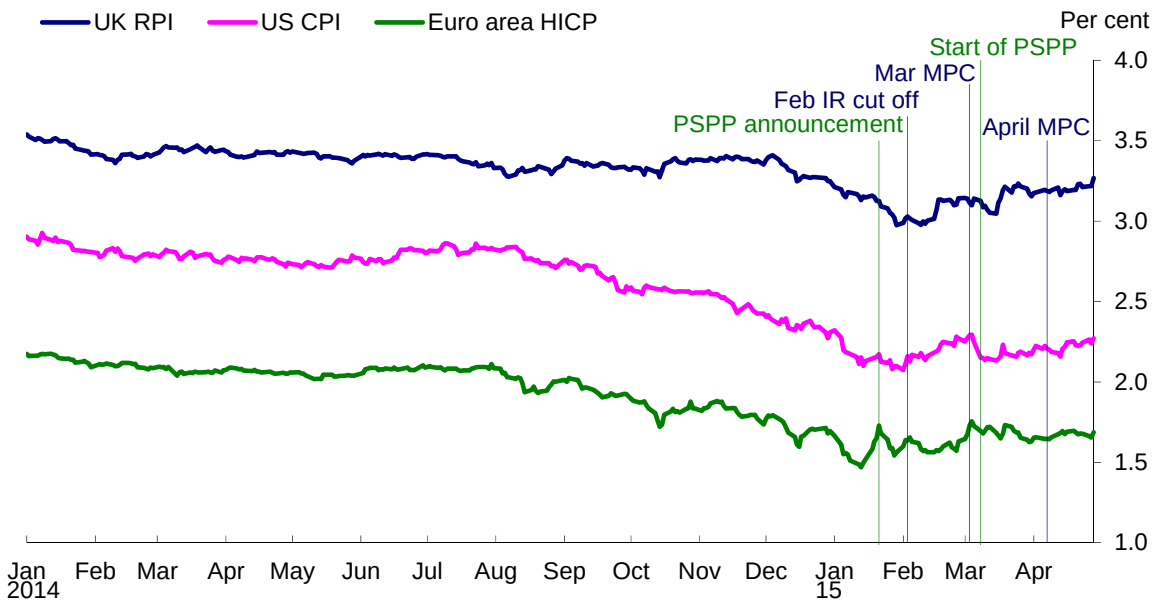
- ECB purchases track €60bn per month target
- Maturity of purchases has been longer for Italy and Spain, partly reflecting SMP stock

Excess liquidity in the euro area



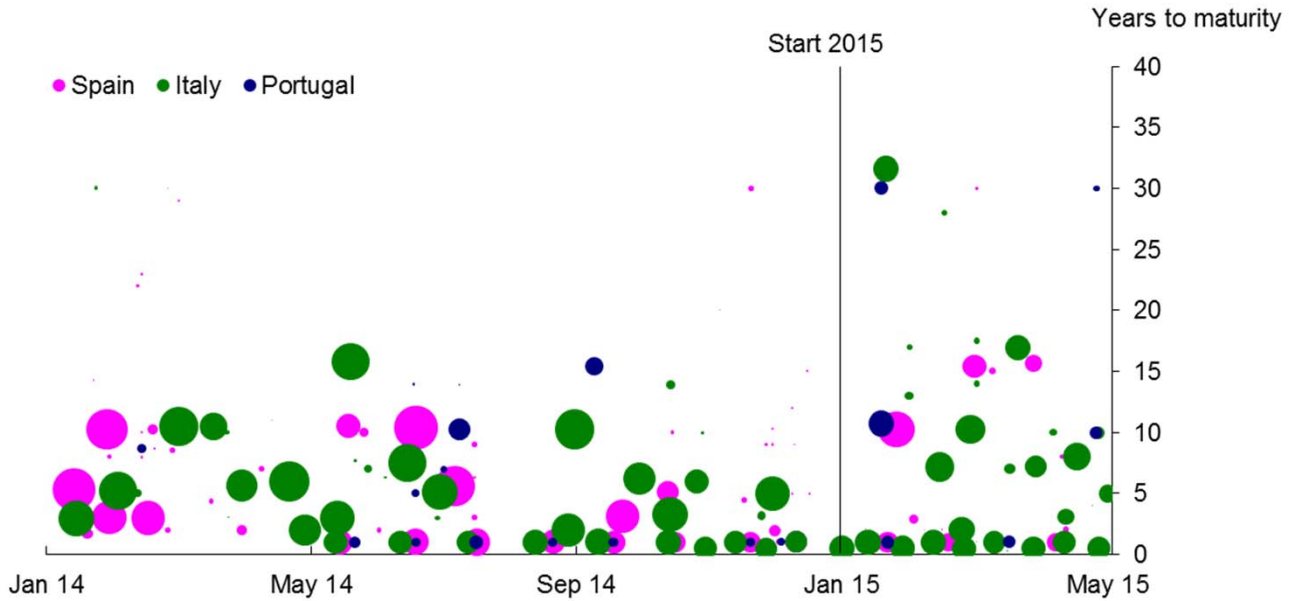
- Excess liquidity beginning to edge higher
- Euro short rates continue to grind downwards

5-year, 5-year forward inflation swap rates



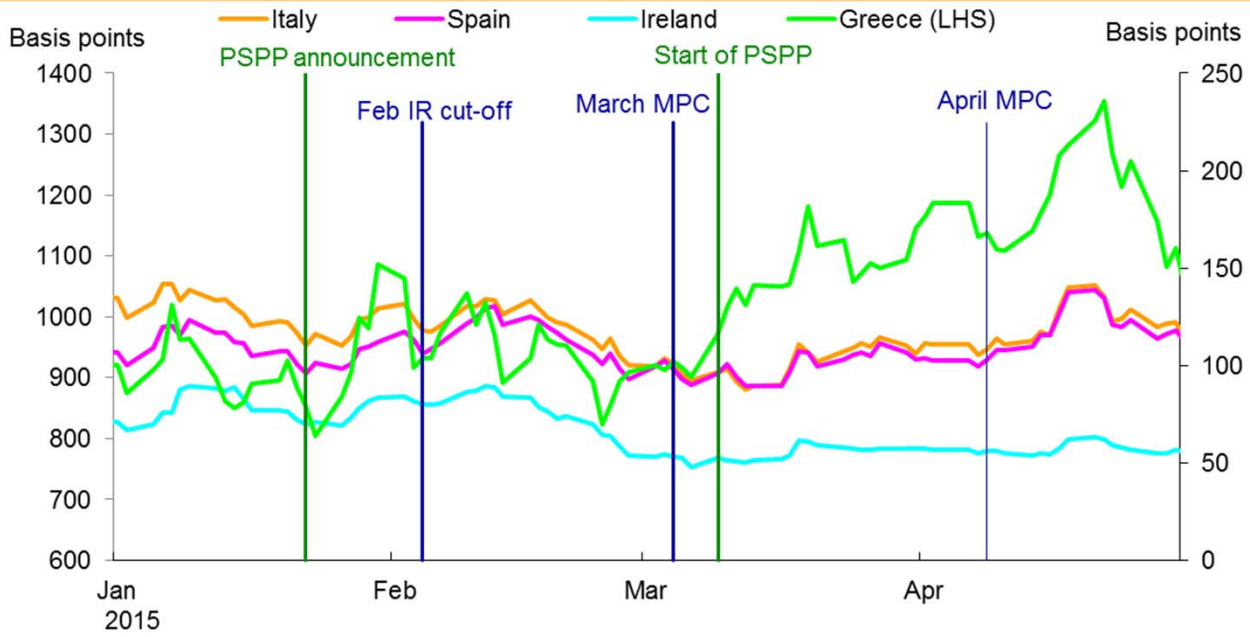
- ECB purchases have succeeded in lifting measures of near-term inflation expectations from recent lows
- Longer-term euro-area inflation expectations little changed

Recent periphery sovereign bond issuance



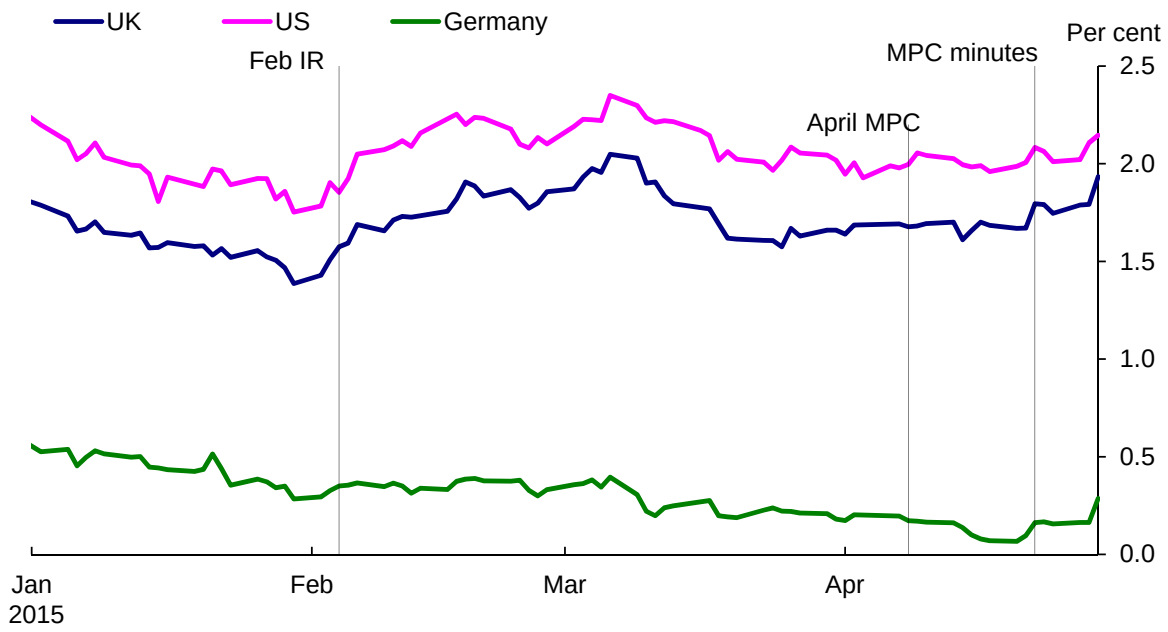
- Some terming-out of issuance by sovereigns in the euro-area periphery compared with the start of last year

10-year euro-area periphery spreads to bunds



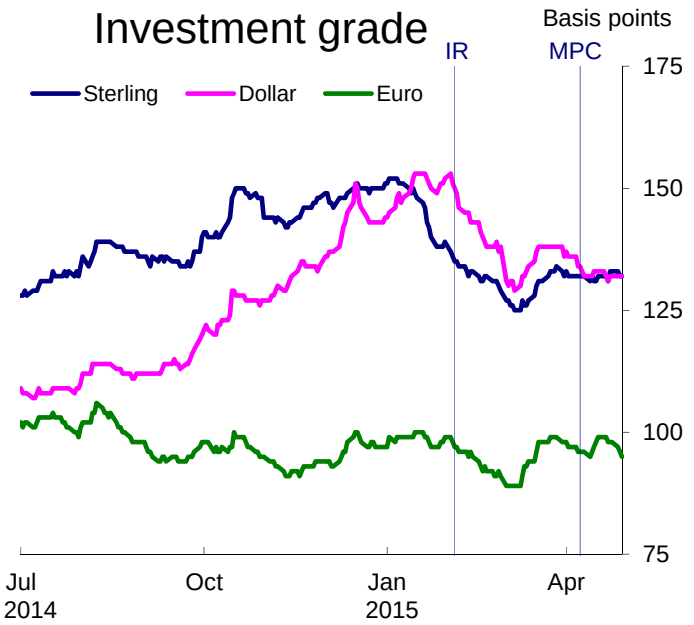
- Despite positive economic news and ECB buying, periphery spreads to bunds widened during the month, for a time, related to growing concerns about the prospects for Greece
- Greece-related worries have abated somewhat recently

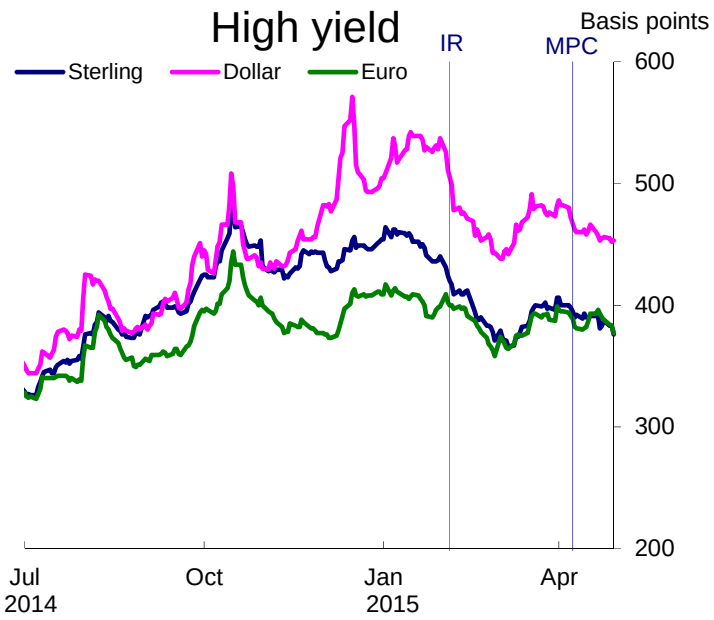
10-year sovereign bond yields



- Recent pickup in bund yields, along with UK and US long rates

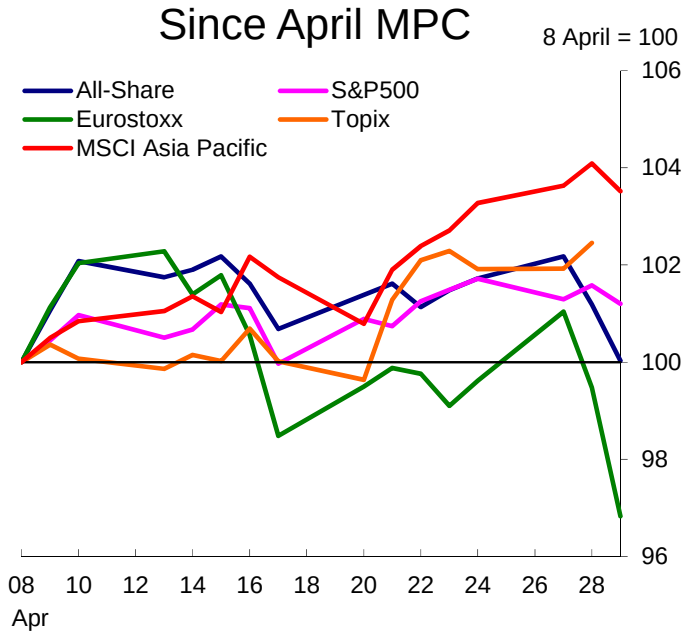
Corporate bond spreads

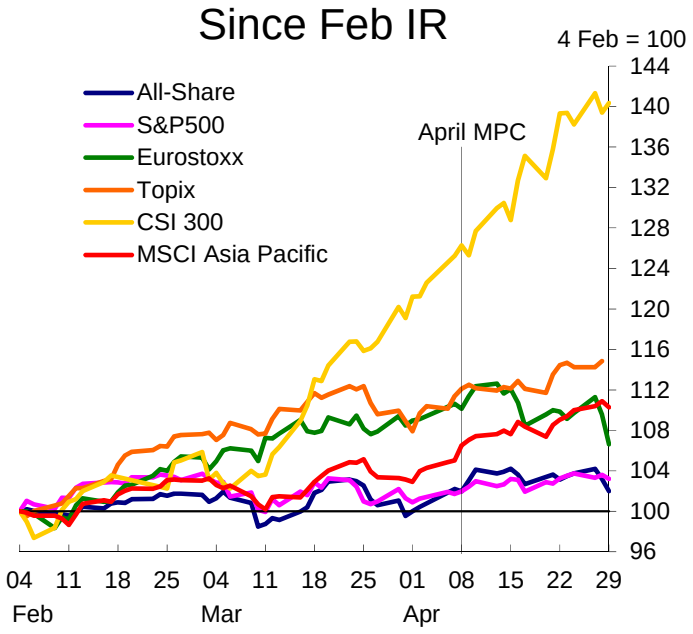




- Euro-area corporate bond spreads increased temporarily around the middle of the month
- Possibly a result of worries associated with Greece, although also due to higher issuance
- Reports of slowing inflows into euro bond funds

Cumulative change in equity indices, local currency





- Underperformance of Eurostoxx, with a more marked downward move at the end of the month.
- FTSE broadly flat on the month
- Striking gains in Chinese stock markets, due to increased domestic appetite for equities

Key points

- Very little evidence of pricing of risk associated with the general election
- Timing of UK lift-off has been brought forward by a few months and pace of tightening is a little faster, but remains slow
- ECB policy showing a few indications of feeding through
- Not many signs of spillovers from Greece worries. Next big payment is 12 May

End

2: Money, Credit and Nominal Trends

MONEY, CREDIT AND NOMINAL TRENDS May 2015

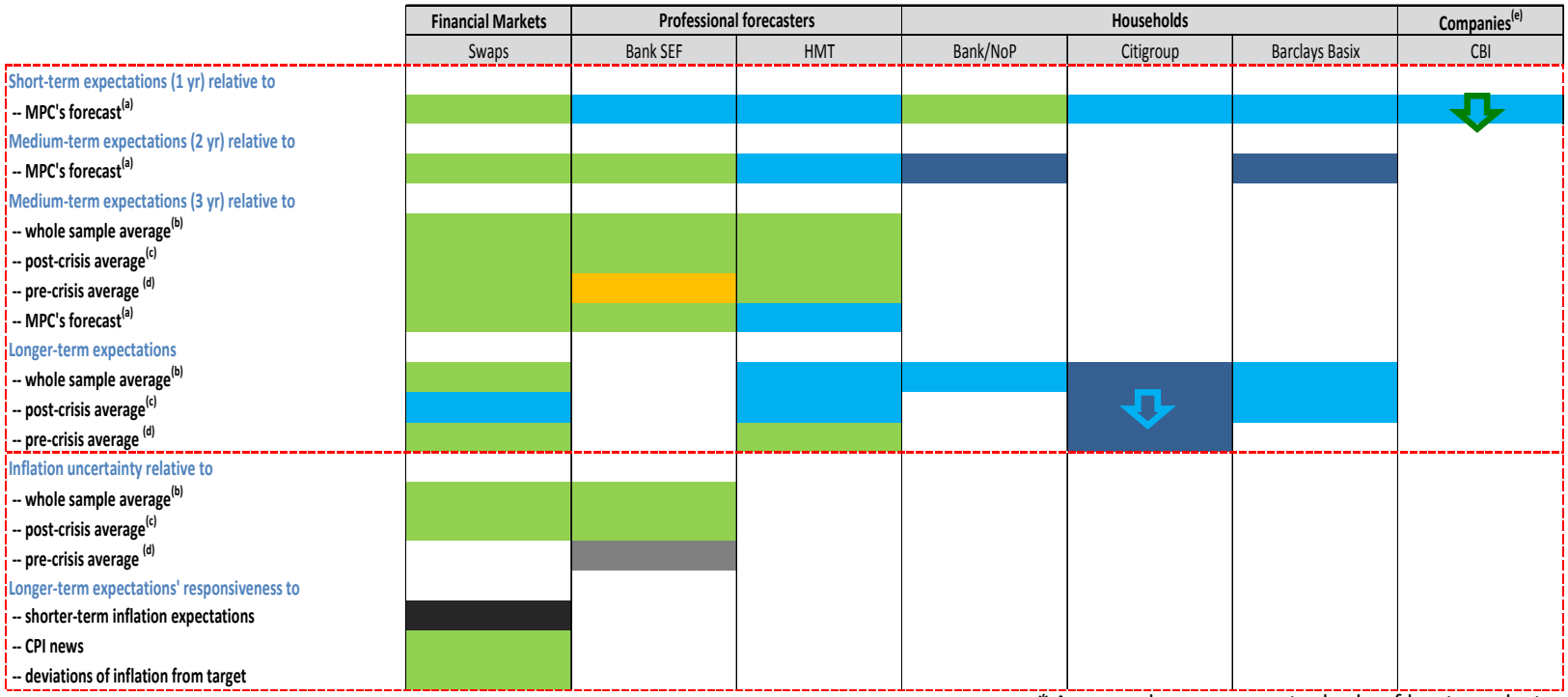
Agenda

- **Inflation expectations**
- **Money & Credit**

Inflation expectations

Inflation expectations heatmap

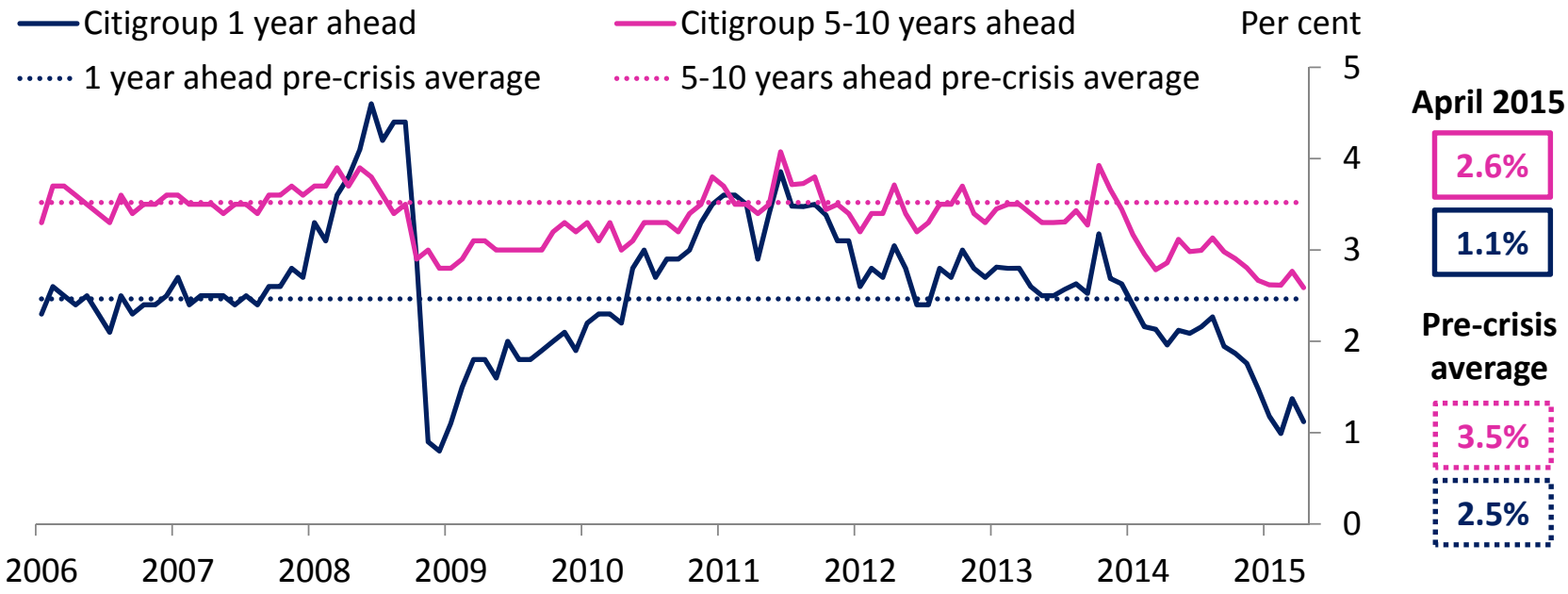
May 15 Pre-MPC inflation expectations heatmap*



* Arrow colour represents shade of heatmap last month

Household inflation expectations fell back on the month

Citigroup survey of household inflation expectations*



* Survey question: *"How do you expect consumer prices of goods and services will develop over the next one and five to ten years respectively?"*

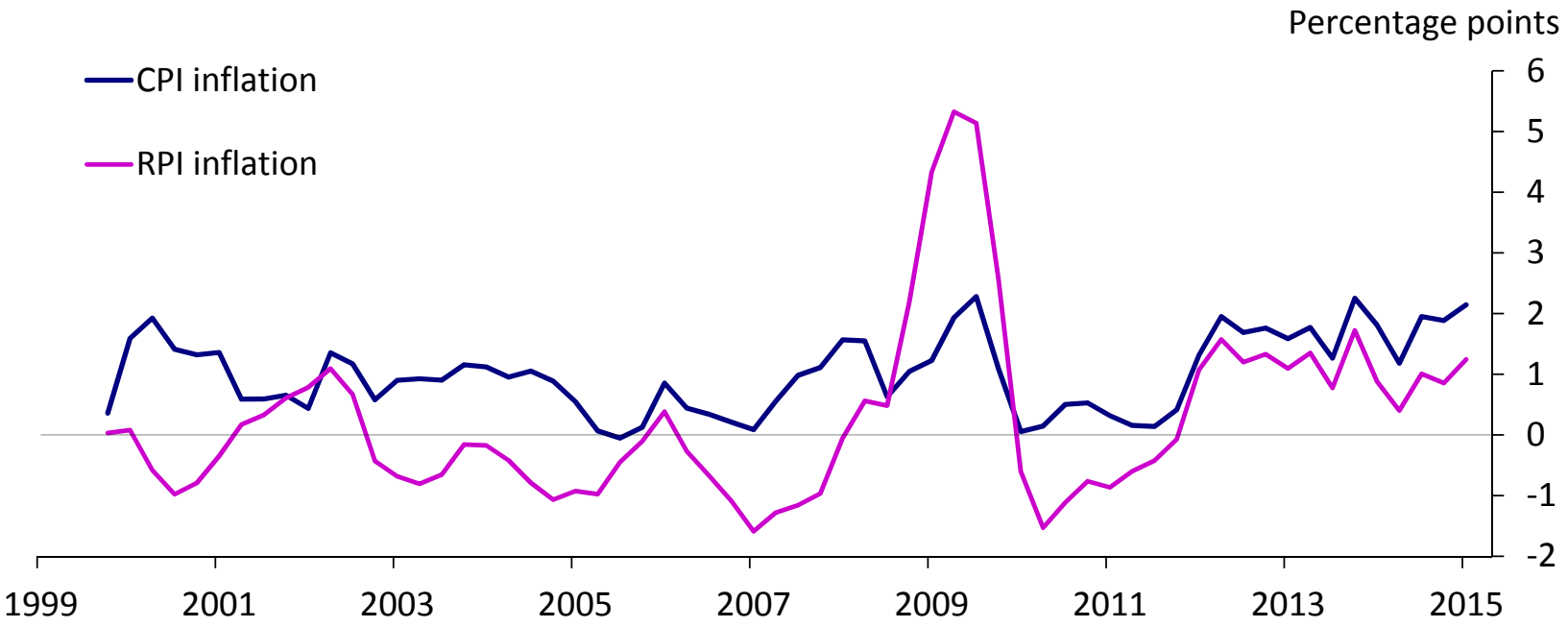
- 5-10 year measure is at a new series low

Changing perceptions of inflation?

- Some of you have suggested that changes in the prevalence of different price indices in the media may affect how households answer surveys of inflation expectations
- If households have become more aware of CPI rather than RPI over time, reported inflation expectations might have fallen, even if underlying expectations have not
- This might lead you to aim off pre-crisis averages as a good benchmark for assessing the level of expectations

The gap between inflation perceptions and CPI does not appear to have narrowed…

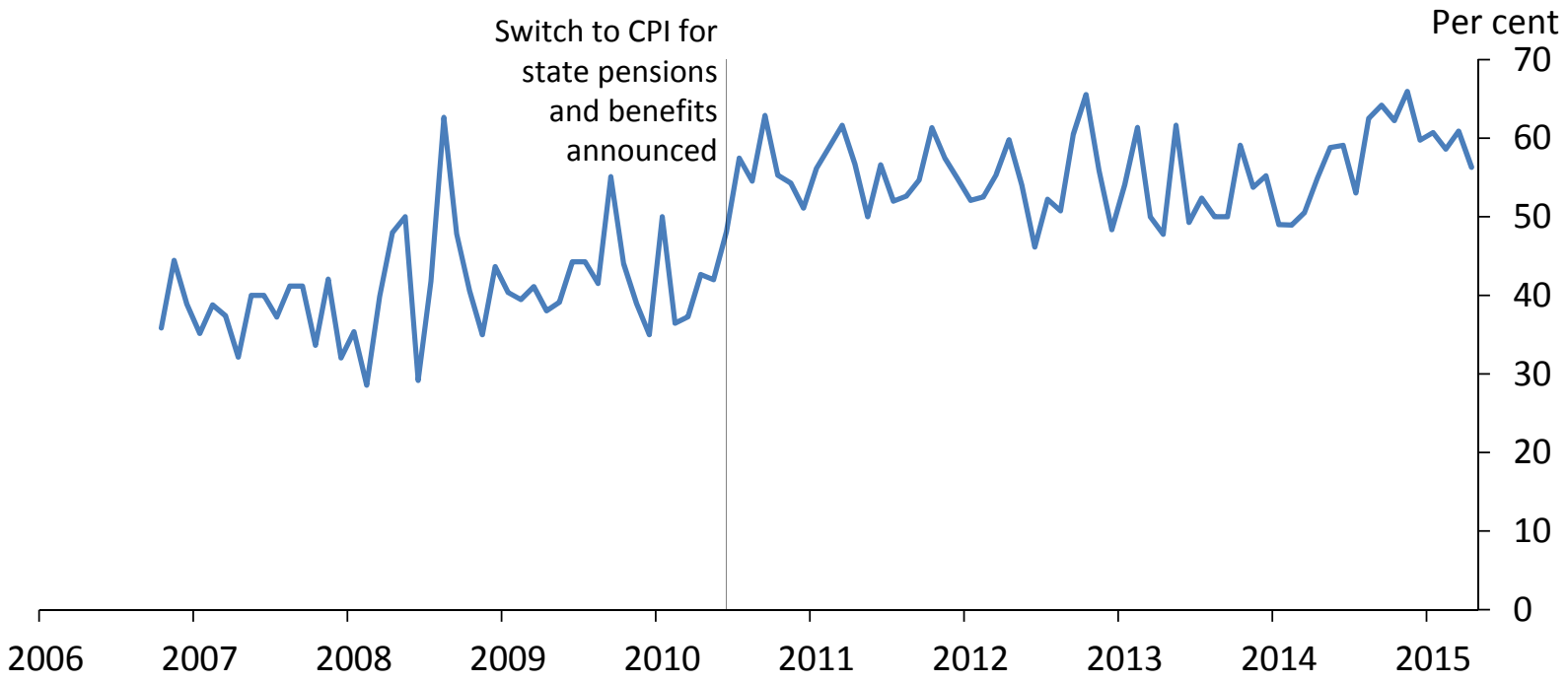
Difference between perceived inflation rate in Bank/NOP* and inflation indices



* NOP survey question: *"Which of these options best describes how prices have changed over the last 12 months?"*

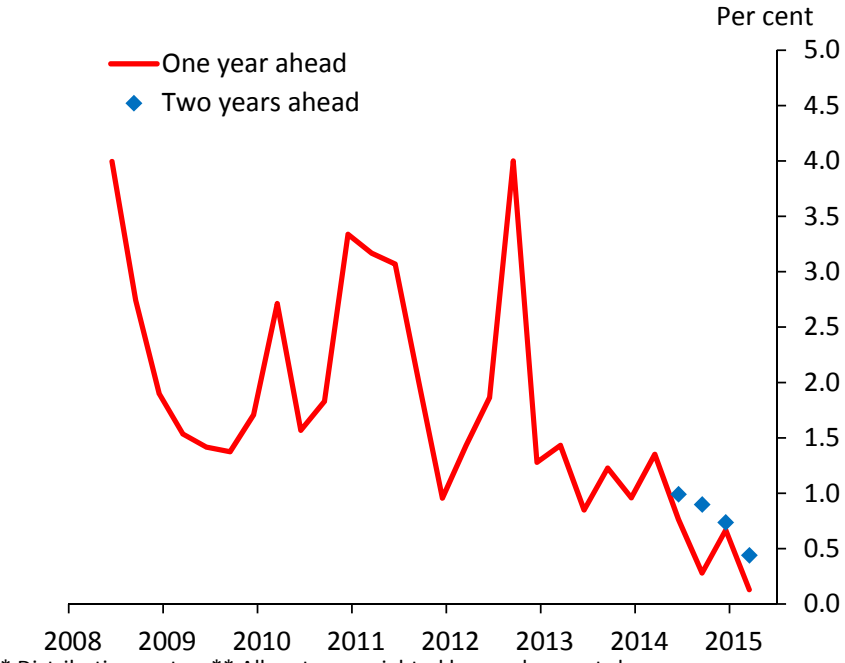
… but some evidence of greater awareness of CPI

Google searches for "CPI inflation" as a percentage of all searches for "CPI inflation" or "RPI inflation"

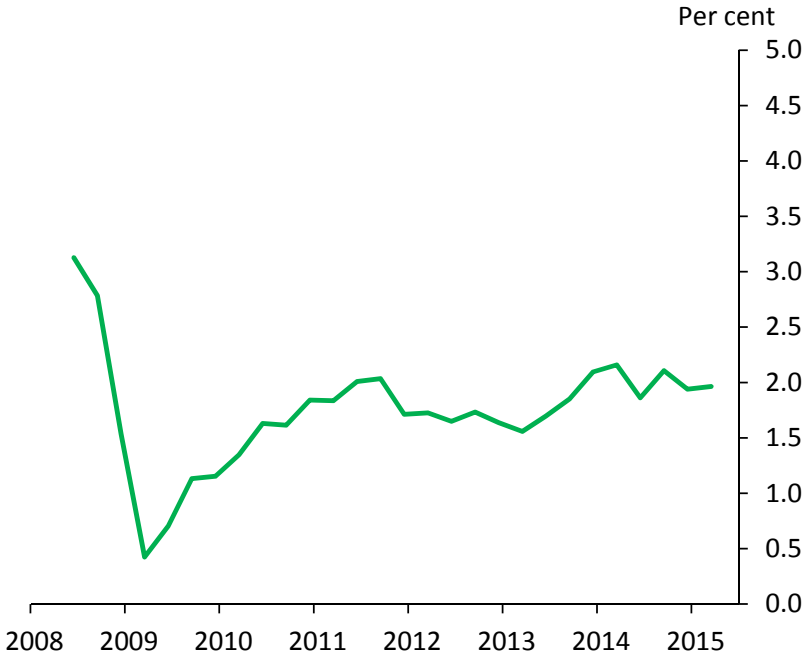


Some firms' price expectations down; wage expectations are unchanged

CBI expected change in prices 1 & 2 years ahead*



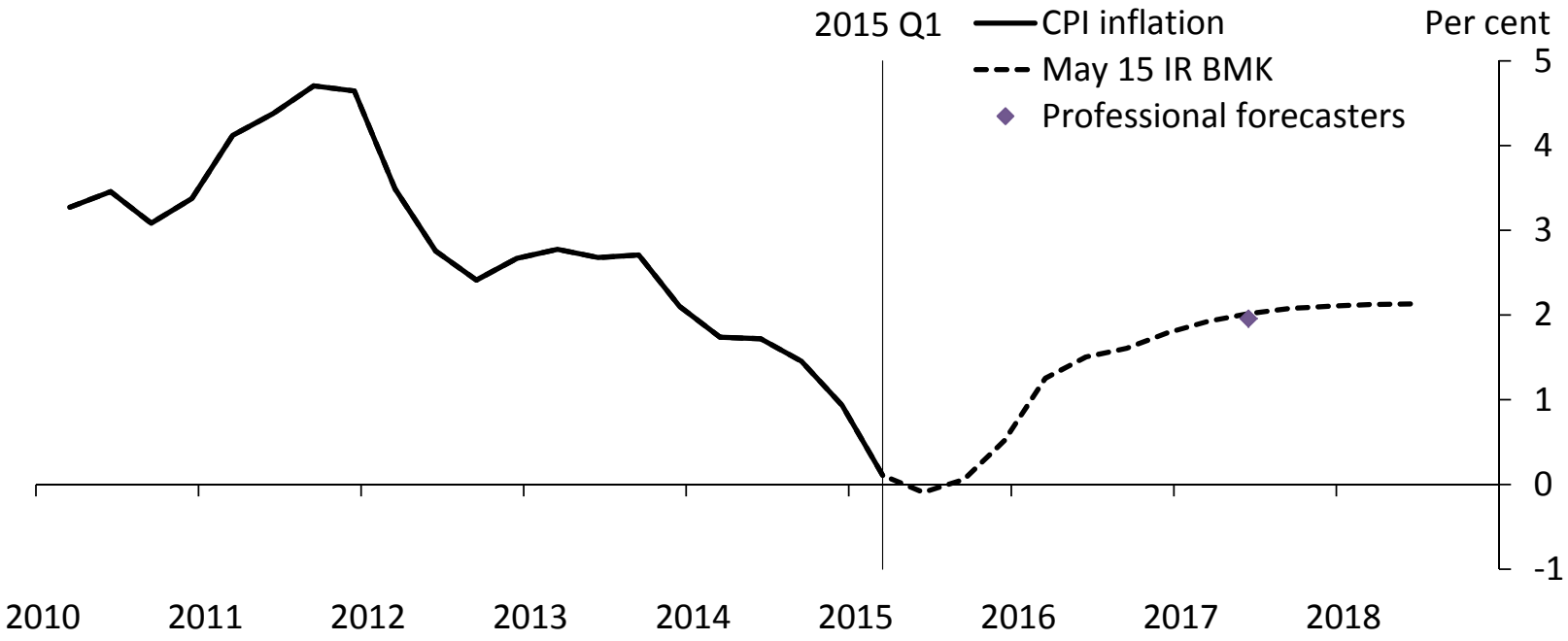
CBI expected change in wages 1 year ahead**



* Distribution sector; ** All sectors, weighted by employment shares

Professional forecasters' modal expectation is 2%, 2 years ahead…

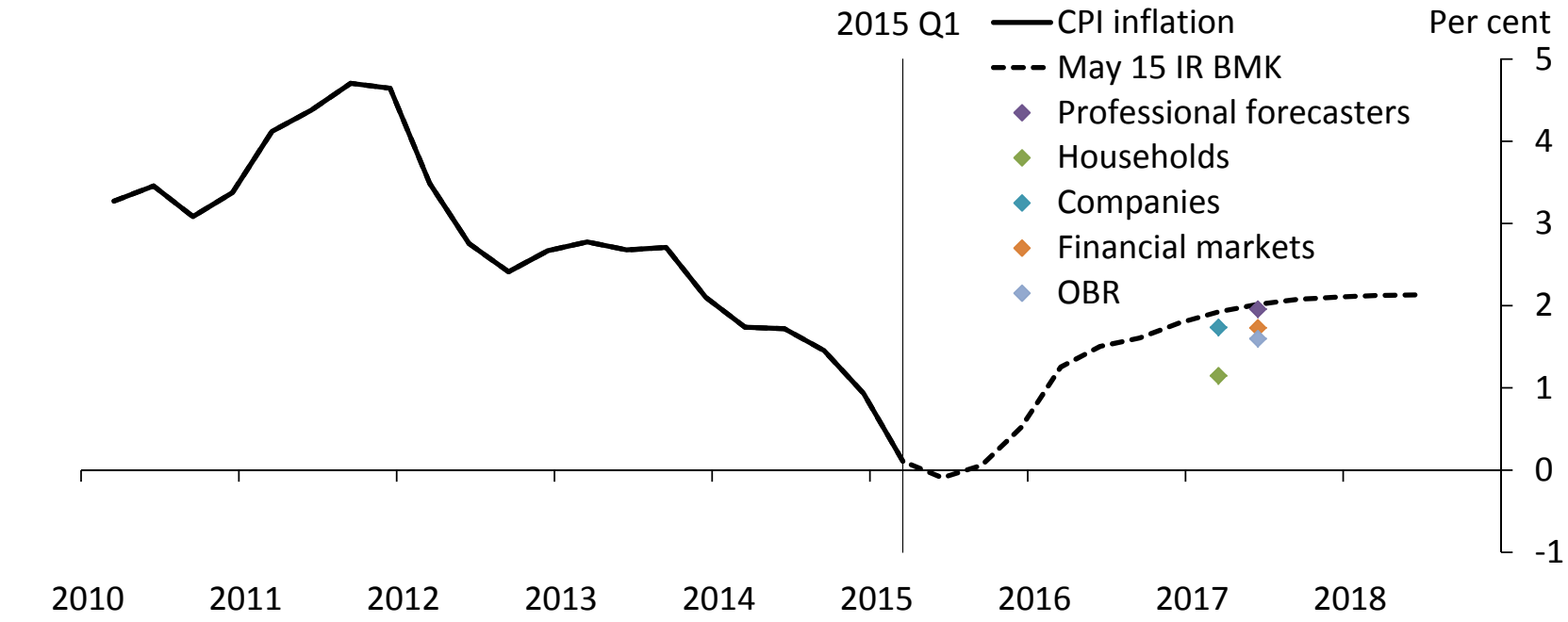
May 15 *IR* BMK inflation forecast versus measures of two year ahead inflation expectations



- Although professional forecasters expect Bank Rate to rise more quickly than is implied by market path

…but some measures of two year ahead inflation expectations might point to downside risks to your forecast

May 15 *IR* BMK inflation forecast versus measures of two year ahead inflation expectations*



*Households = NOP; Professionals = SEF; Companies = Deloitte CFO; Financial markets = 2yr inflation swaps. Subtracts 1pp from households (average wedge between perceived inflation and CPI inflation). Subtracts 1.2pp from inflation swaps (OBR forecast of RPI-CPI wedge two years ahead).

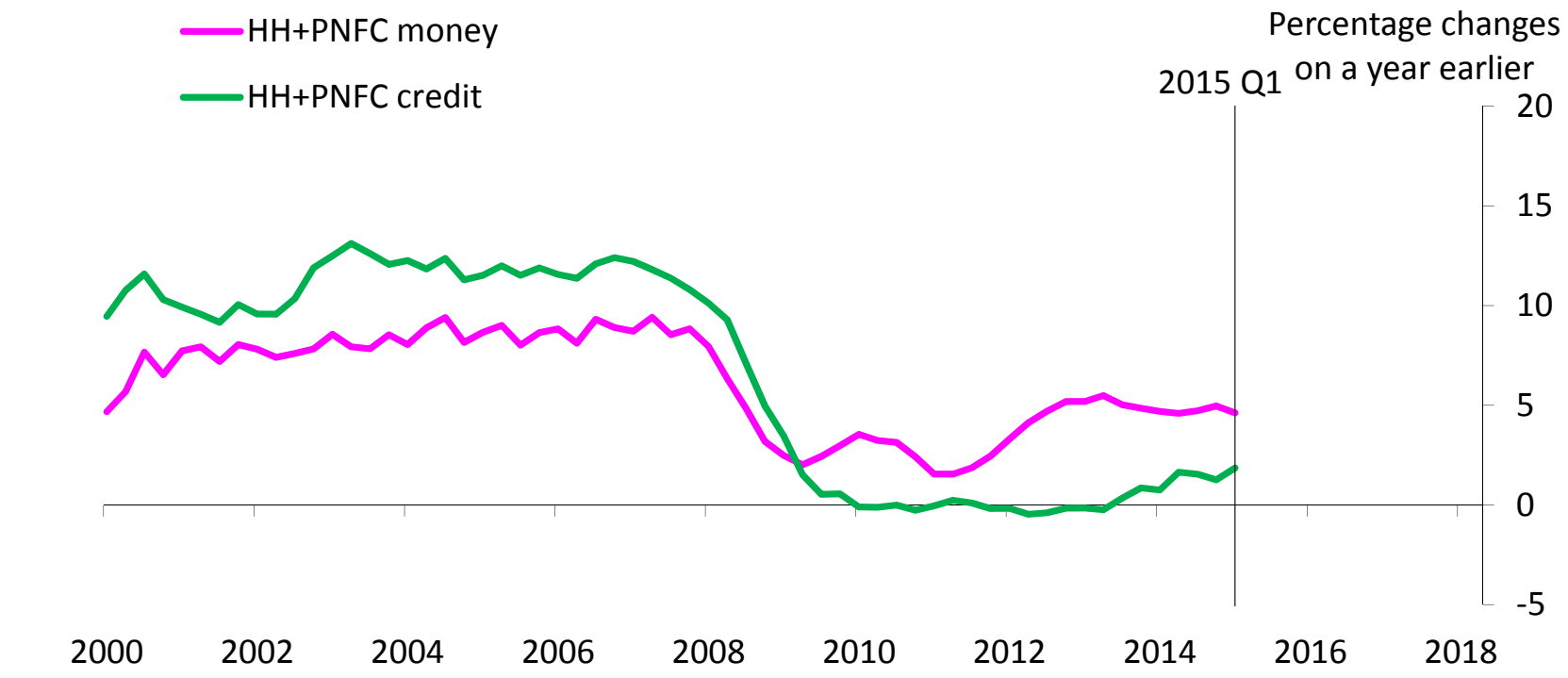
Inflation expectations summary

- Households' expectations continue to look weak, which doesn't appear to be due to changing perceptions about inflation indices
- Distribution sector companies' price expectations fell in Q1, while whole economy wage expectations were broadly unchanged
- Professional forecasters' expectations are in line with your central projection, but they expect Bank Rate to rise more quickly than the market path

Money & Credit

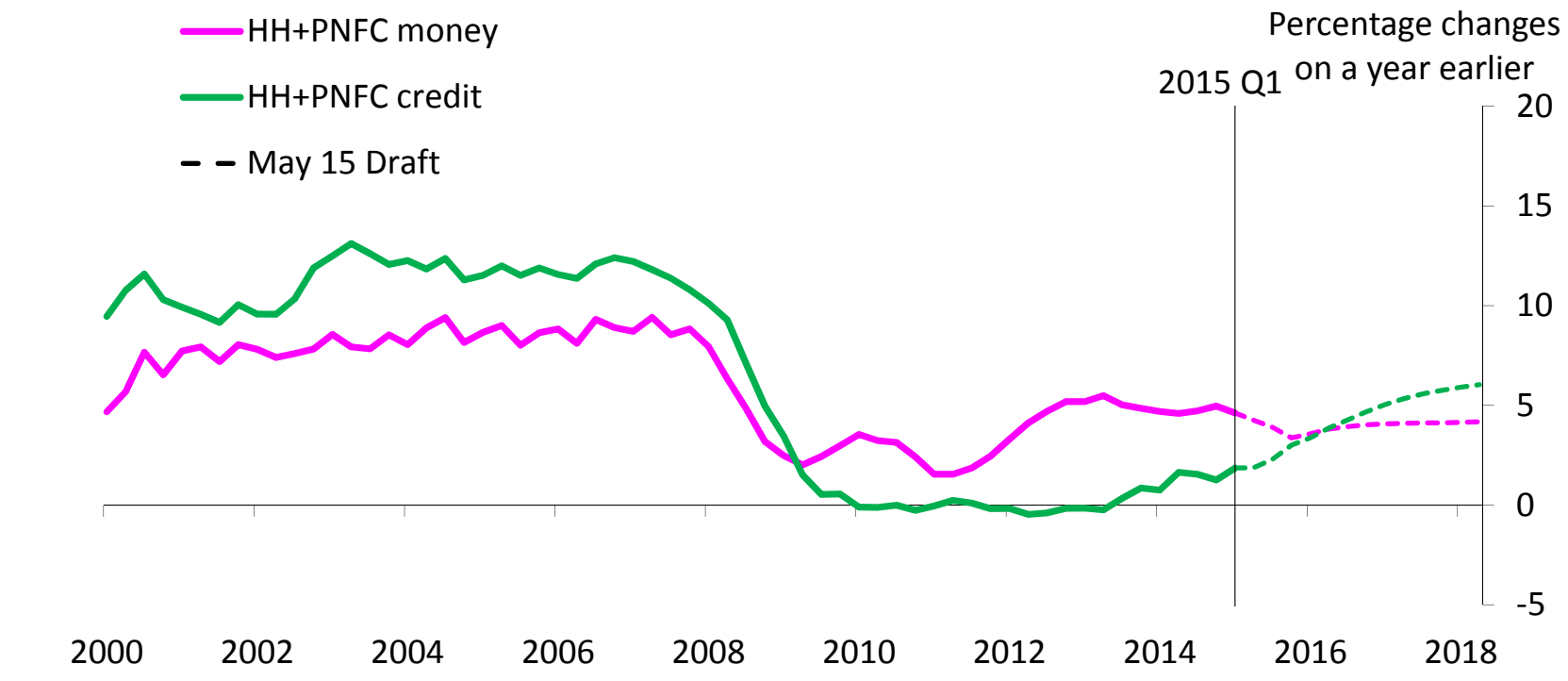
Lending growth has been weaker than pre-crisis…

Household & PNFC M4^{ex} & M4Lx^{ex}



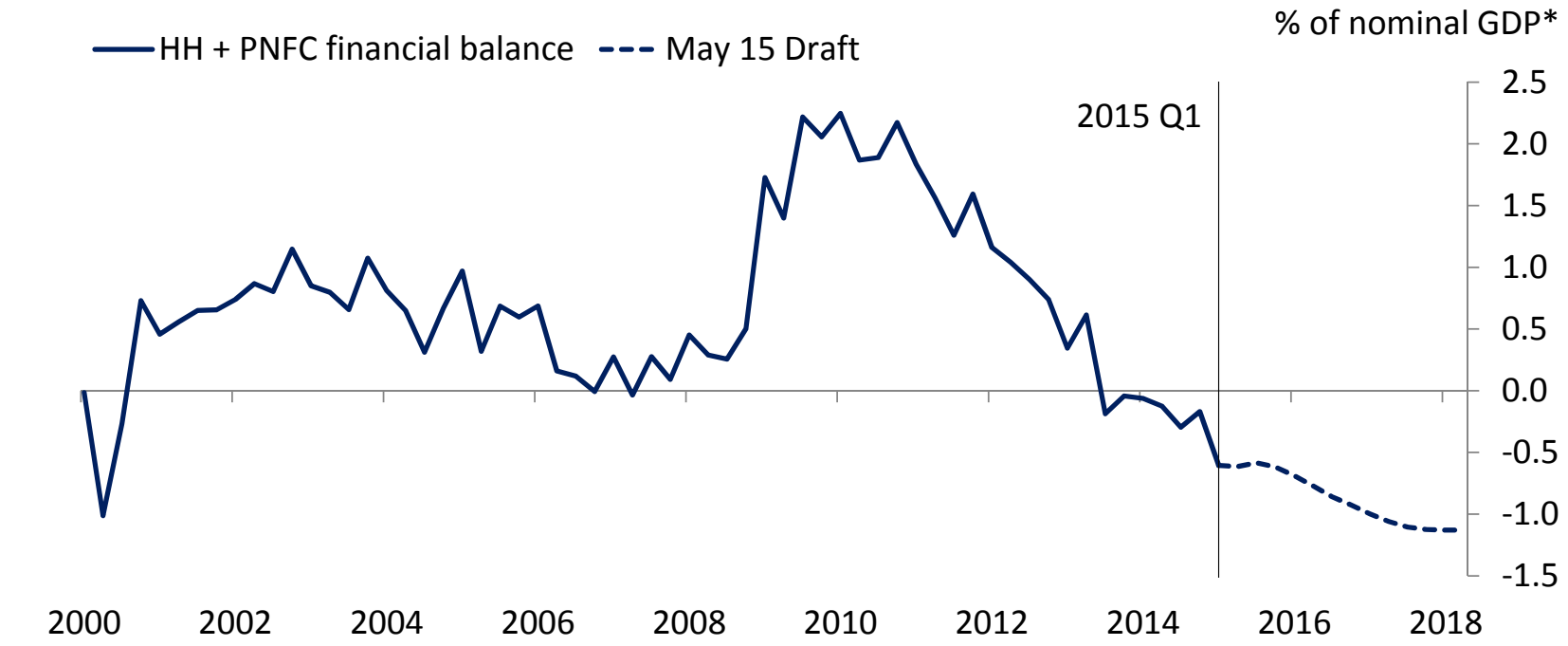
… which we expect to continue, despite some pickup…

Household & PNFC M4^{ex} & M4Lx^{ex}



…as the private non-financial sector deficit widens

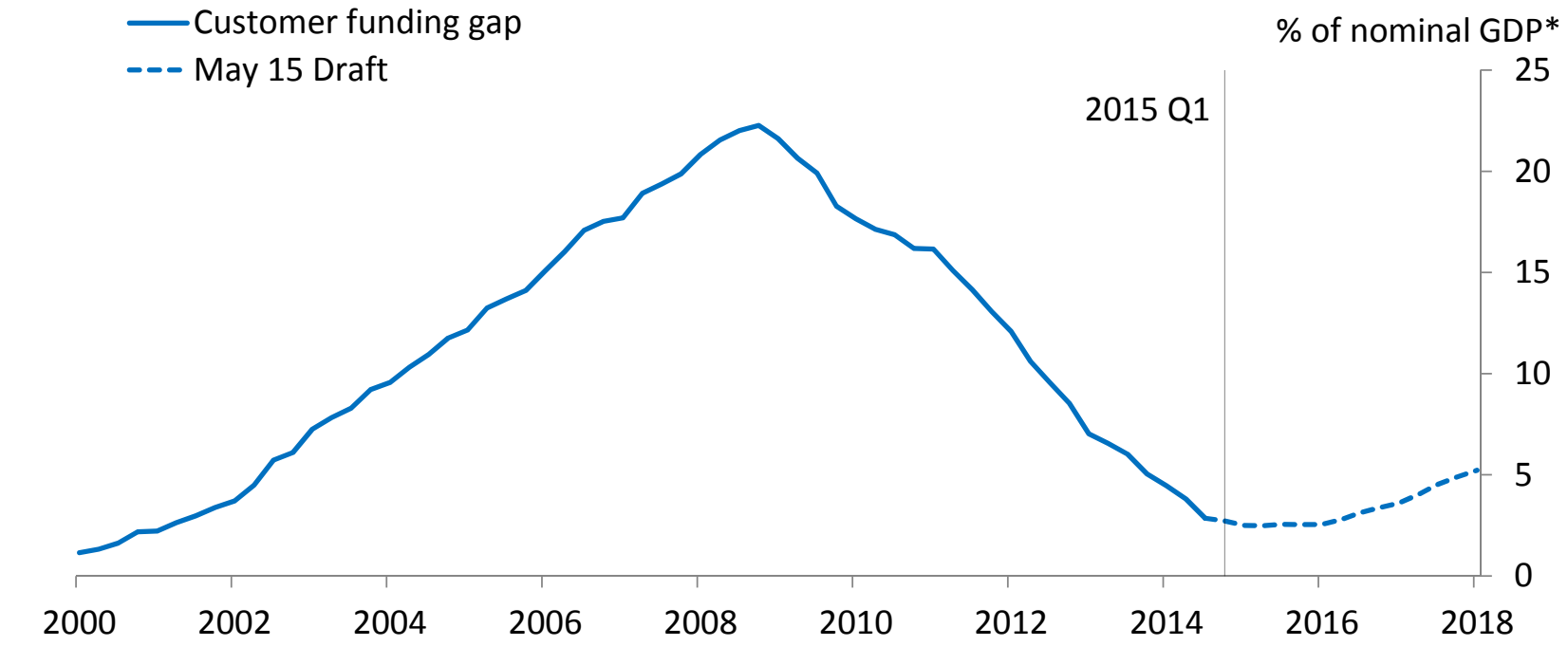
Household + PNFC financial balance



*Annualised quarterly nominal GDP

Customer funding gap widens a little over the forecast period…

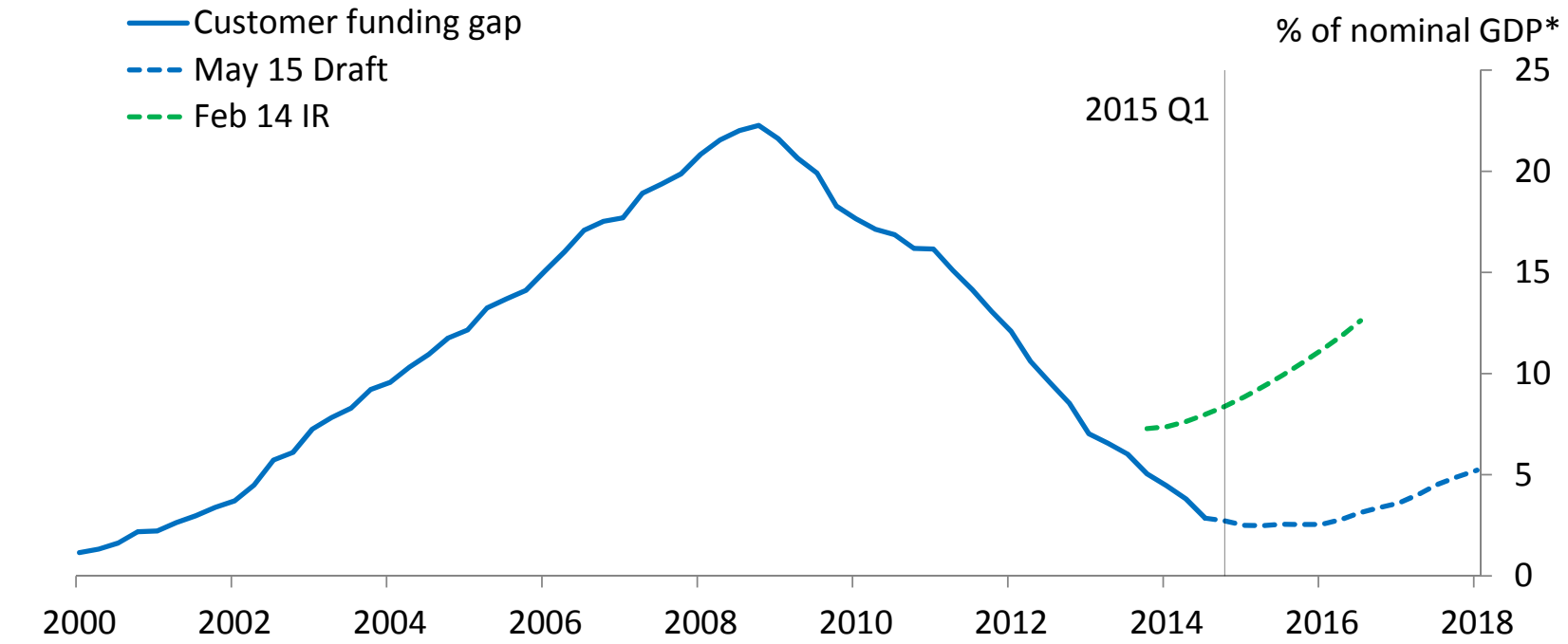
Customer funding gap (M4 measure, Household & PNFCs)



*Annualised quarterly nominal GDP

…but the same was true last year, and the CFG fell

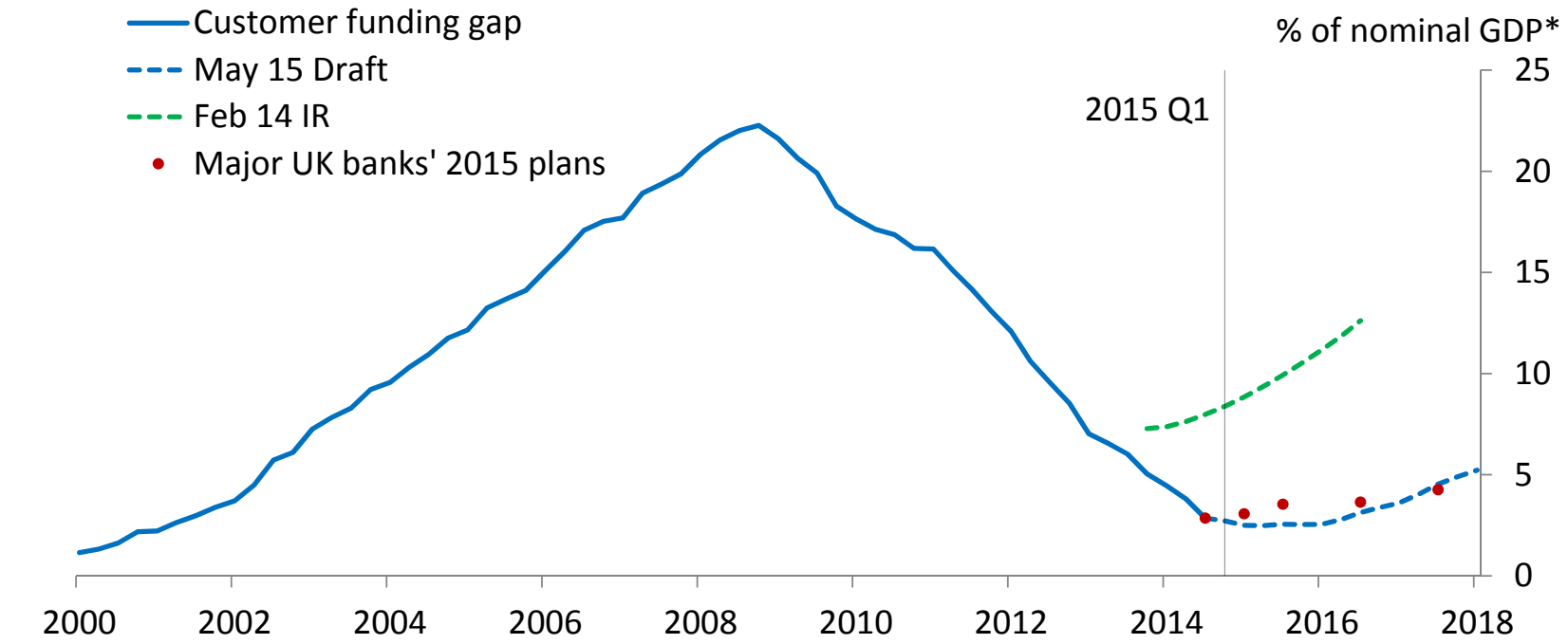
Customer funding gap (M4 measure, Household & PNFCs)



*Annualised quarterly nominal GDP

Updated UK banks' plans are similar to our forecast

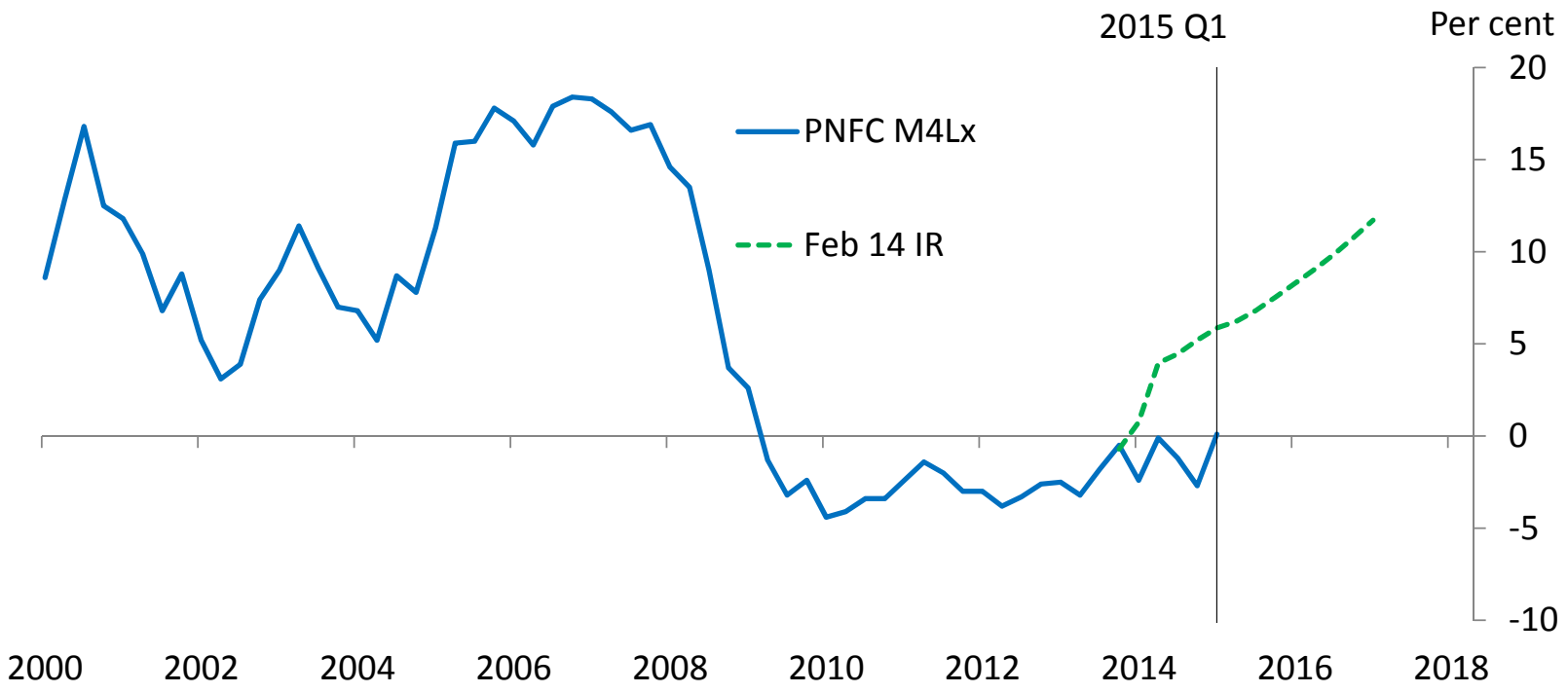
Customer funding gap (M4 measure, Household & PNFCs)



*Annualised quarterly nominal GDP

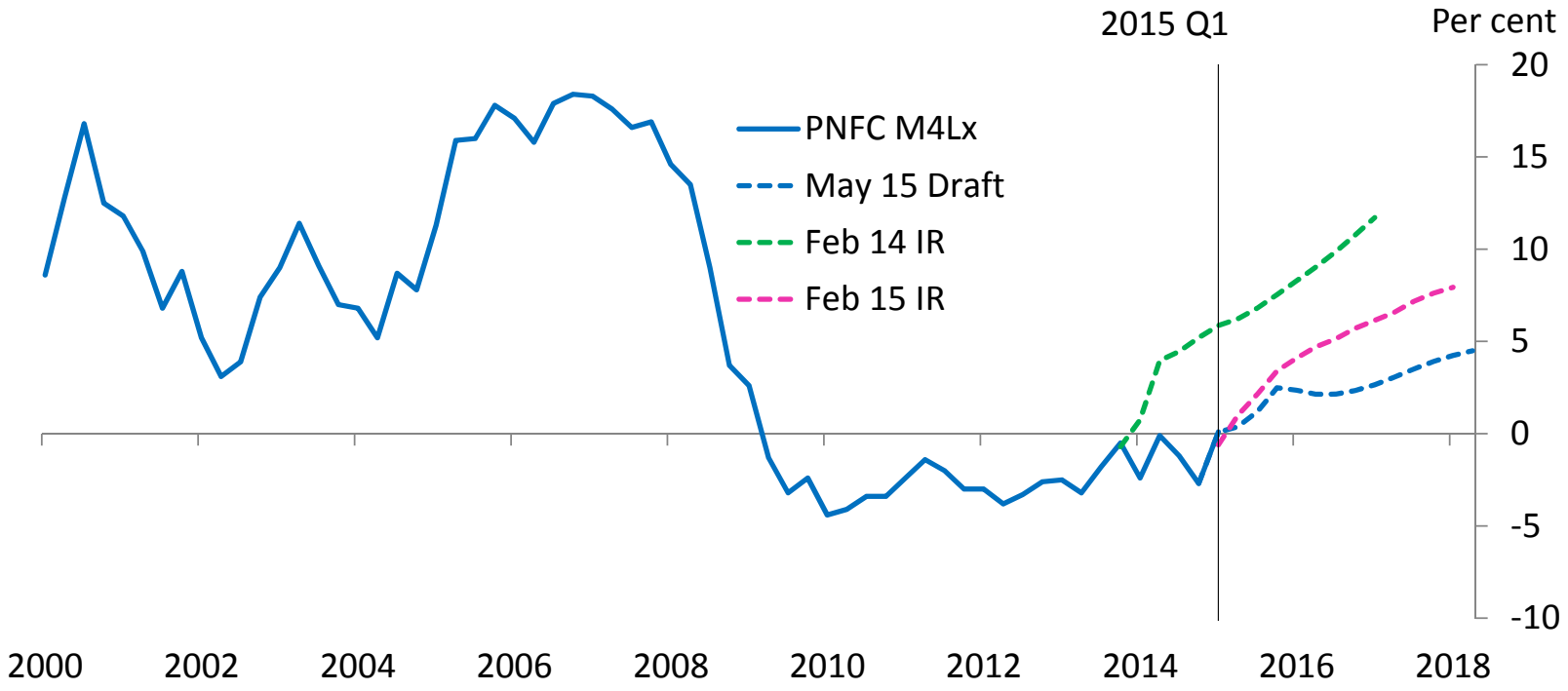
PNFC lending has been weaker than expected...

PNFC M4Lx, 4 quarter growth rate



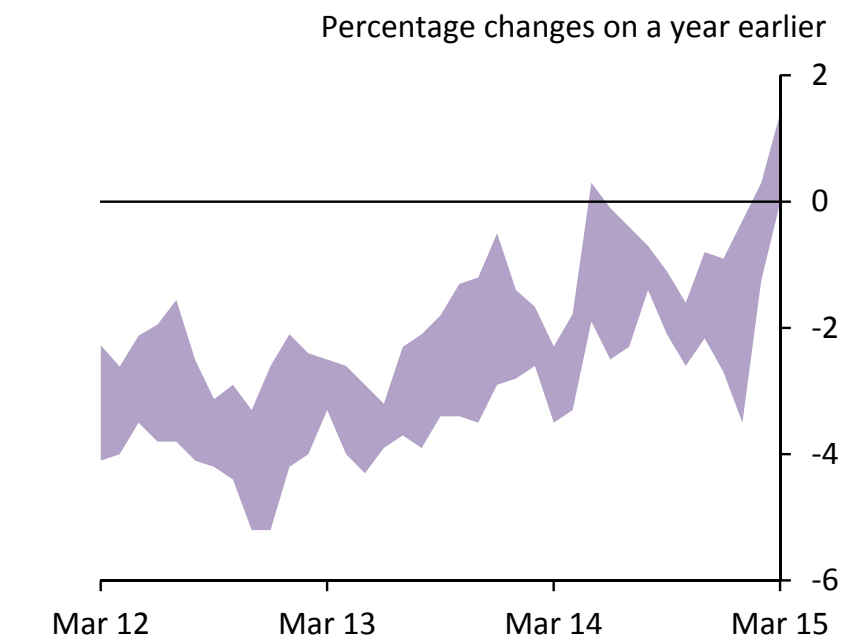
…and we have revised down our forecast

PNFC M4Lx, 4 quarter growth rate



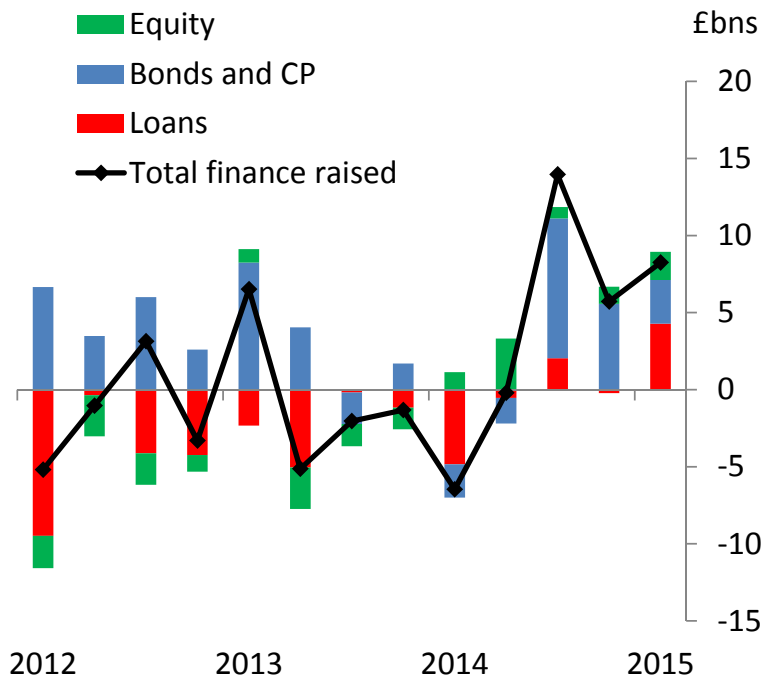
Lending growth appears to have picked up

Lending to UK businesses*



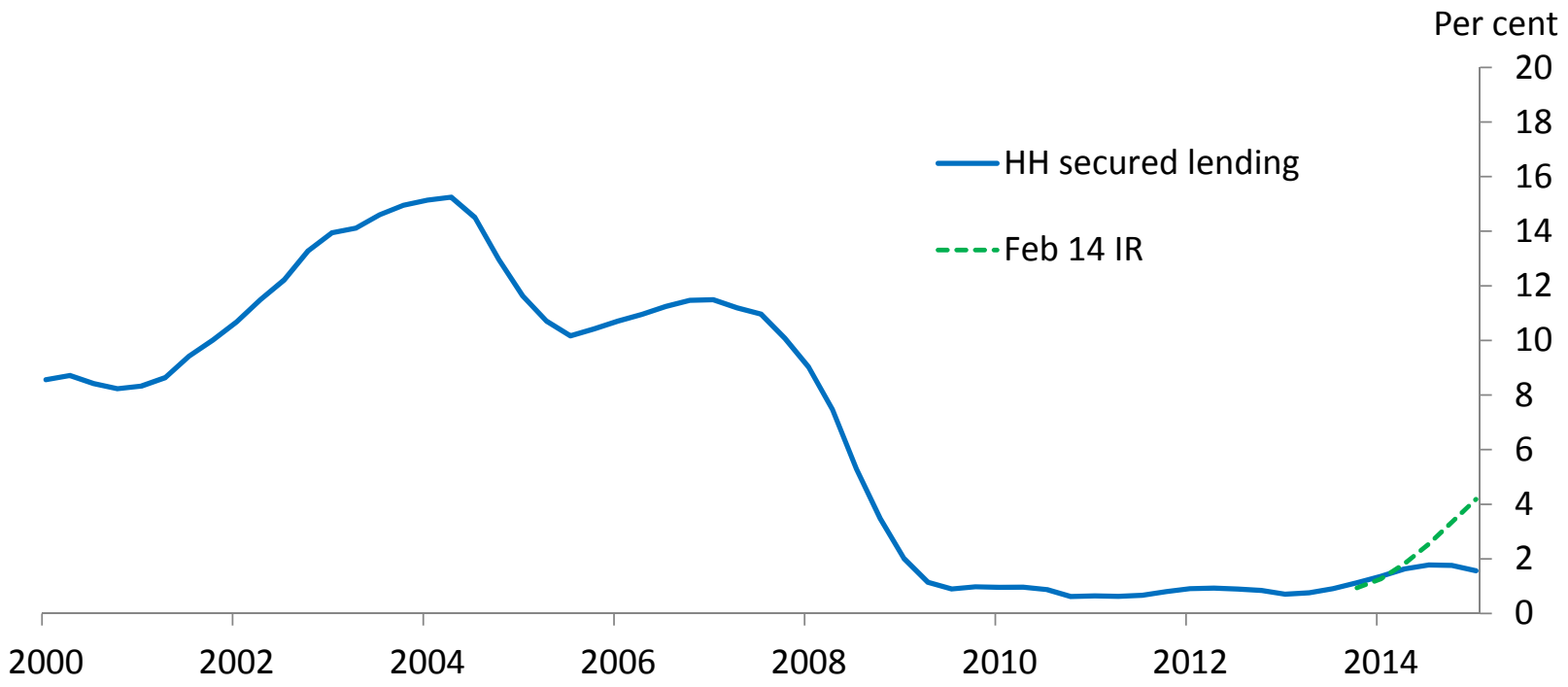
*Swathe includes: PNFC M4Lx (SA), sterling loans to PNFCs (SA), all currency loans to PNFCs (SA) and all currency loans to non-financial businesses (NSA).

PNFC net finance raised, quarterly SA flows



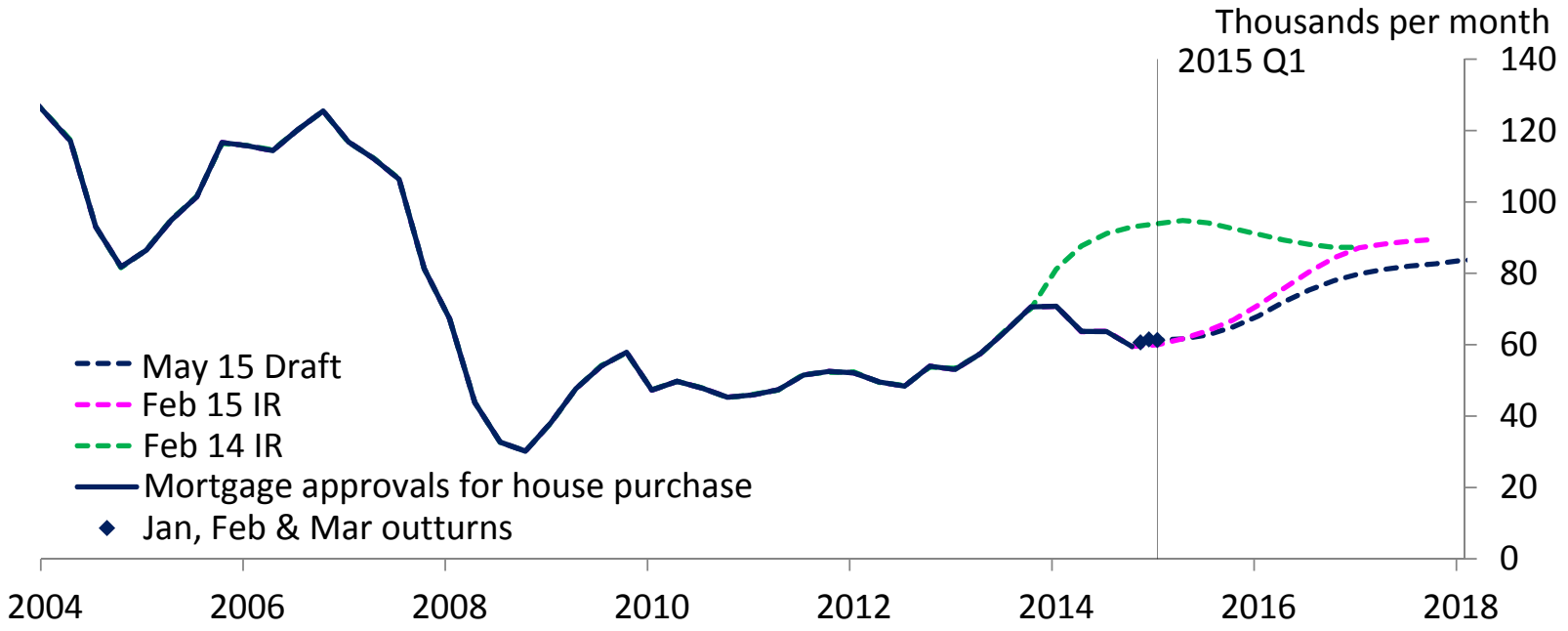
Household secured lending also weaker than expected…

Household secured lending, 4 quarter growth rate



…due to lower approvals

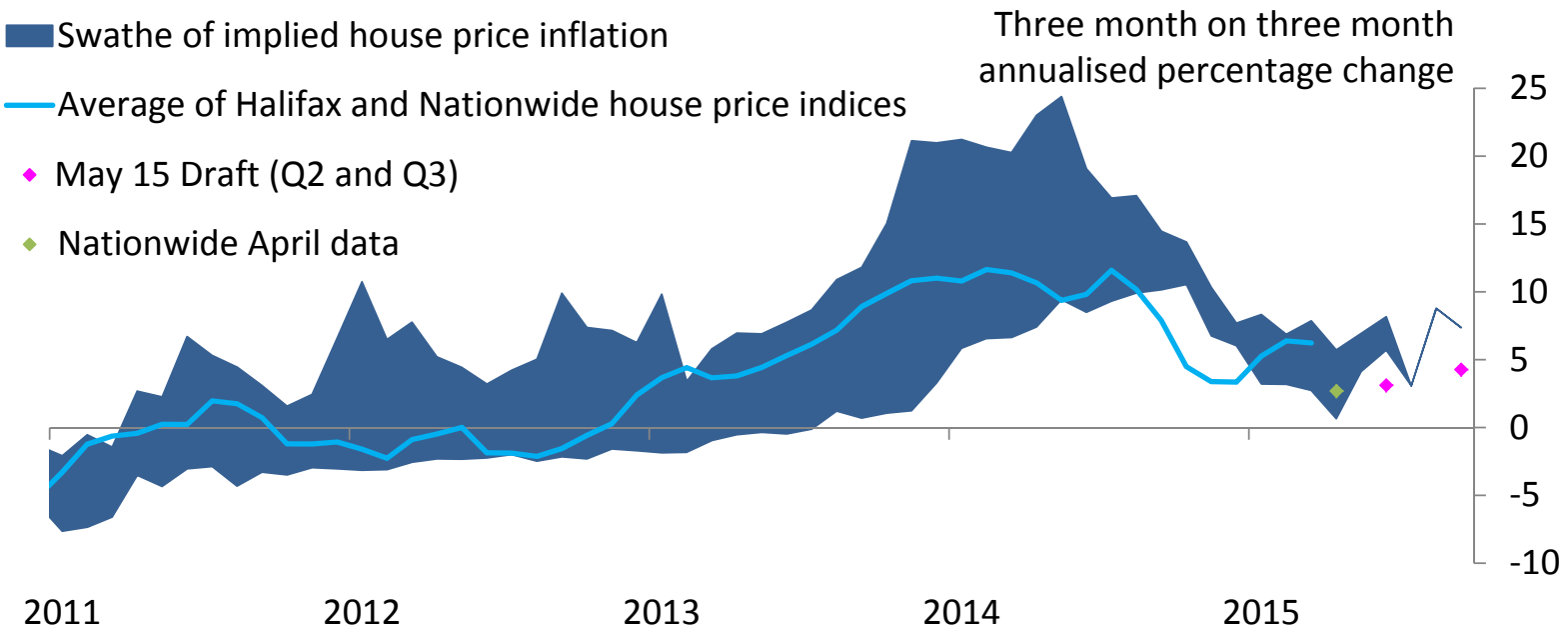
Mortgage approvals for house purchase



- Mortgage approvals for house purchase were 61,340 in March, compared to 61,522 in February

Indicators of house price inflation have flattened off

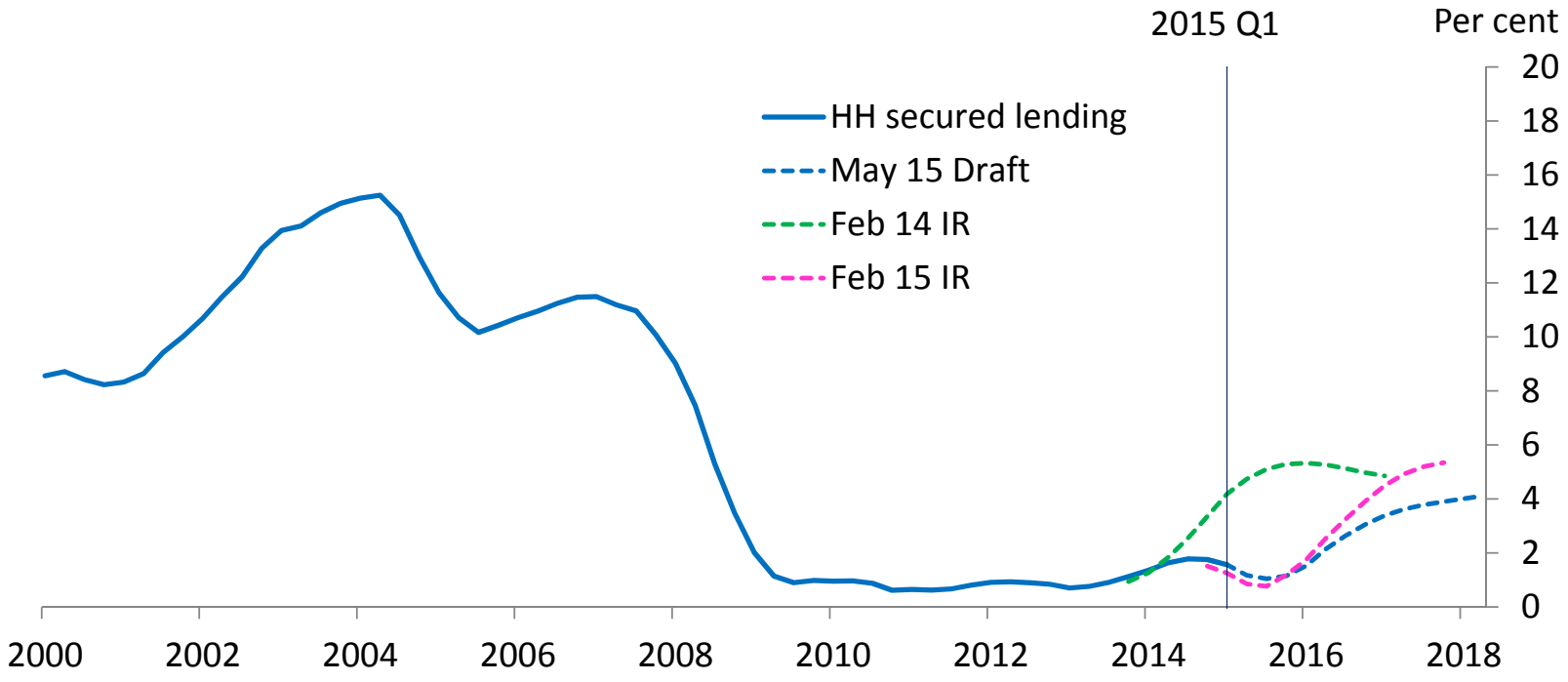
Swathe* of leading indicators of UK house price inflation



*Swathe includes: RICS new buyer enquiries less instructions to sell (lagged 6 months); RICS three month ahead price expectations (lagged 3 months); RICS sales to stock ratio (lagged 3 months); and a principal component of house prices.

We expect household secured lending growth to pick up, but more slowly

Household secured lending, 4 quarter growth rate



Money & Credit summary

- Bank lending to the real economy is projected to be weaker than in February 2015, and last year
- But it is still expected to pick up, to finance household and company spending, and the customer funding gap is projected to widen
- That might not happen if recent trends continue, although adjustment could happen along a number of margins without weighing on GDP growth
- But a risk remains that banks act as a constraint on the recovery

Key messages

- Professional forecasters' expectations are in line with the inflation forecast, although households' might point to some downside risk
- We have revised down our bank lending forecasts
- But given the widening in the private non-financial sector deficit in the forecast, bank lending growth is likely to need to pick up from current rates

3: Global Environment

Bank of England
International Directorate

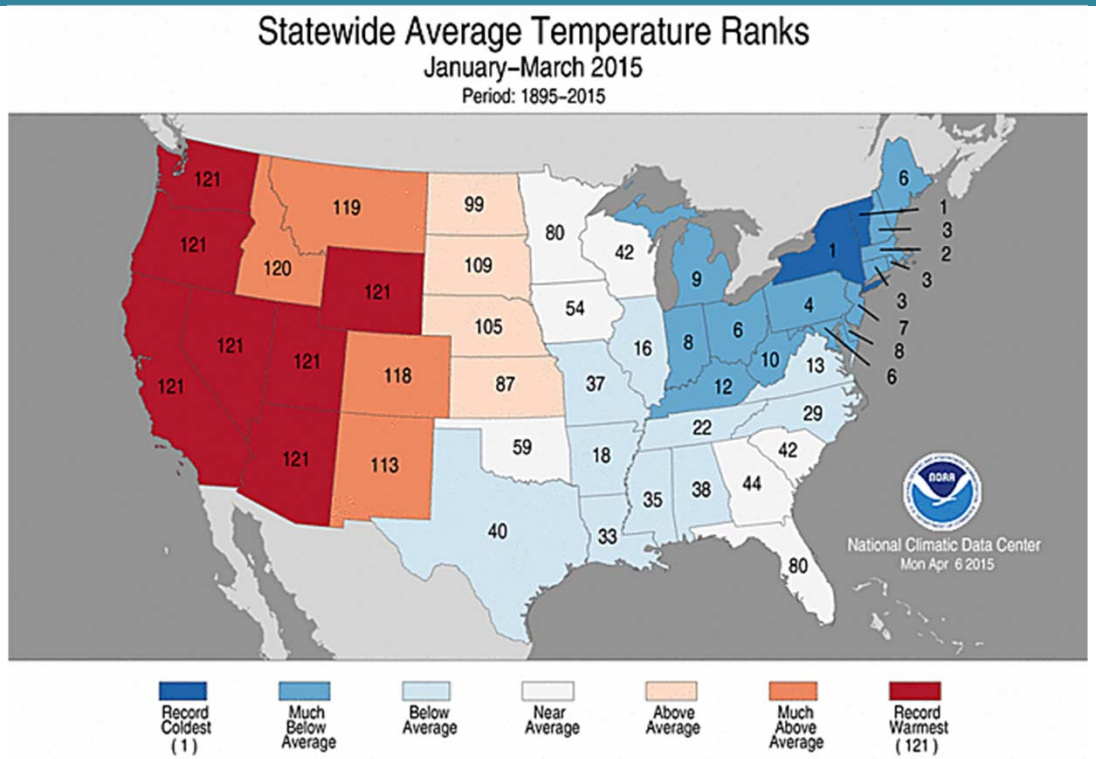
Global Environment
Pre-MPC May 2015

Outline

- Near-term activity
  - US
  - Euro area
  - China
- Oil
- Draft international forecast

US

Heatmap: US Weather



Q1 GDP Surprise Breakdown

	Q1 GDP	Q2 GDP
Feb *IR*	0.6	0.6
May *Draft*	0.0	
Difference	-0.5	

Q1 GDP Surprise Breakdown

	Q1 GDP	Q2 GDP
Feb *IR*	0.6	0.6
May *Draft*	0.0	
Difference	-0.5	
of which		
Weather		
Oil capex		
Unexplained		

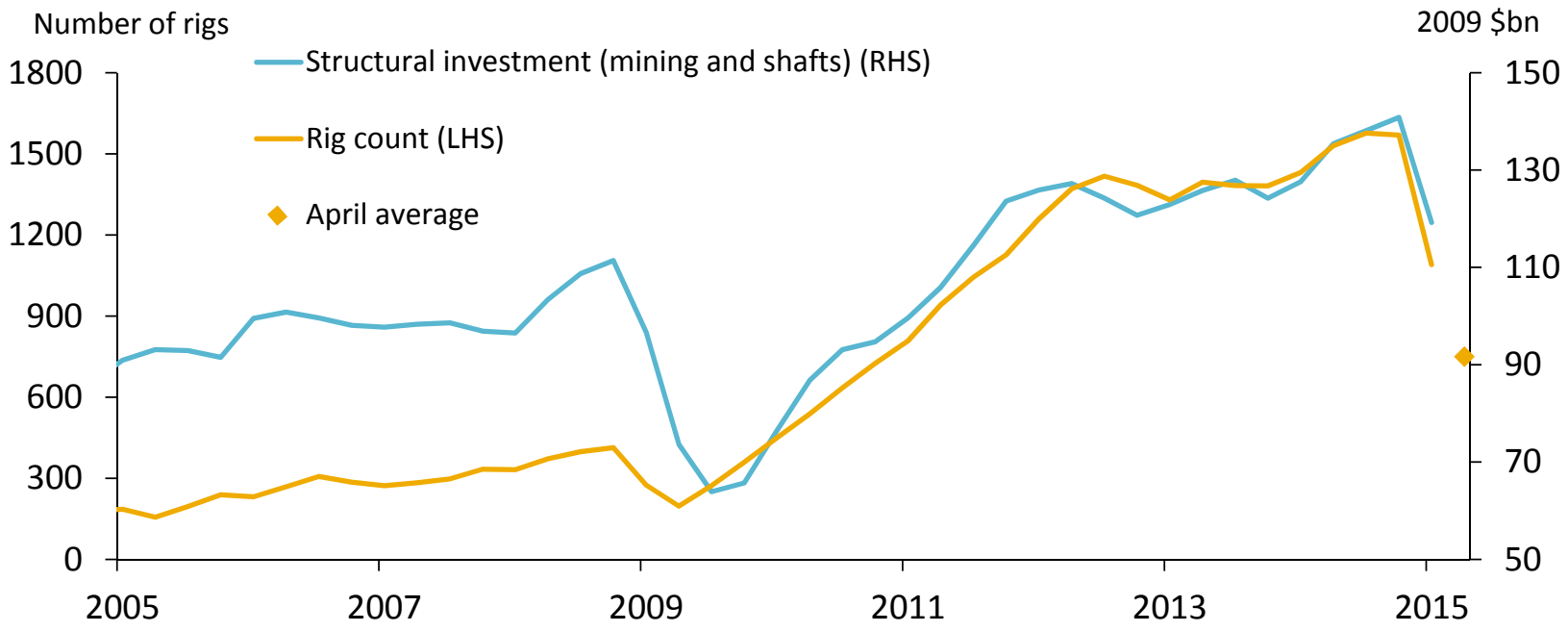
Q1 GDP Surprise Breakdown

	Q1 GDP	Q2 GDP
Feb *IR*	0.6	0.6
May *Draft*	0.0	
Difference	-0.5	
of which		
Weather	-0.2	0.2
Oil capex		
Unexplained		

Q1 GDP Surprise Breakdown

	Q1 GDP	Q2 GDP
Feb *IR*	0.6	0.6
May *Draft*	0.0	
Difference	-0.5	
of which		
Weather	-0.2	0.2
Oil capex	-0.1	
Unexplained		

US mining investment



- Mining investment expected to fall again in Q2.

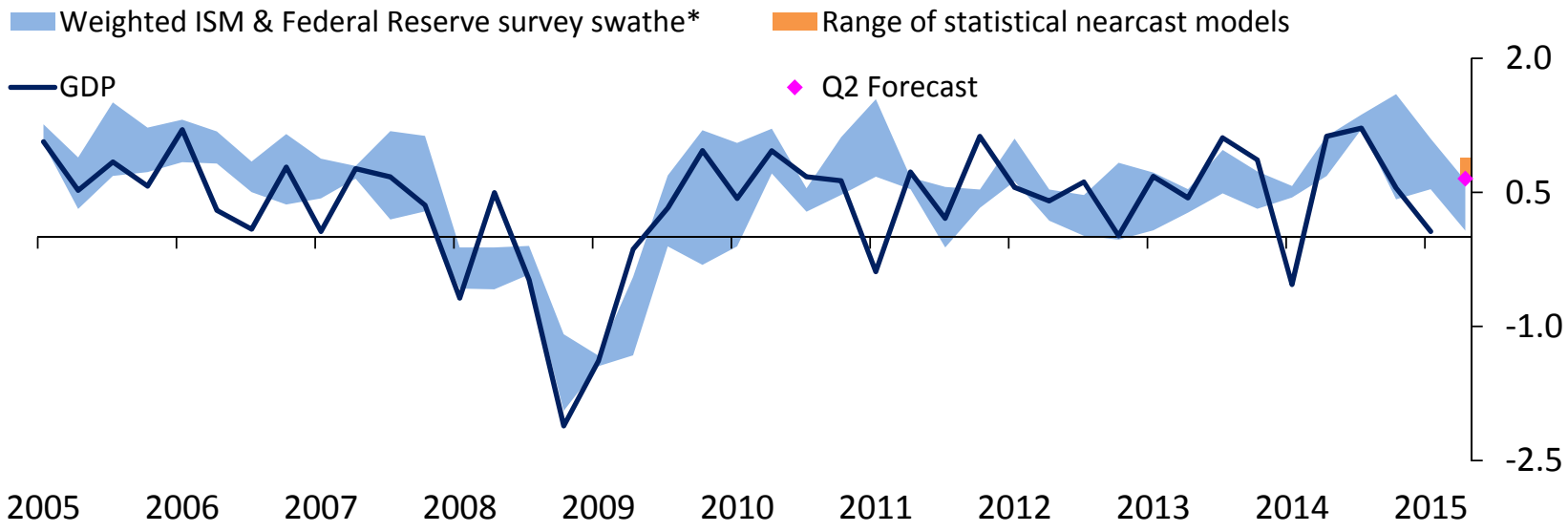
Q1 GDP Surprise Breakdown

	Q1 GDP	Q2 GDP
Feb *IR*	0.6	0.6
May *Draft*	0.0	
Difference	-0.5	
of which		
Weather	-0.2	0.2
Oil capex	-0.1	-0.1
Unexplained	-0.2	0.0

Q1 GDP Surprise Breakdown

	Q1 GDP	Q2 GDP
Feb *IR*	0.6	0.6
May *Draft*	0.0	**0.7**
Difference	-0.5	0.1
of which		
Weather	-0.2	0.2
Oil capex	-0.1	-0.1
Unexplained	-0.2	0.0

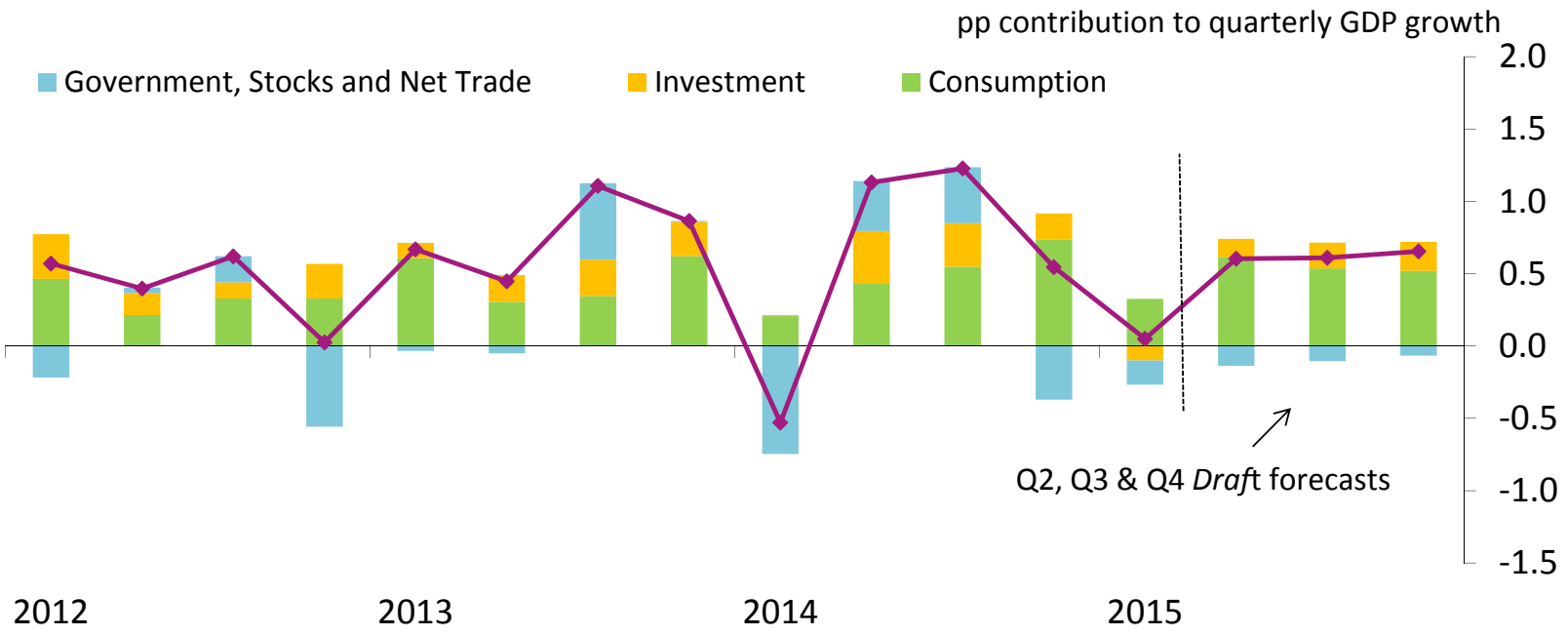
Swathe of near-term indicators



*Federal Reserve surveys: New York Empire State Manufacturing, Philadelphia Fed Business Outlook survey, Weighted Richmond Fed Manufacturing & Services surveys. Data up to April for Federal Reserve surveys and up to March for the ISM.

- Growth expected to pick up to 0.7% in Q2: consistent with surveys and near cast models.

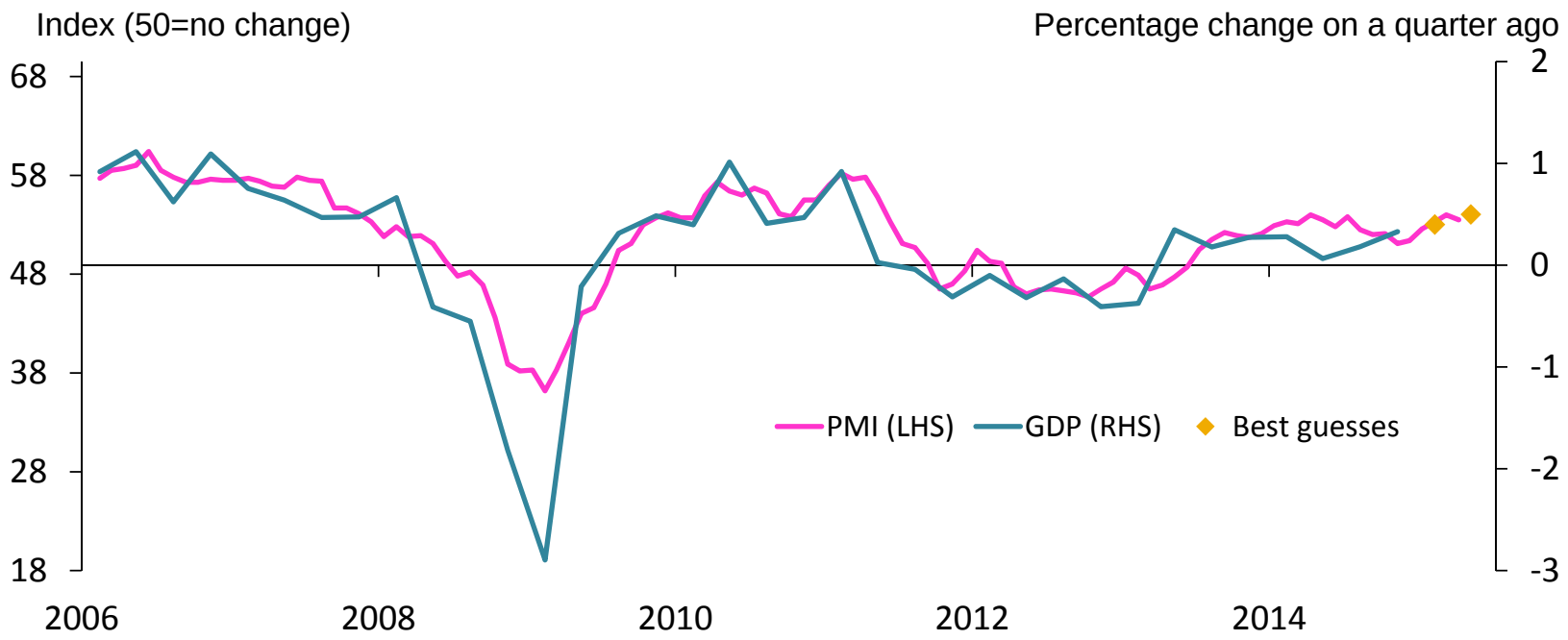
US GDP growth expenditure split



- Growth expected to pick up to 0.7% in Q2 and remain at 0.7% through 2015.

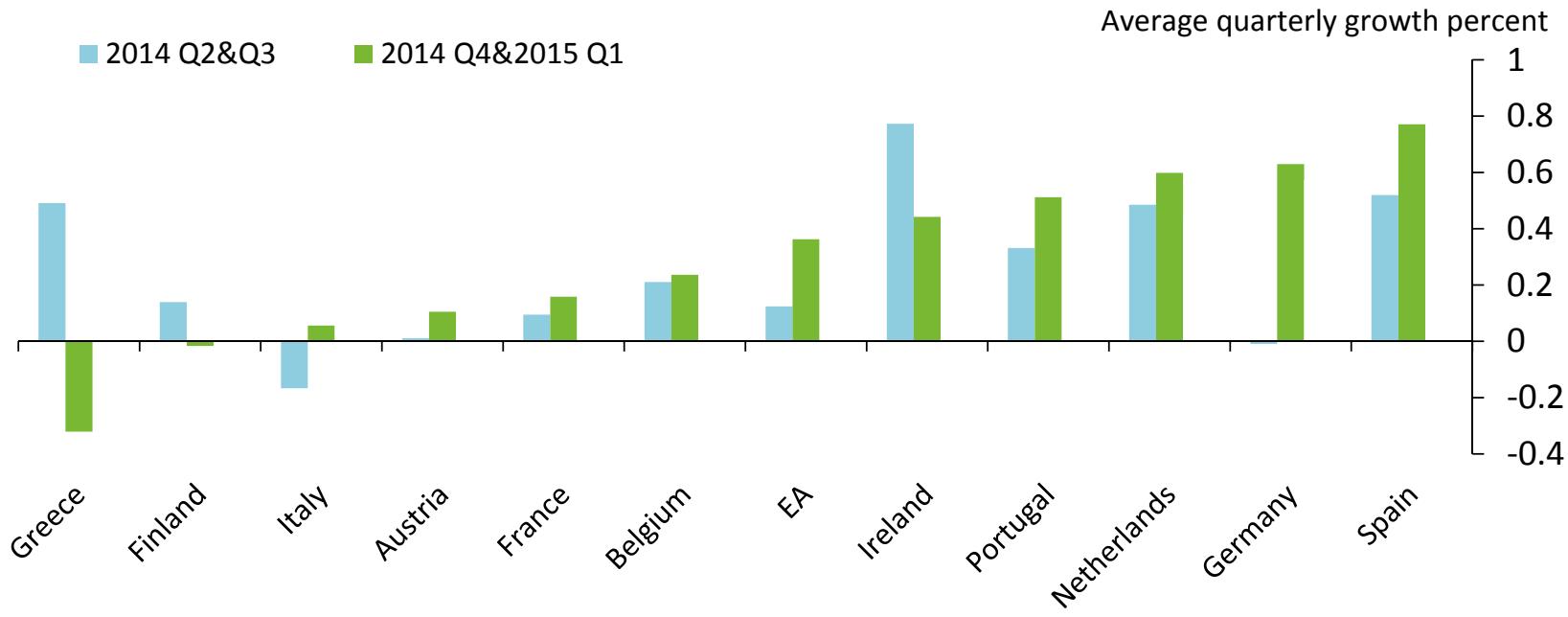
Euro area

Euro-area GDP and PMIs



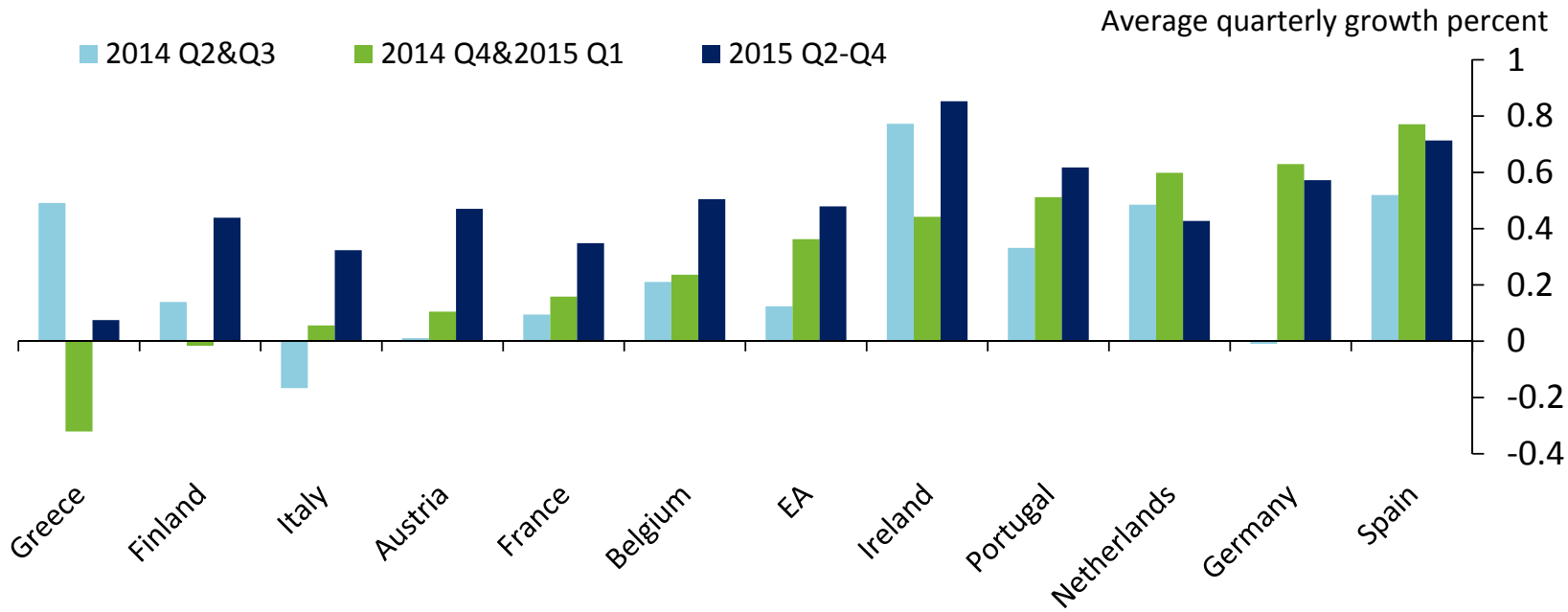
- We left our best guesses for Q1 and Q2 unchanged at 0.4 and 0.5% in the May Draft.

Euro area country split



- Pick up in growth driven by Germany

Euro area country split



- Going forward growth is expected to broaden out to other countries
- See IEM: Divergence reversed? Making sense of recent US and EA news

Greece – key events in May and June

- The government's cash-flow position is critical and highly uncertain. There are many potential flashpoints.

Date	Event
1 May	Interest payment to the IMF, €200m
8 May	Treasury bill matures for €1.4bn
11 May	Eurogroup meeting of Finance Ministers, at which it is increasingly unlikely an agreement will be reached.
12 May	IMF payment of €779m falls due
15 May	Treasury bill matures for €1.4bn
27 May	Civil service salaries and pensions, €1.5bn
June	IMF repayments totalling €1.6bn Treasury bill redemptions totalling €5.2bn Further civil service salaries and pensions of €1.5bn

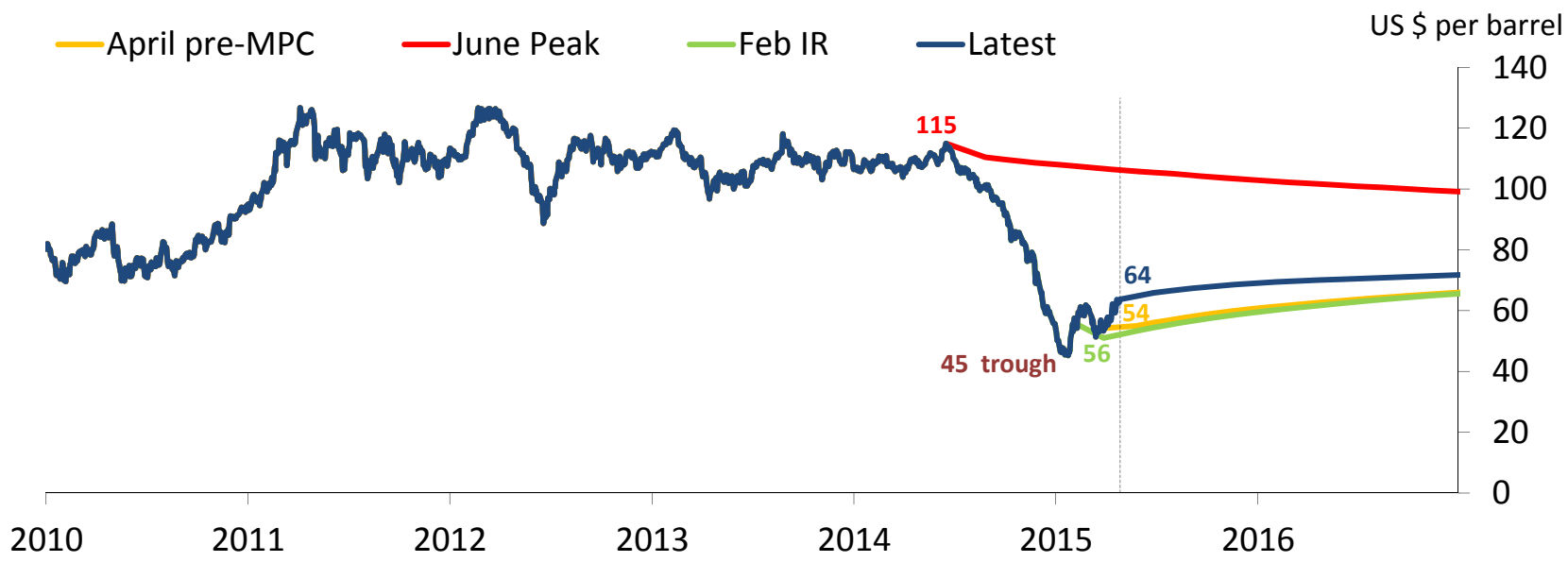
China

China: activity and policy response

- **Q1 GDP 1.5% QoQ** (0.2pp below Feb *IR*). Industrial production fell to 5.6% oya in March.
- **The appreciation of the RMB** is expected to cause a drag from trade this year, and we expect that further policy stimulus will likely be needed to bring growth close to the target of "around 7%".
- Indeed, the recent **100bp cut in the reserve requirement ratio (RRR)** reflects the authorities' attempts to deal with both liquidity shortages, due to capital outflows, and the slowdown in domestic demand.
- **A $63bn capital injection for the policy banks** (using FX reserves) aims to support infrastructure, investment and trade.
- **Rumours of unconventional policy:** speculation that banks could be allowed to use local government bonds as collateral to obtain long-term funding from the central bank, which would help support the creation of the municipal bond market.
-

Oil

Oil futures curve



- Oil price rose 14.1% since pre-MPC to around $64pb, reflecting a smaller than expected increase in US oil inventories and failure to reach a deal with Iran
- In March, OPEC oil production recorded its highest monthly gain since October 2012 (+31 mbpd)

Draft forecast

Draft forecast: Stockton table

KJ: Global growth picks up only gradually following recent weakness, particularly in the €A

	98-07	2014	2015	2016	2017
World GDP (UK-weighted)	3	2¼ (2¼)	2¼ (2½)	2¾ (2¾)	2¾ (2¾)
World GDP (PPP-weighted)	4	3½ (3½)	3¼ (3½)	3¾ (3¾)	3¾ (3¾)
Euro-area GDP	2¼	1 (¾)	1½ (1¼)	2 (2)	2 (1¾)
US GDP	3	2½ (2½)	2½ (3)	2½ (2¾)	2¼ (2½)

- World forecast revised down slightly: stronger euro area more than offset by weaker US and RoW.

**February IR in brackets*

Summary

- US growth expected to bounce back to from weather-related weakness: 0.7 in Q2 from 0.0 in Q1
- Euro-area growth unrevised from benchmark: 0.4 in Q1 and 0.5 in Q2
- Risks from Greece remain.
- Oil prices up 14% on the month. But strong production and high stocks suggests risks of price falls.
- Draft forecast is marginally lower than benchmark (-0.1pp). And slightly weaker than Feb *IR* (-0.2pp): weaker US and RoW offsetting stronger euro area.

End

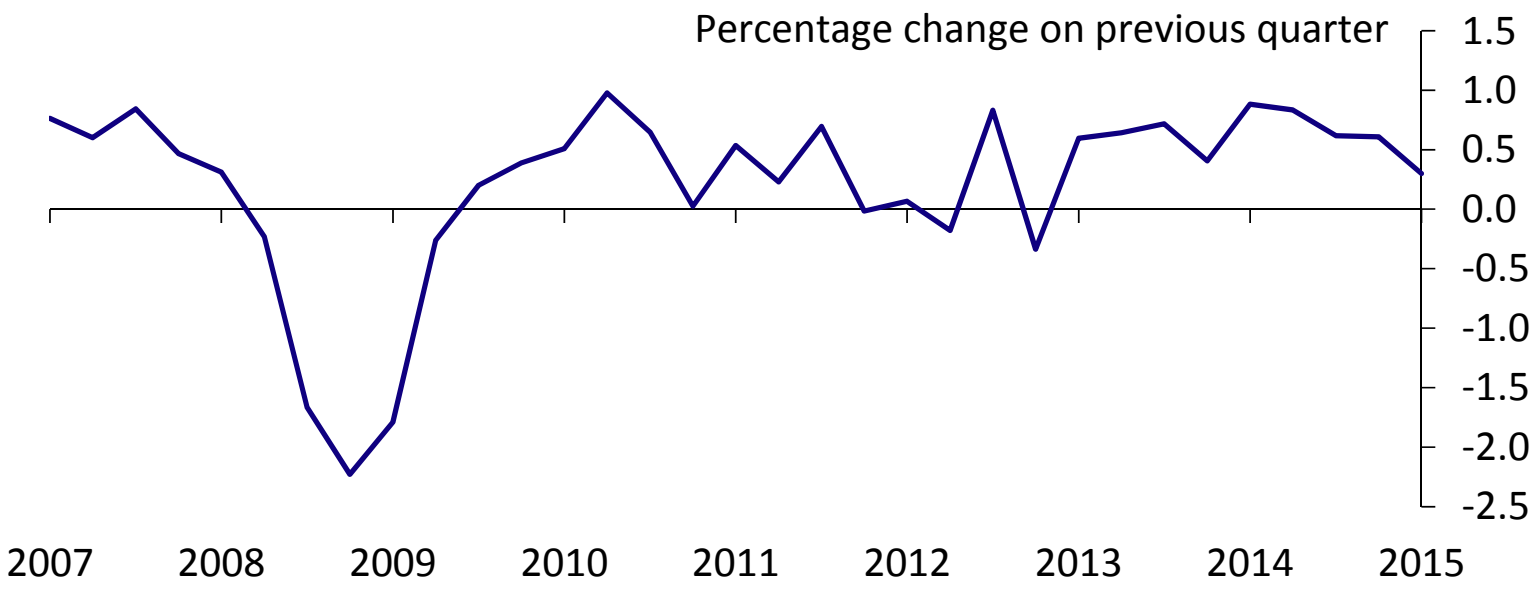
4: Demand and Output

Demand and Output

May 2015

DSI and UK Teams

GDP growth

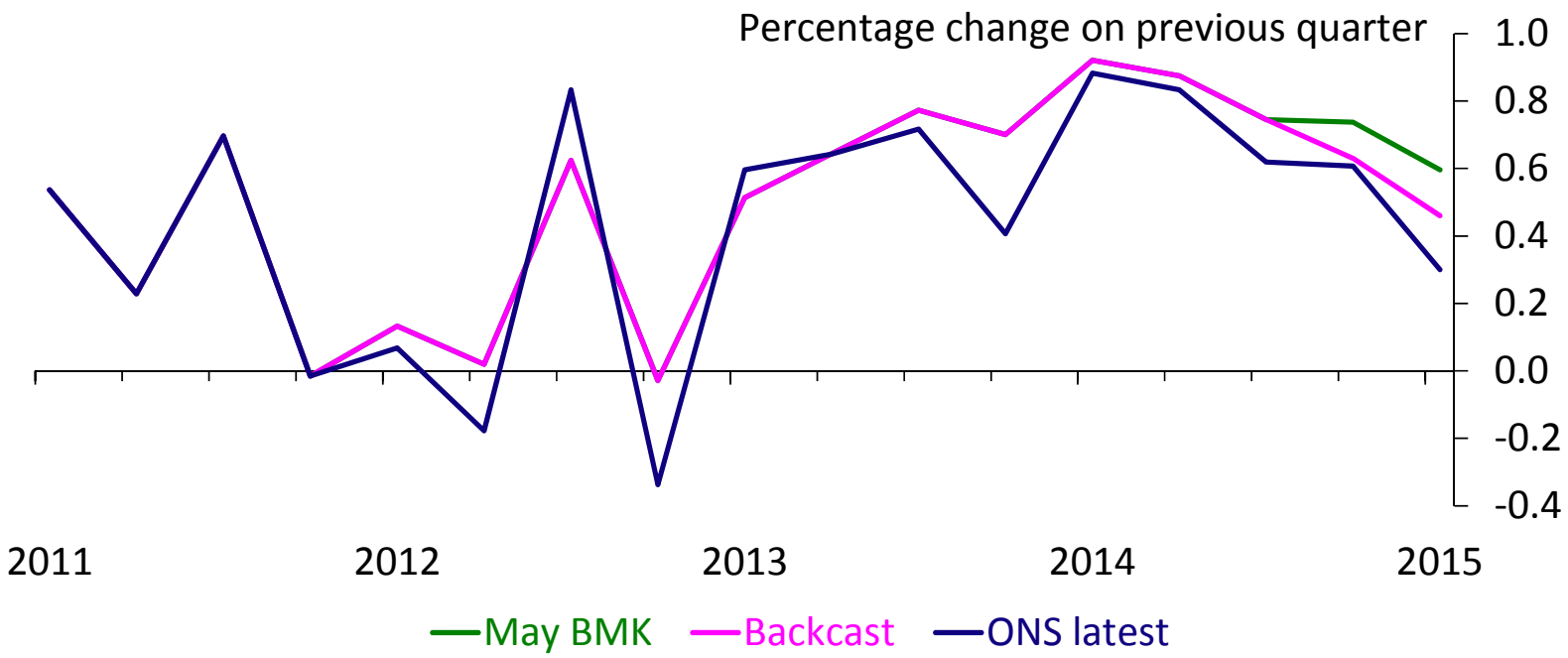


- The preliminary estimate for Q1 quarterly GDP growth was 0.3%. This is 0.1pp lower than our expectation ahead of the release, 0.2pp lower than the May BMK, and 0.3pp lower than the Feb IR.

How should we interpret Q1 GDP weakness?

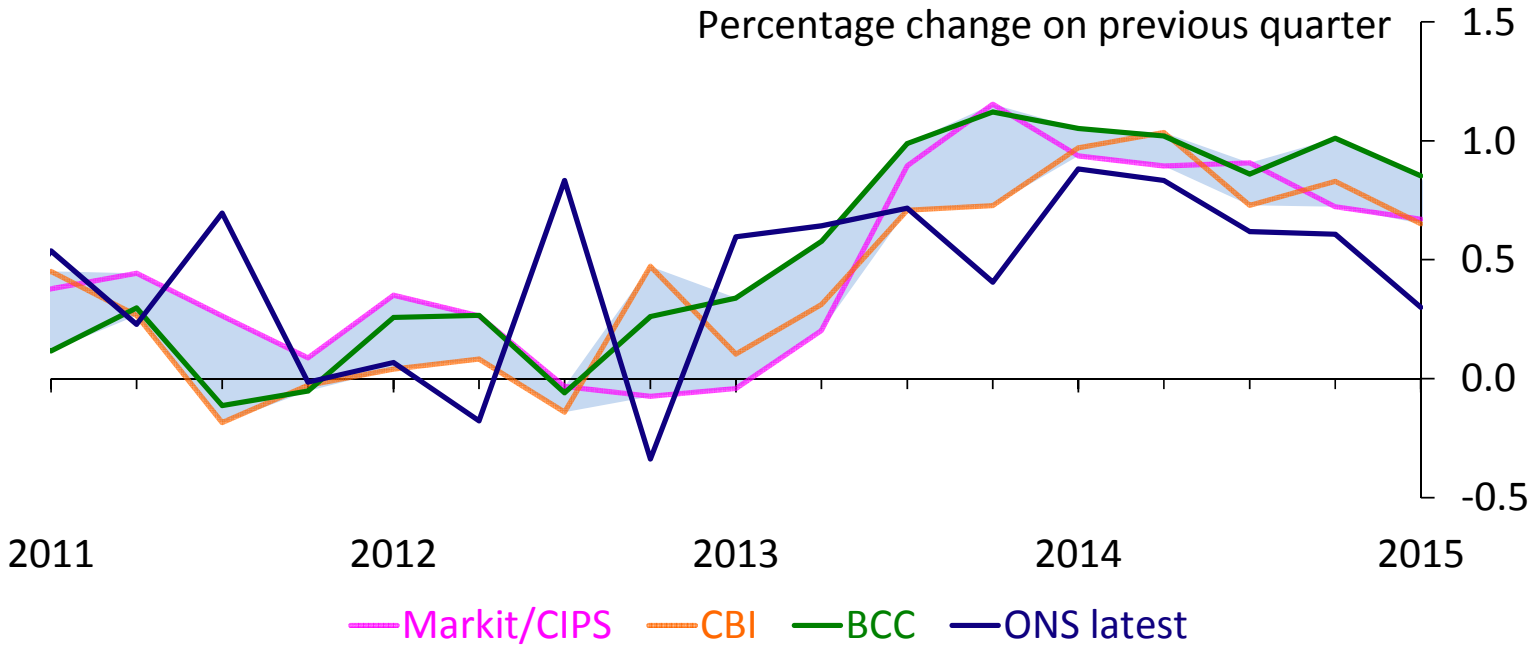
Explanation	Implications for future growth	Assessment
1. It will be revised away	None	
2. Data volatility	None or stronger near term	
3. Temporary weakness	None or stronger near term	
4. Persistent weakness	Lower 2015	

GDP growth



- Backcast suggests an upward revision to Q1, to 0.5%. But Q4 now expected to remain at 0.6%.

Survey composites and GDP growth

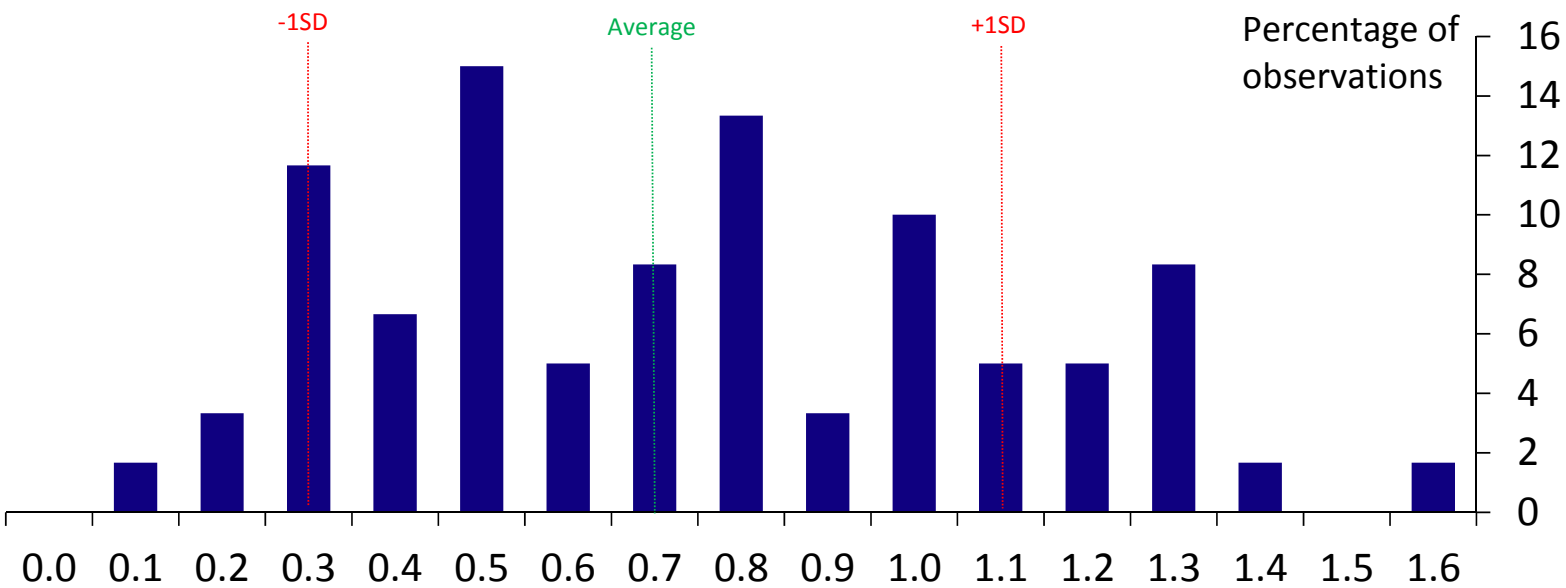


- Extent of weakness in Q1 not corroborated by the surveys

How should we interpret Q1 GDP weakness?

Explanation	Implications for future growth	Assessment
1. It will be revised away	None	We expect Q1 to be revised up to 0.5%
2. Data volatility	None or stronger near term	
3. Temporary weakness	None or stronger near term	
4. Persistent weakness	Lower 2015	

Distribution of quarterly GDP growth



Sample period is 1993Q1 to 2007Q4

- 17% of (mature) pre-crisis quarterly GDP estimates were 0.3% or below

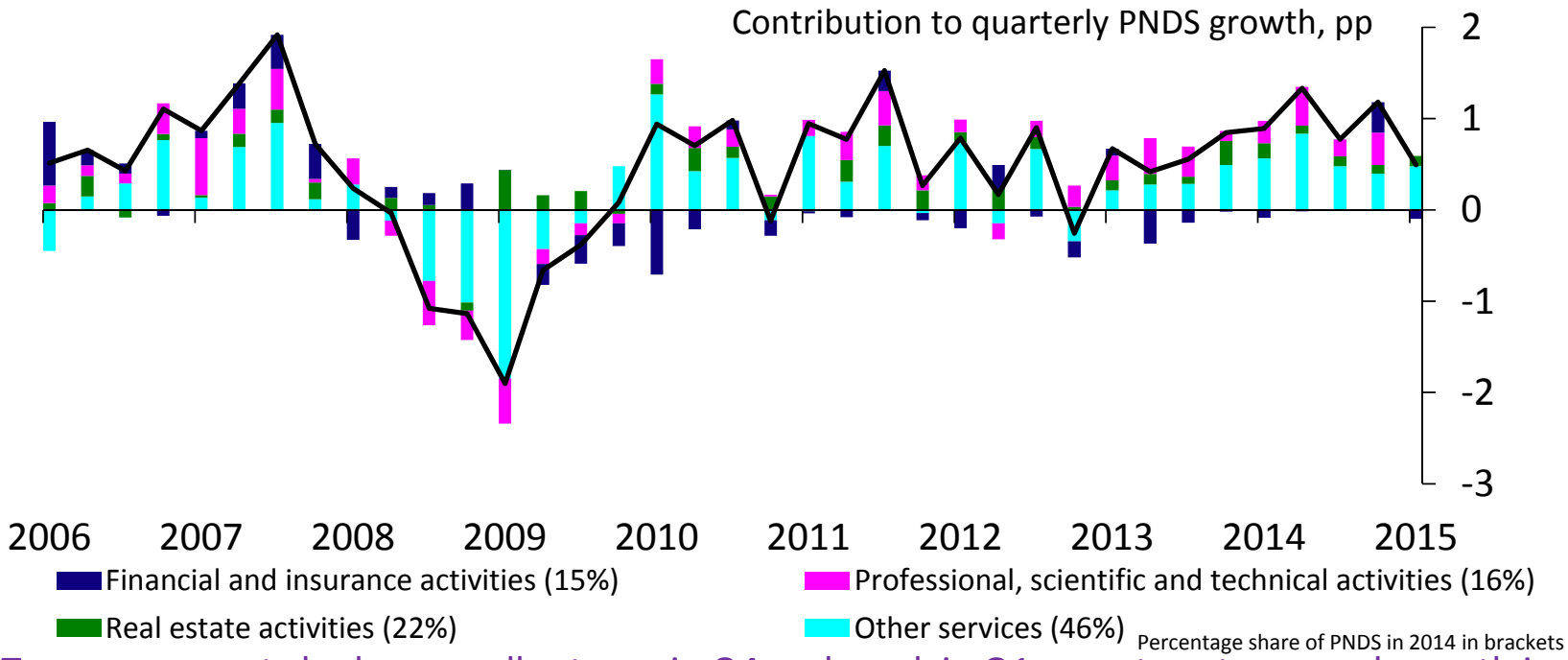
Q1 preliminary GDP estimate

	Q4 latest	Expectation for Q1 Prelim+	Q1 Prelim	Contribution to GDP error* (pp)
Services	0.9	0.7	0.5	-0.2
PNDS	1.3	0.7	0.4	-0.2
Distribution	1.3	1.0	1.1	0.0
Government	-0.2	0.3	0.2	0.0
Production	0.2	-0.1	-0.1	0.0
Manufacturing	0.2	0.0	0.1	0.0
Energy	0.1	-0.7	-0.6	0.0
Construction	-2.2	-2.3	-1.6	0.0
GDP	**0.6**	**0.4**	**0.3**	**-0.1**

* Contributions do not sum due to rounding

+ Expectations immediately before preliminary release

Private non-distribution services (PNDS)



- Two components look unusually strong in Q4 and weak in Q1 – a return to normal growth in these categories would result in a pickup in GDP growth of 0.1pp

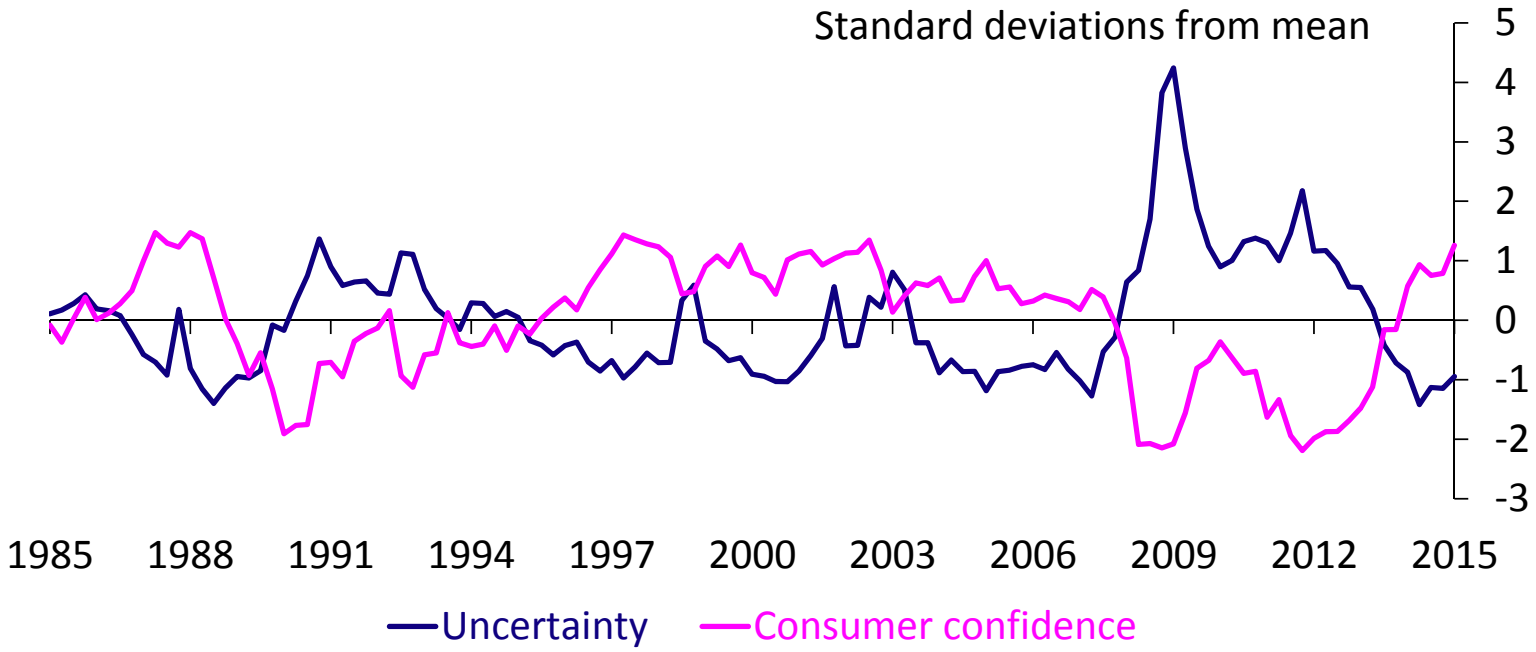
How should we interpret Q1 GDP weakness?

Explanation	Implications for future growth	Assessment
1. It will be revised away	None	Q1 likely to be revised up to 0.5%
2. Data volatility	None or stronger near term	Could easily account for 0.1pp
3. Temporary weakness	None or stronger near term	
4. Persistent weakness	Lower 2015	

Candidate explanations for underlying weakness

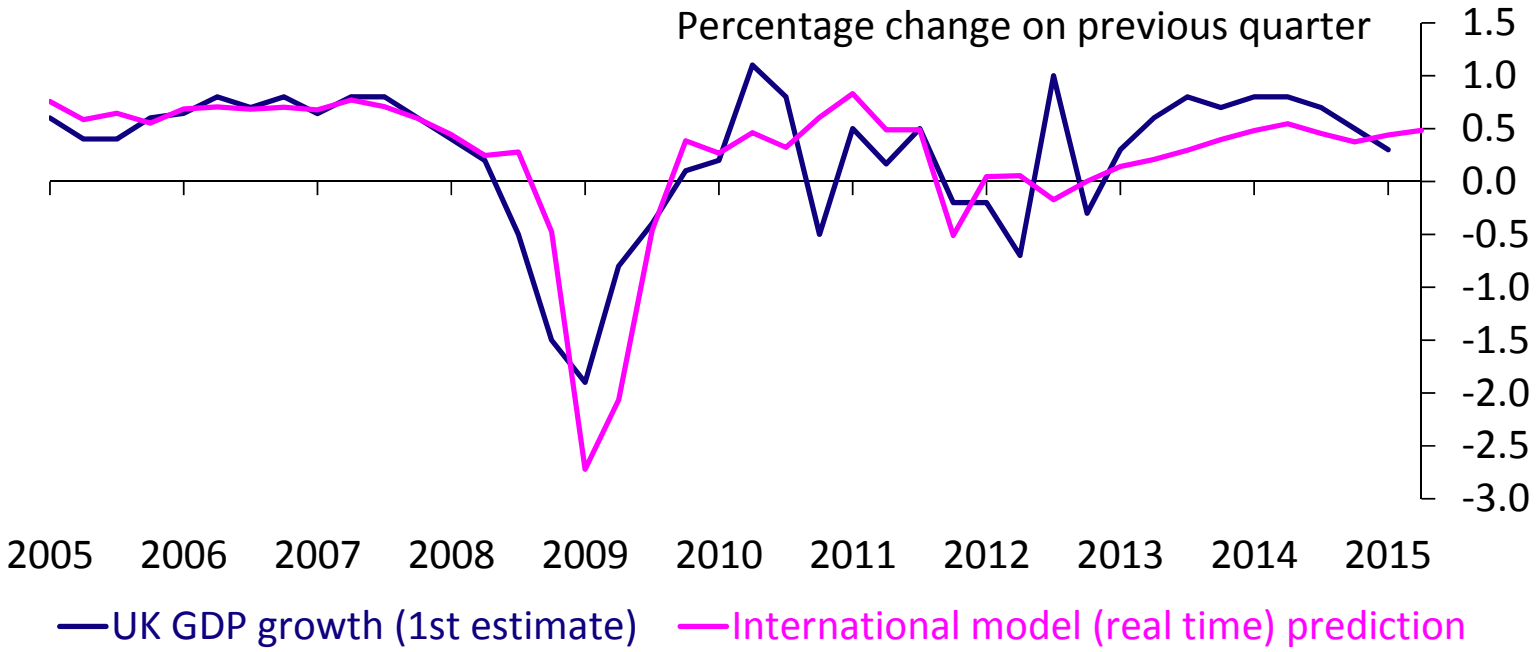
- **Potential supply**
- **Confidence/uncertainty**
- **International developments**
- **Net impact of lower oil prices – extraction investment vs real income boost**

Confidence and uncertainty



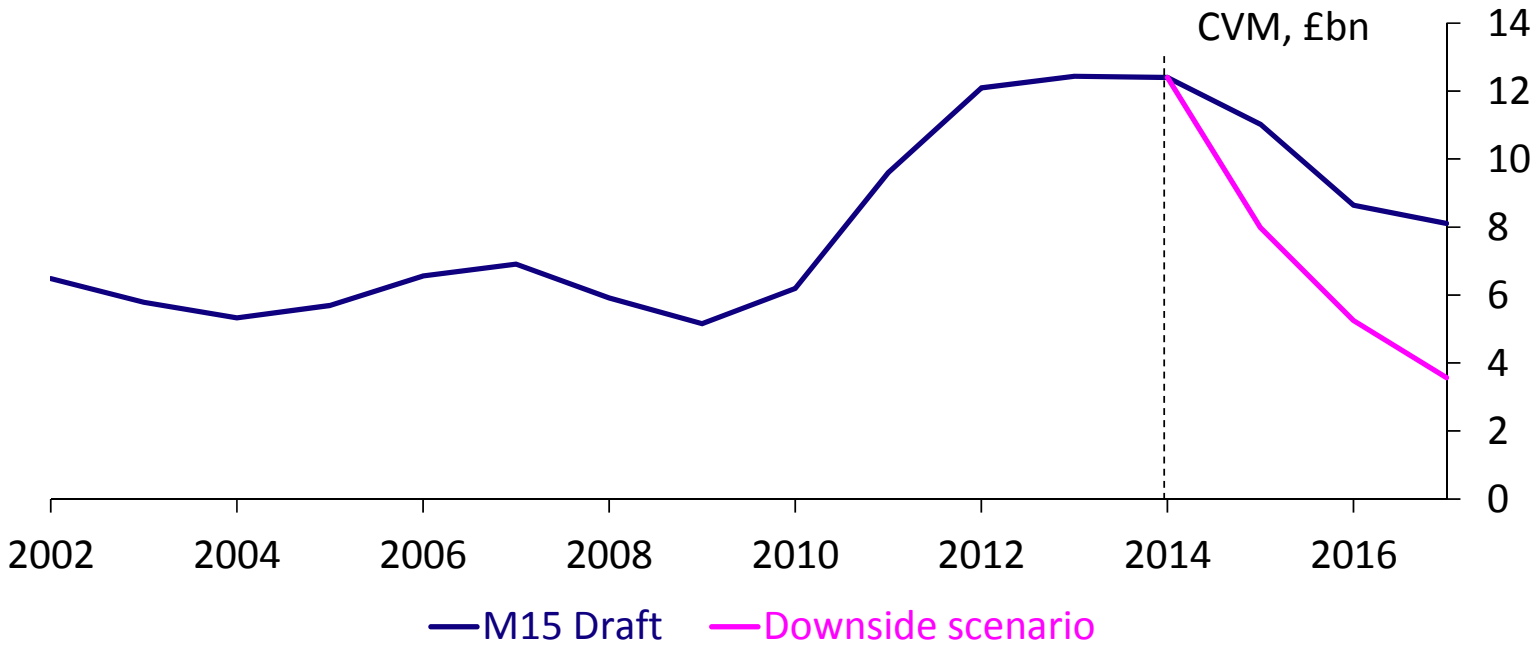
- Uncertainty remains low, and consumer confidence is at its highest level in over 13 years. For more on election uncertainty, .

Relationship between UK and world growth



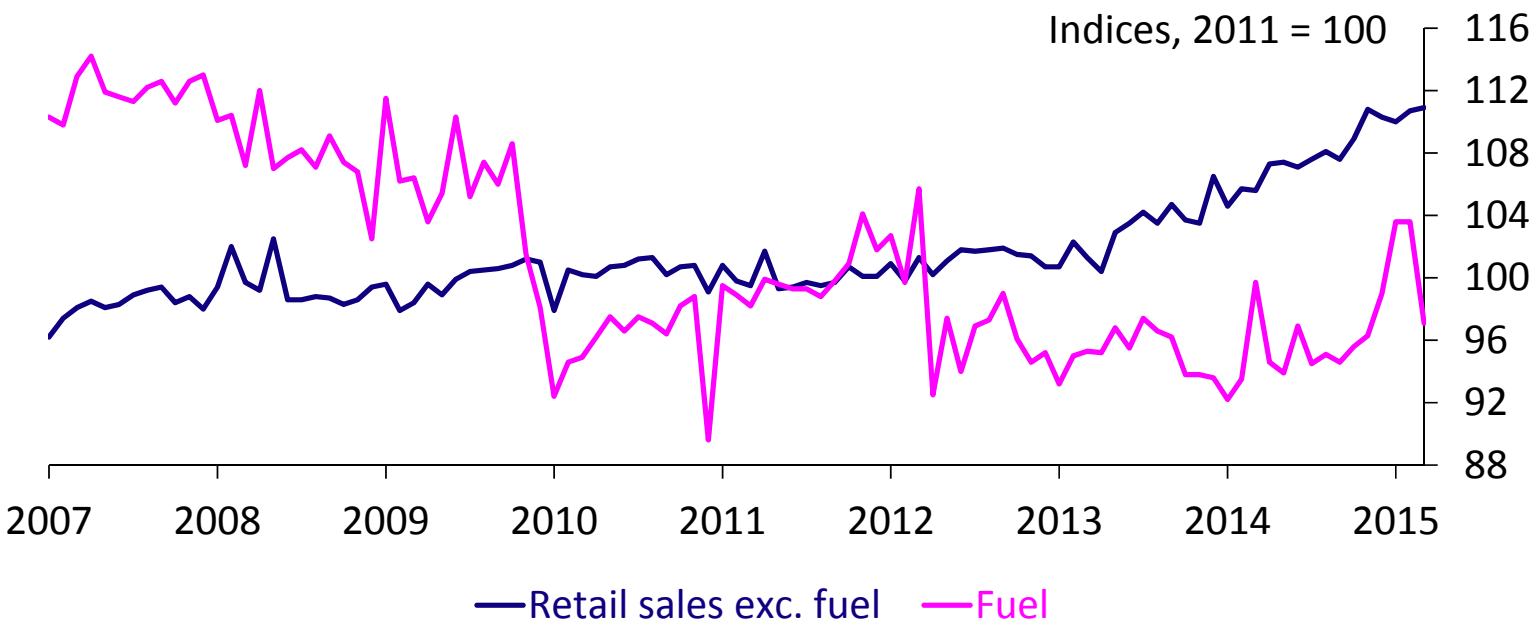
- Q1 was the first quarter in over two years that GDP growth was not above the prediction of our international nowcasting model. For more on the international model, .

Extraction investment



- It is not implausible for extraction investment to have detracted 0.1pp from quarterly GDP growth

Retail sales

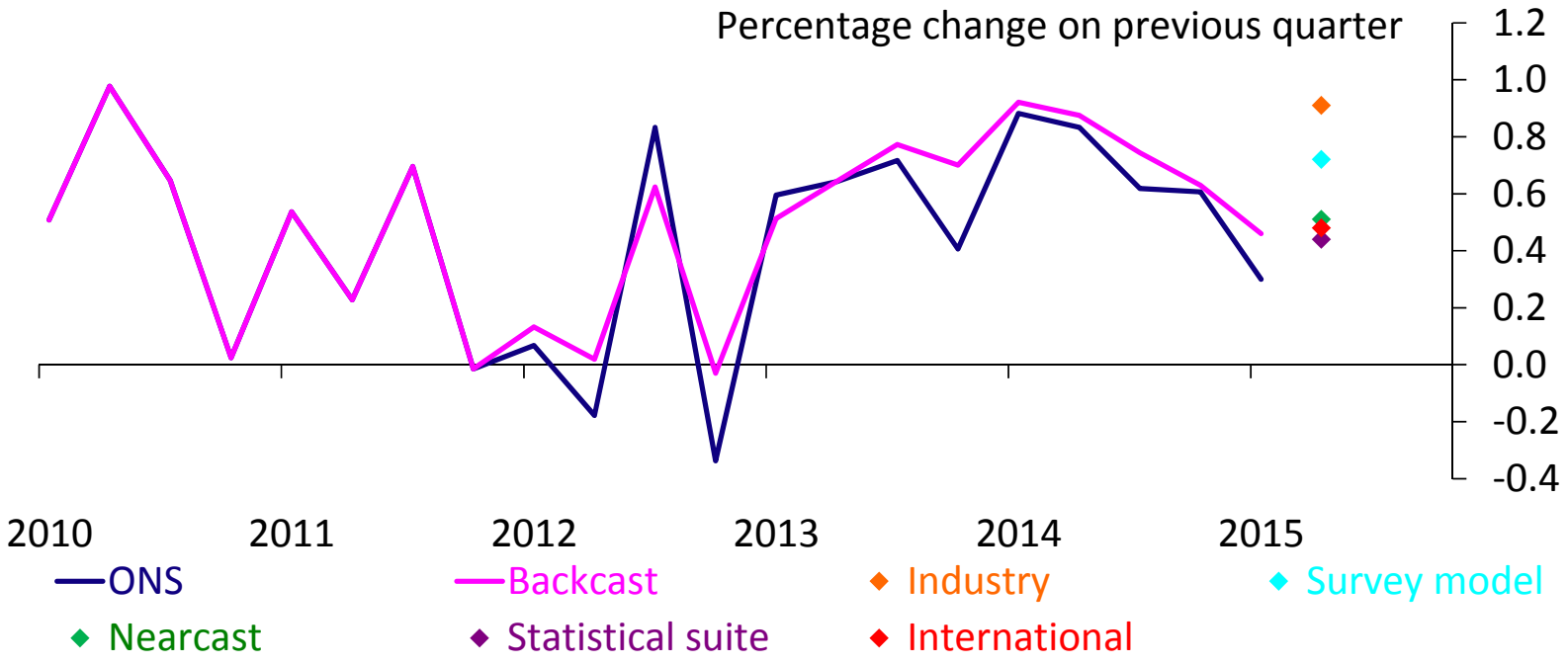


- Fuel sales fell back in March, but growth in other components remained firm. For more on the link between retail sales and consumption, .

How should we interpret Q1 GDP weakness?

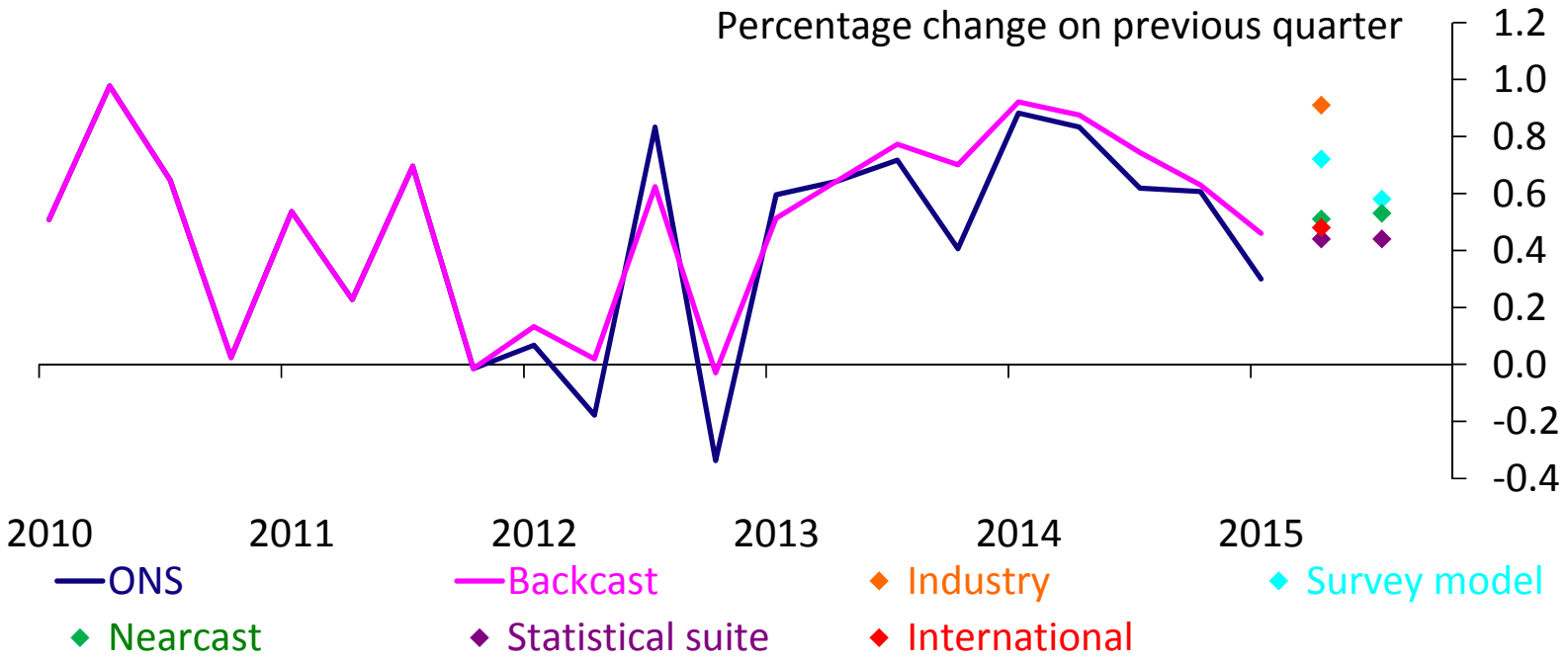
Explanation	Implications for future growth	Assessment
1. It will be revised away	None	Q1 likely to be revised up to 0.5%
2. Data volatility	None or stronger near term	Could easily account for 0.1pp
3. Temporary weakness	None or stronger near term	Little evidence (unlike in US)
4. Persistent weakness	Lower 2015	Little evidence, but an important risk

Model-based estimates



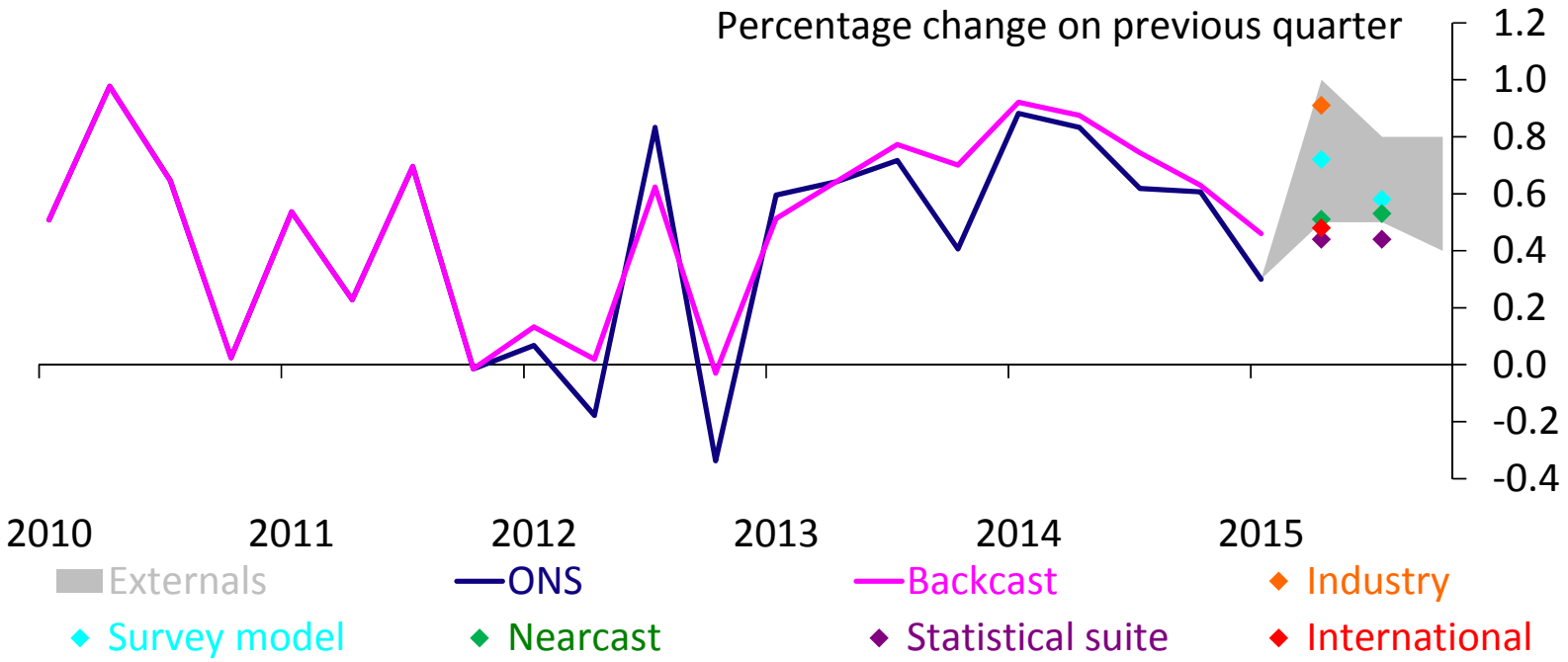
- Model predictions for Q2 range from 0.4-0.9%

Model-based estimates



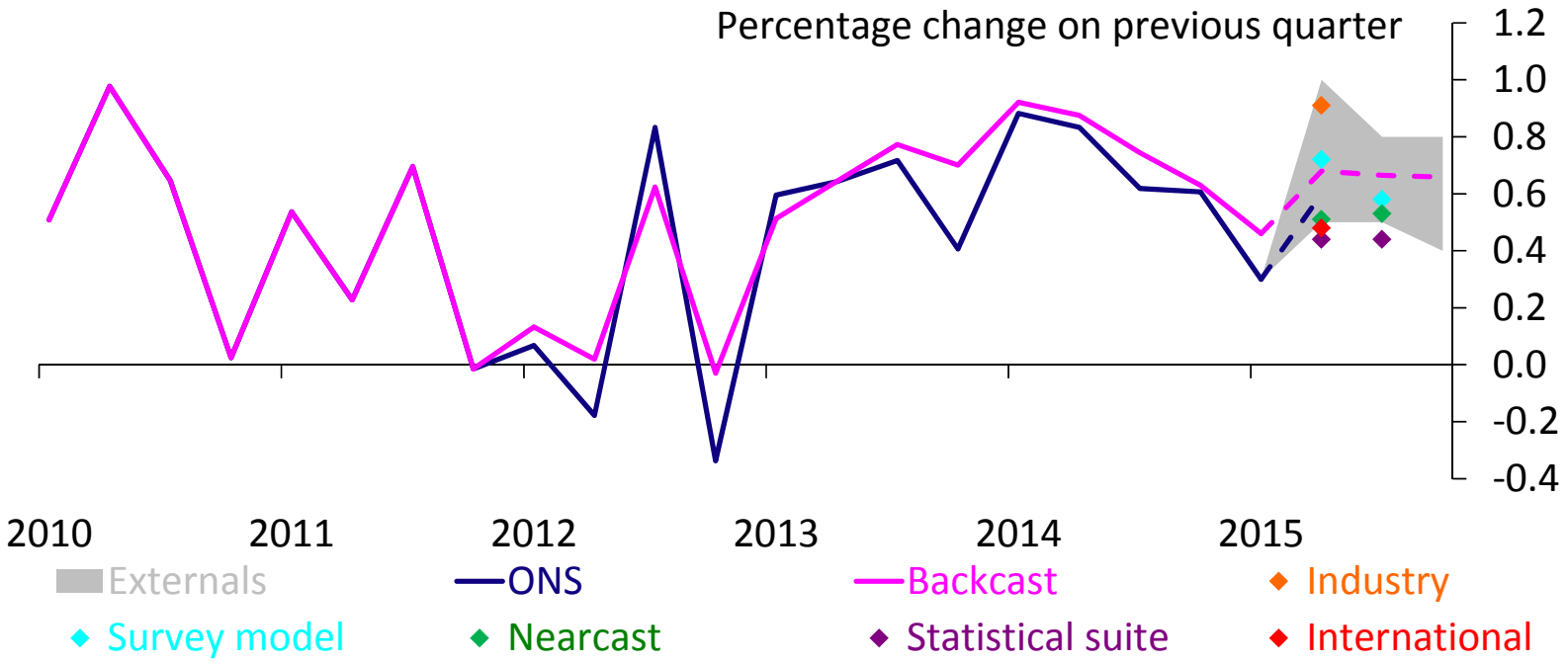
- Model predictions for Q3 range from 0.4-0.6%

Externals' forecasts



- For more on the externals' forecasts,

M15 *Draft* forecast



- Draft forecast is for 0.6% (initial), 0.7% (mature) in Q2 , and 0.7% (mature) in Q3 and Q4

Key messages

- GDP growth in Q1 expected to be revised up to 0.5%, from 0.3%
- Our modal view is that the remaining weakness relative to expectation does not contain a signal for growth in Q2
- We expect Q2 growth of 0.6% (initial), 0.7% (mature)
- But we view the risks to be to the downside

GDP tables

Excluding revisions:

Current quarterly GDP growth & initial release projections

	Headline GDP#		GDP**^	
	Now	Feb IR	Now	Feb IR
2013 Q1	0.6	0.6	0.7	0.7
Q2	0.6	0.6	0.5	0.5
Q3	0.4	0.7	0.5	0.5
Q4	0.4	0.4	0.5	0.5
2014 Q1	0.9	0.6	0.7	0.5
Q2	0.8	0.8	0.8	0.8
Q3	0.6	0.7	0.6	0.7
Q4	0.6	0.5	0.8	0.7
2015 Q1	0.3	0.6	0.5	0.6
Q2	0.6	N/A	0.6	N/A
Q3	N/A	N/A	N/A	N/A

market prices
^ basic prices

Including revisions:

Final quarterly GDP growth estimates & projections

	Headline GDP#		GDP**^	
	Now	Feb IR	Now	Feb IR
2013 Q1	0.5	0.5	0.6	0.6
Q2	0.6	0.6	0.5	0.5
Q3	0.7	0.8	0.8	0.5
Q4	0.7	0.6	0.8	0.7
2014 Q1	0.9	0.8	0.8	0.7
Q2	0.9	0.9	0.9	0.9
Q3	0.7	0.8	0.8	0.9
Q4	0.6	0.6	0.8	0.8
2015 Q1	0.5	0.7	0.7	0.7
Q2	0.7	0.7	0.7	N/A
Q3	N/A	N/A	N/A	N/A

END

5: Costs and Prices

Costs and Prices

1 May 2015

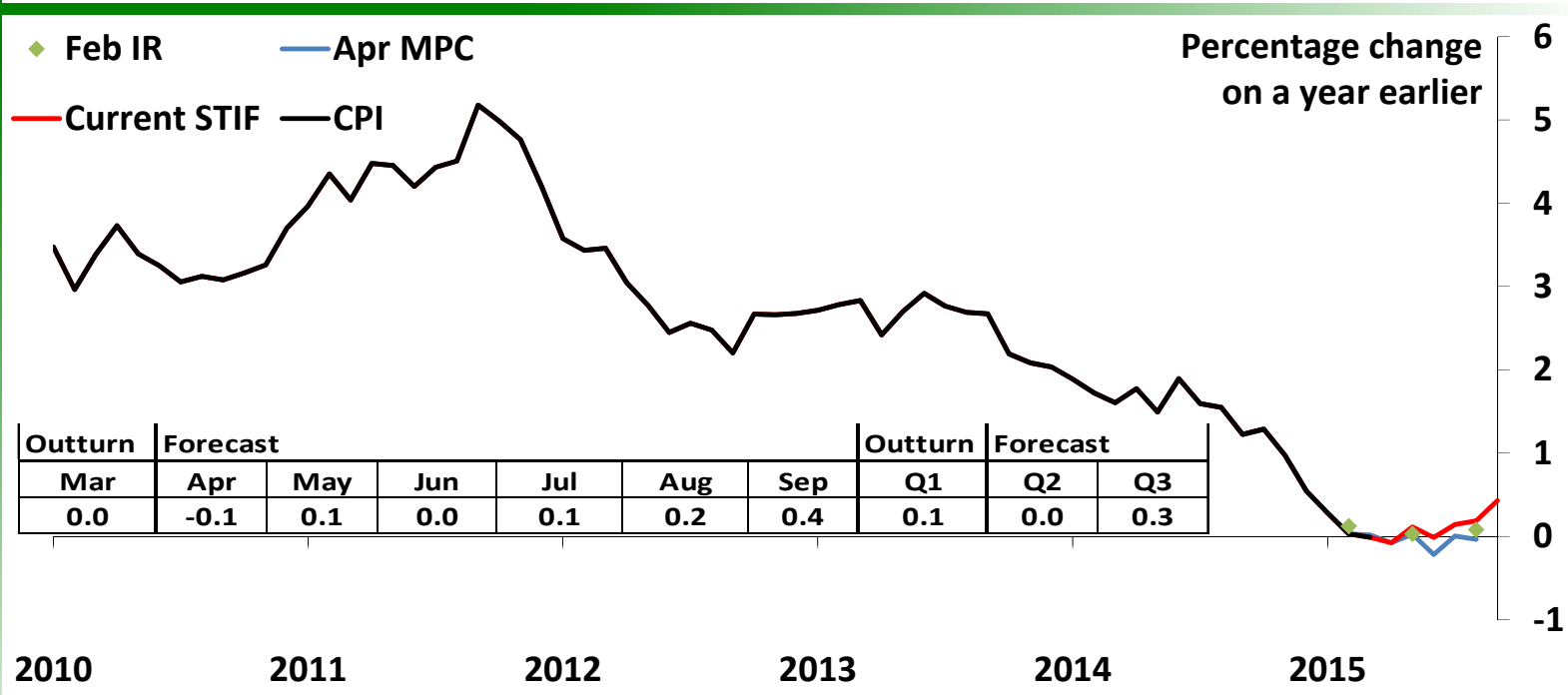
Structural Economic Analysis Division

Outline

- Update on facts for the next open letter
- The unemployment dogleg
- Changes to the near-term pay and productivity projections

Inflation

Short-term inflation forecast



Outturn	Forecast						Outturn	Forecast	
Mar	Apr	May	Jun	Jul	Aug	Sep	Q1	Q2	Q3
0.0	-0.1	0.1	0.0	0.1	0.2	0.4	0.1	0.0	0.3

- **Negative number still expected for April**

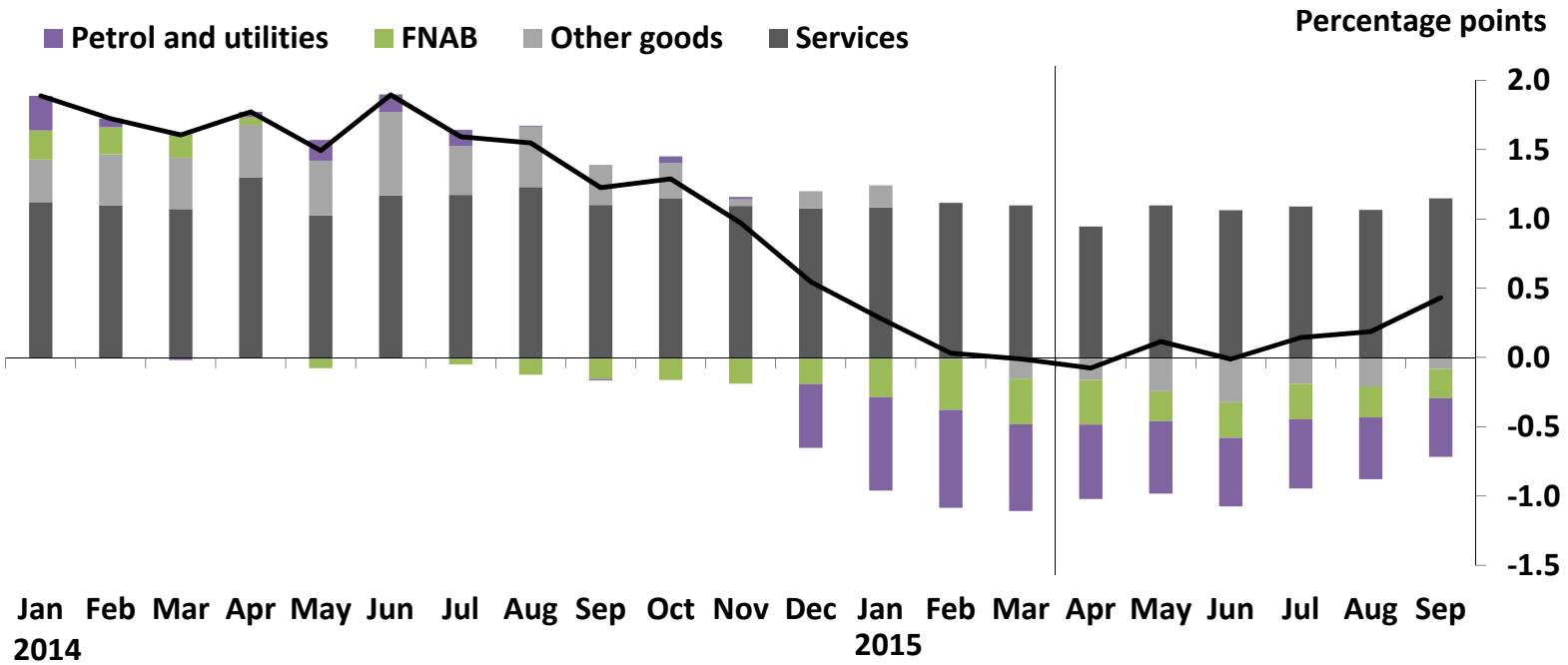
Contributions to CPI inflation relative to historical averages

Percentage points	1997-2007 average	December 2014	Difference from average	March 2015	Difference from average
Energy, food and other goods[(a)]	0.4	-0.5	-0.9	-1.1	-1.5
Services	1.6	1.1	-0.5	1.1	-0.5
Total[(a) (b)]	2.0	0.5	-1.4	0.0	-2.0

(a) Adjusted for the close to 0.4 percentage point downward bias from clothing that existed until 2010.
(b) Totals may not sum exactly due to rounding.

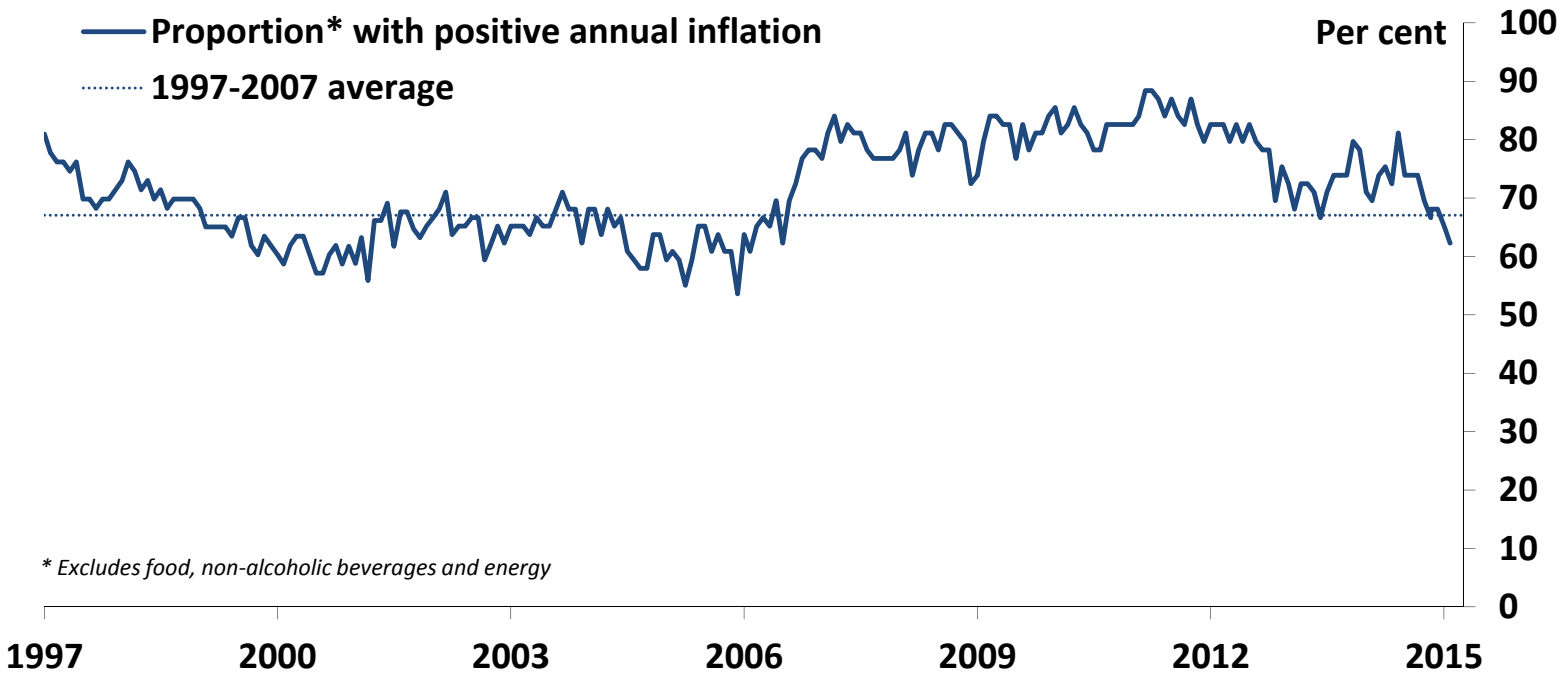
- **Three-quarters of the deviation from target is now accounted for by food, energy and other goods**

Contributions to CPI inflation



- **The drag from food and energy is expected to ease a little over the next few months**

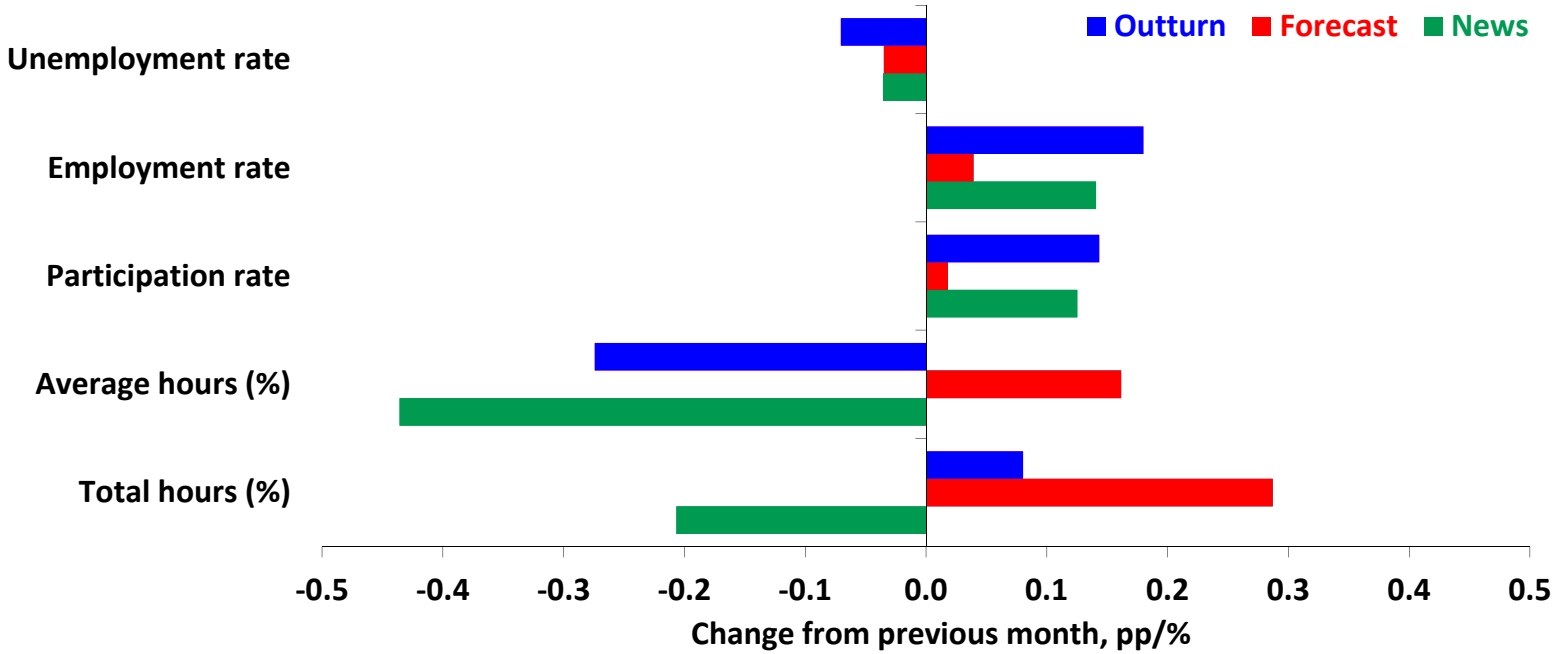
Diffusion index (annual inflation rates)



- **Proportion of CPI components with positive annual inflation rates has fallen over the past three months**

Labour market quantities

News in labour market quantities

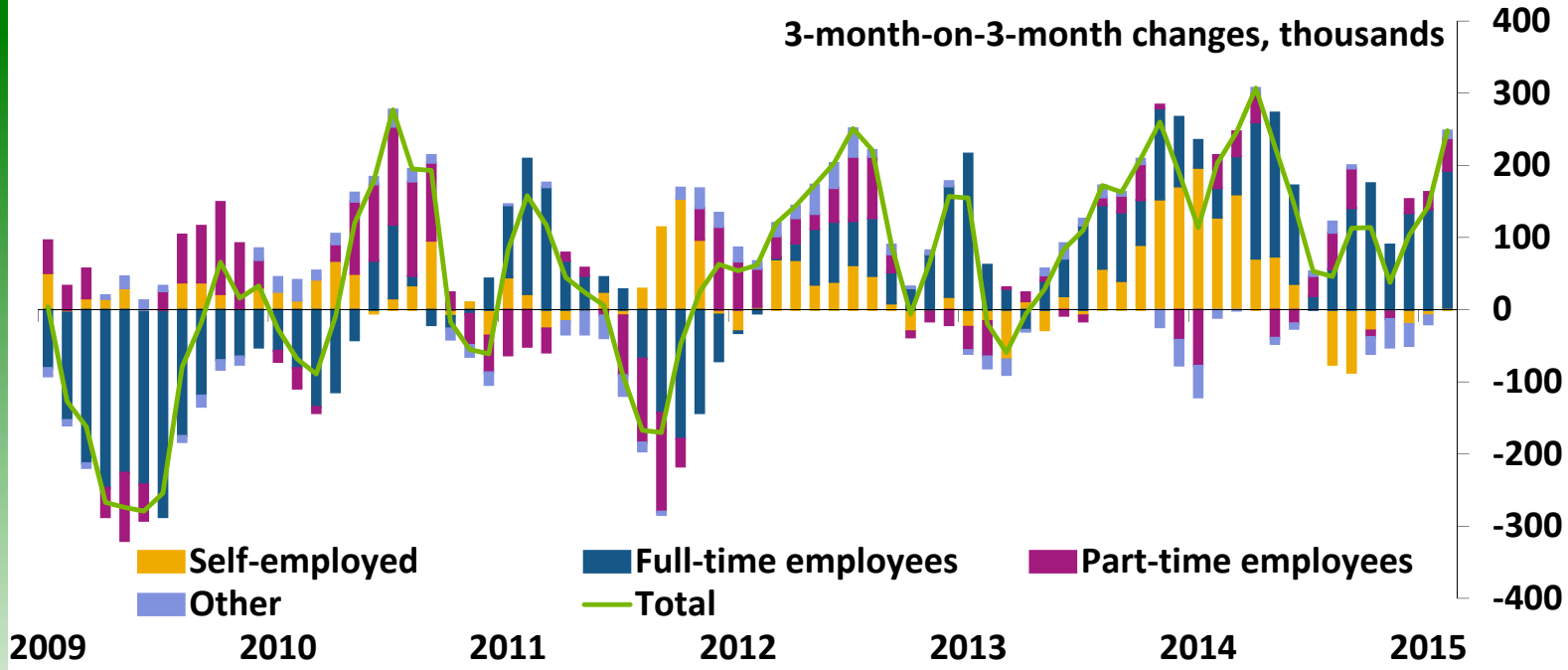


- **Participation stronger than expected in Feb but average hours weaker**

Output gap contributions

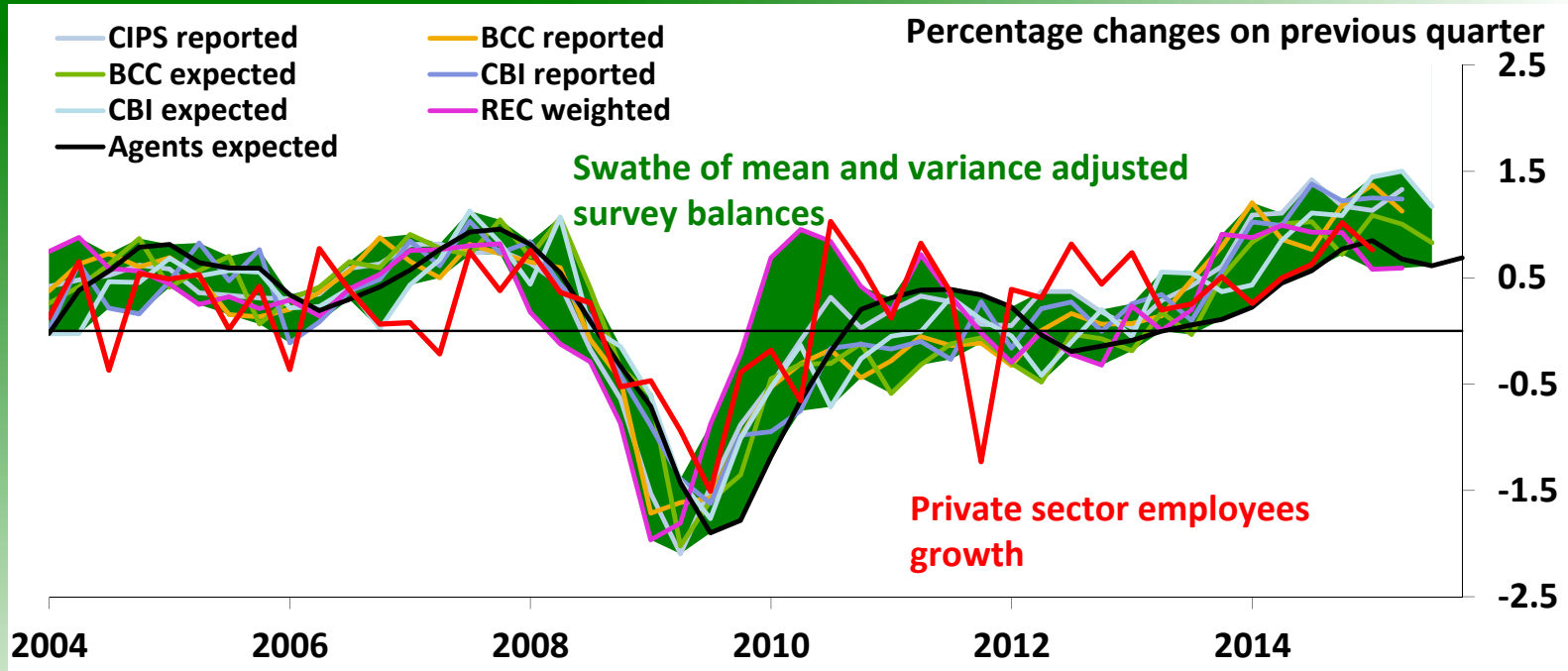
	Feb IR		May BMK		May draft	
	Q1	Q2	Q1	Q2	Q1	Q2
Unemployment	-0.2	-0.2	-0.2	-0.1	-0.2	-0.1
Average hours	0.0	0.0	-0.3	-0.2	-0.7	-0.4
Participation	-0.6	-0.5	-0.2	-0.1	-0.1	-0.1
CAPU	0.3	0.2	0.2	0.2	0.0	0.0
Total	**-0.6**	**-0.5**	**-0.4**	**-0.3**	**-0.9**	**-0.5**

Contributions to employment growth



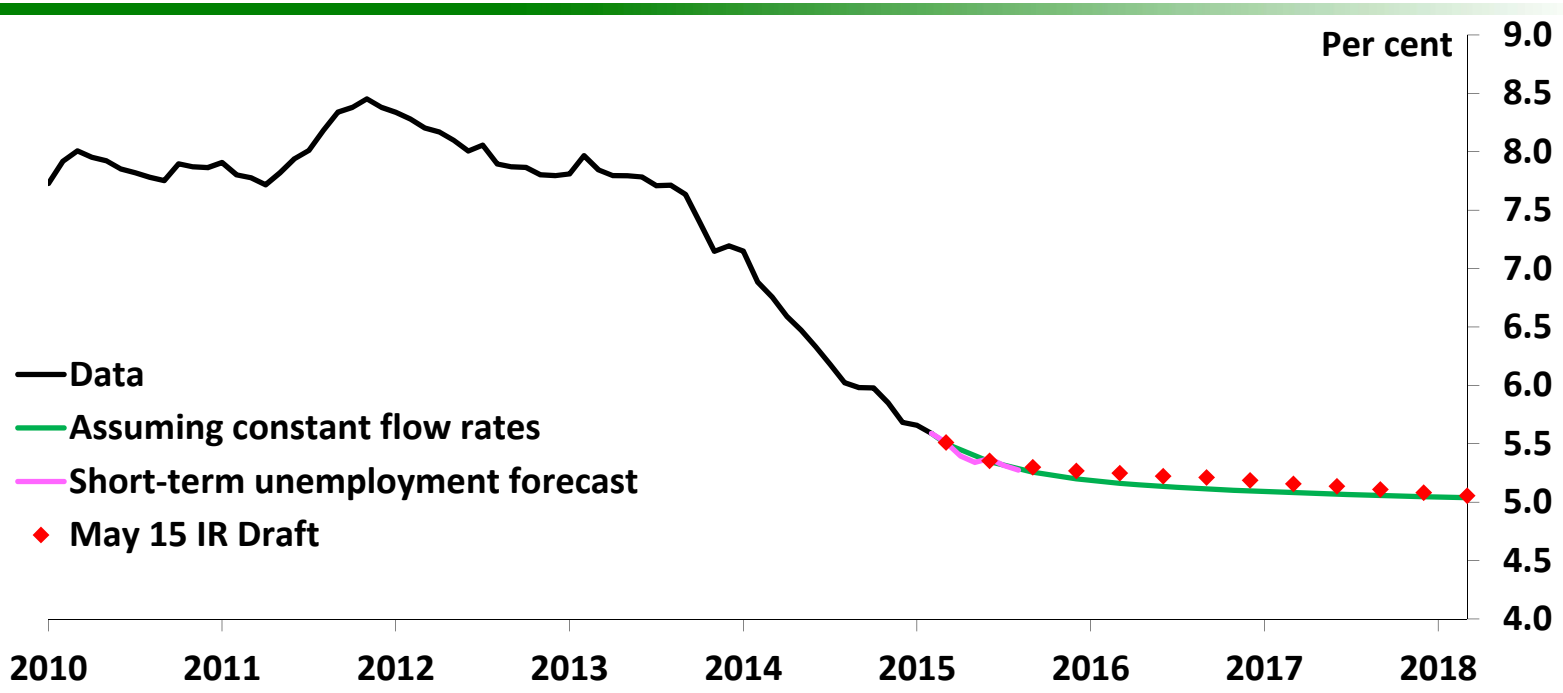
- **Strong employment growth concentrated in full-time employees**

Employment swathe



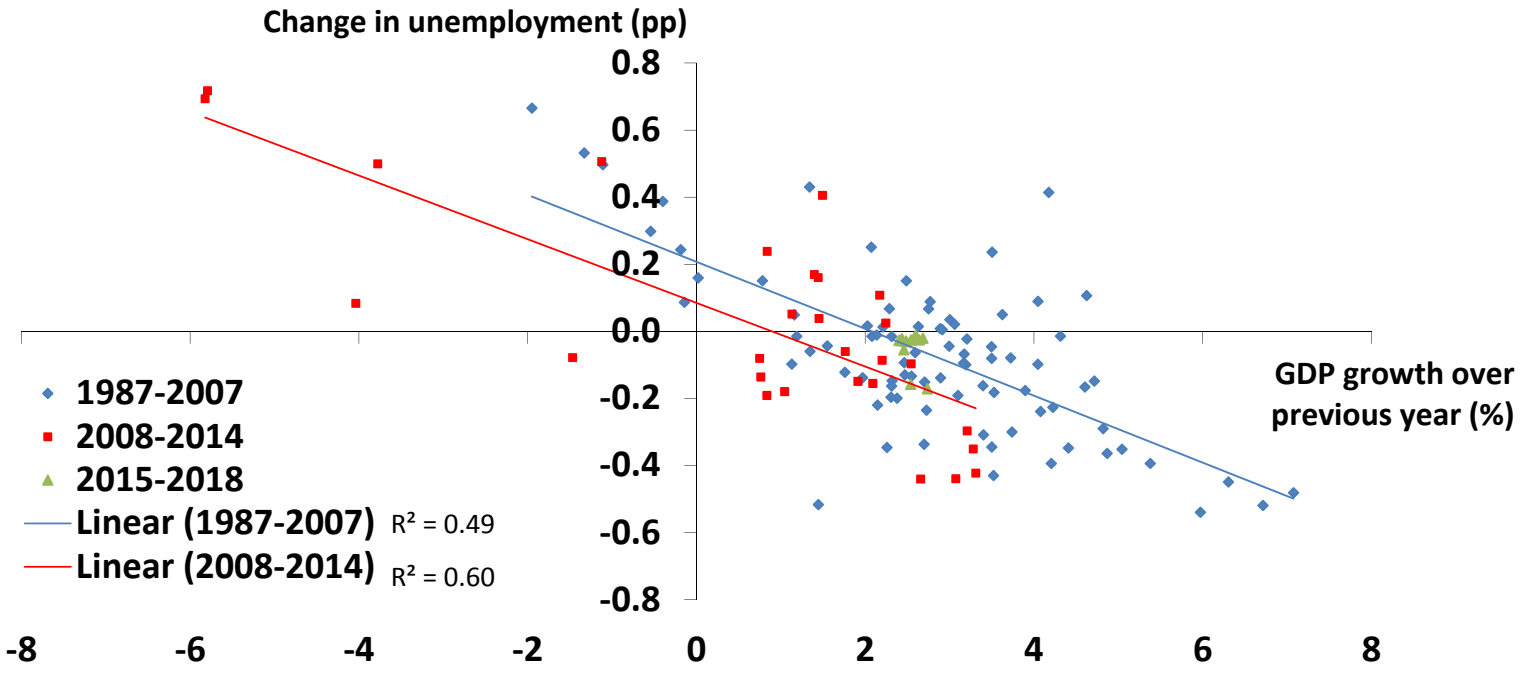
- **Employment surveys remain robust**

Unemployment forecasts



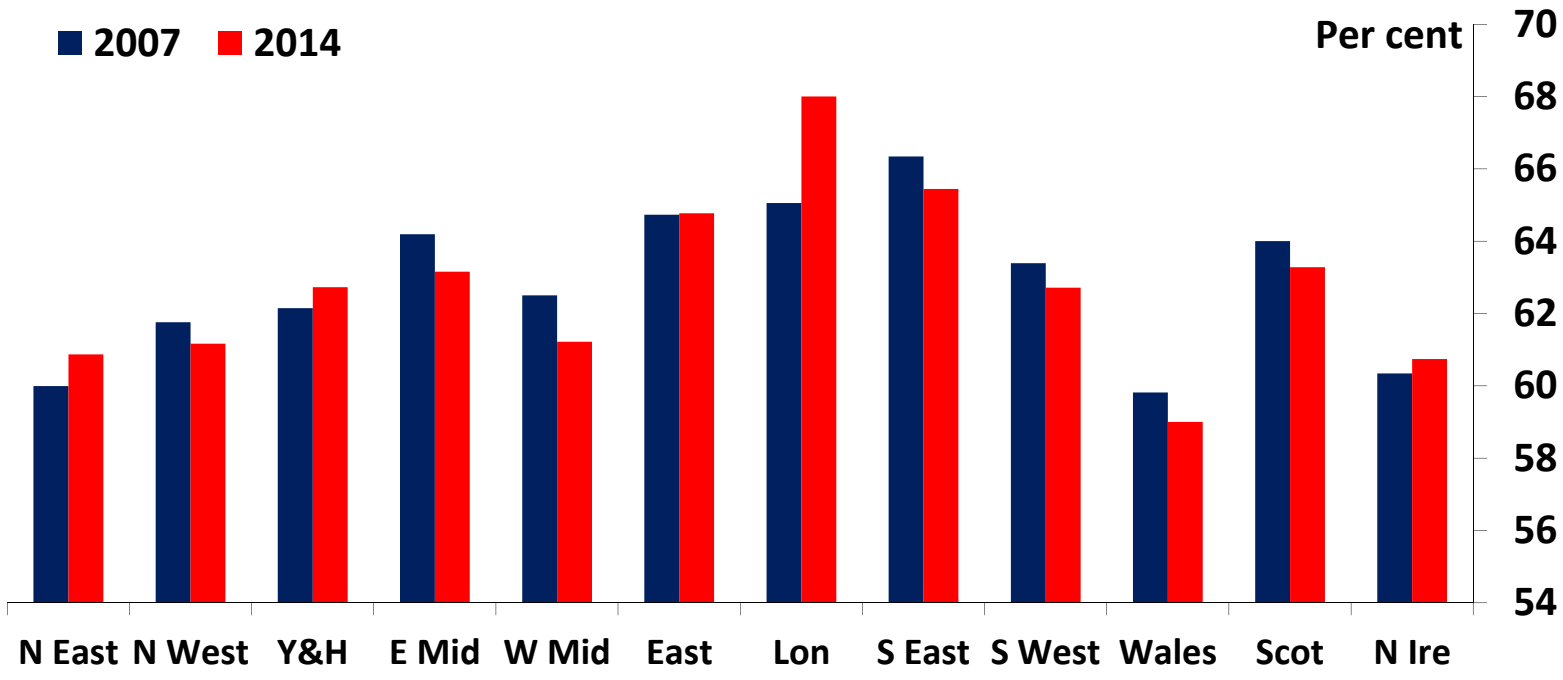
- **Congestion effects should slow the fall in unemployment but risk that it will continue to fall sharply**

Okun's law



- **Weak productivity growth has shifted the relationship between GDP growth and the change in unemployment**

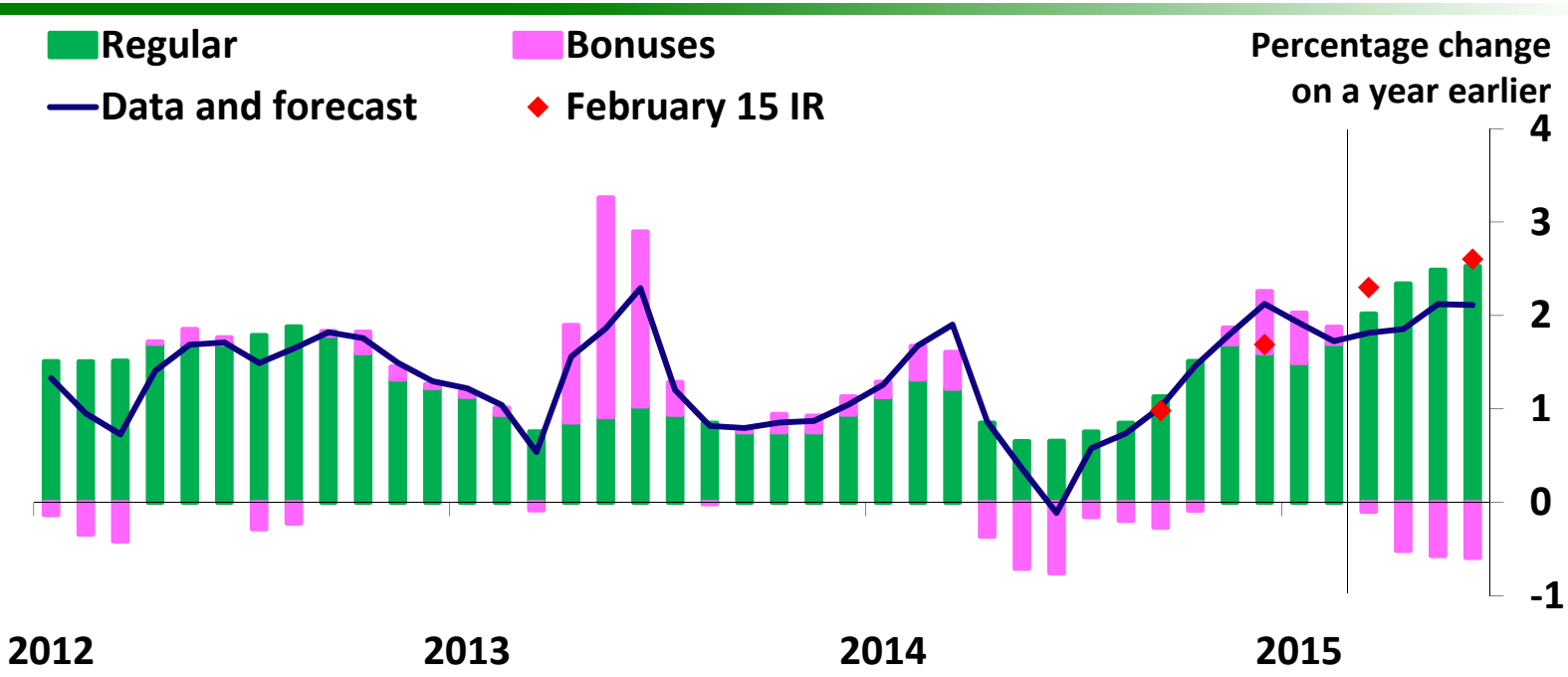
Regional participation rates



- Regional differences in participation rates likely to be structural rather than cyclical

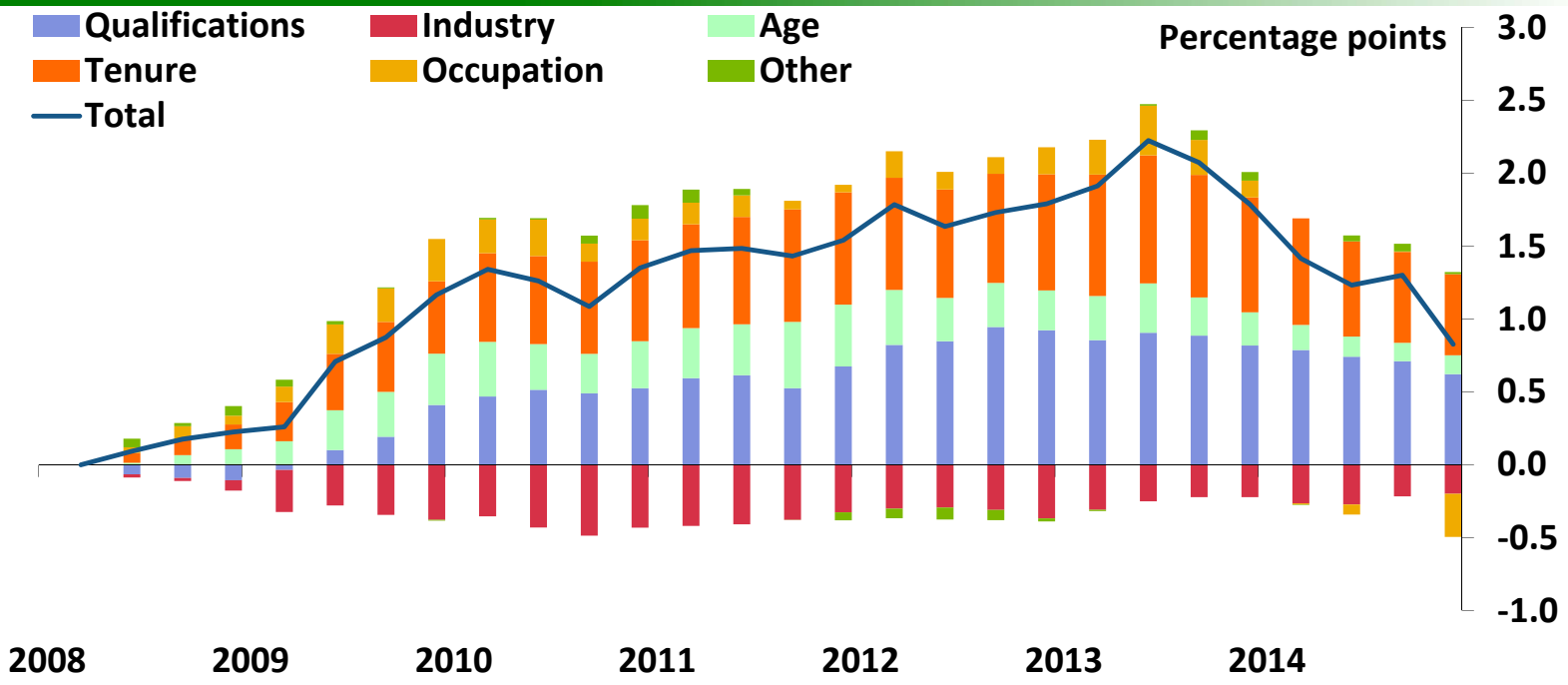
Wages

Whole economy earnings growth



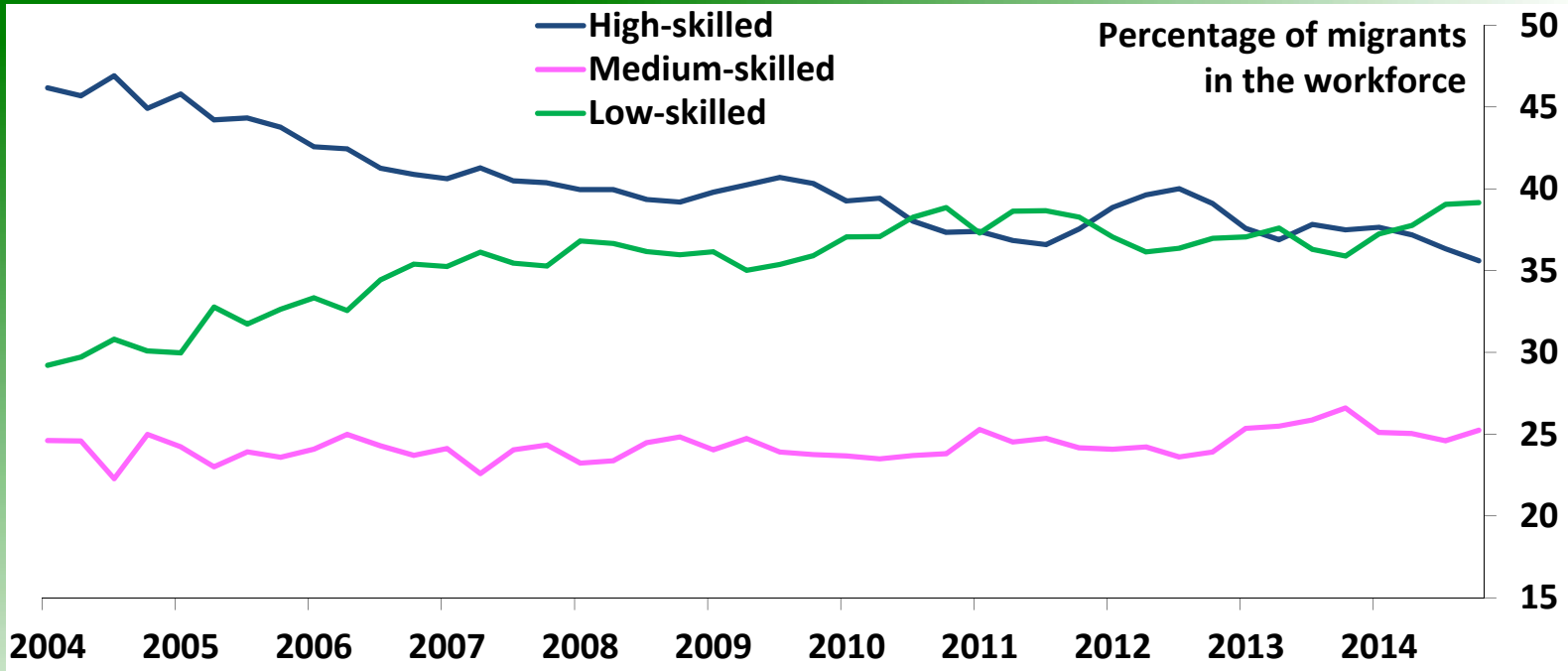
- Near-term pay growth revised down following Key Issues meetings (2015 Q4: 2¼% vs 3½% in Feb IR)

Wage compositional effects – cumulative change since 2008Q1 (relative to normal)



- Around ¾pp of cyclical compositional effects could still be left to unwind.

Employment of migrants by skill level



- **The proportion of migrants who are in low-skilled occupations has increased.**

Costs & prices-specific manifesto pledges

- **Tighter controls on energy prices and rents (Labour)**
- **Cuts in tuition fees (Labour)**
- **Minimum alcohol pricing (Conservatives)**
- **Increases in NMW (Various)**
- **Promotion of Living Wage (Various)**
- **Changes to zero hours contracts (Labour)**
- **Changes to labour market incentives from tax and benefit system (Various)**

See more detailed table here

Main messages

- **Food, energy and other goods accounted for around three-quarters of the deviation of inflation from target in March**
- **Congestion effects are likely to slow the decline in unemployment but there is a risk it will fall more sharply than anticipated**
- **We have pushed down the near-term profiles for pay and productivity by around ½%, assuming a more persistent drag from the shift towards low-skilled roles**

THE END

6: Agents' Update

Agents' Update

1 May 2015

Agency for South West England
Inflation Report & Agency Intelligence Division

1

Outline

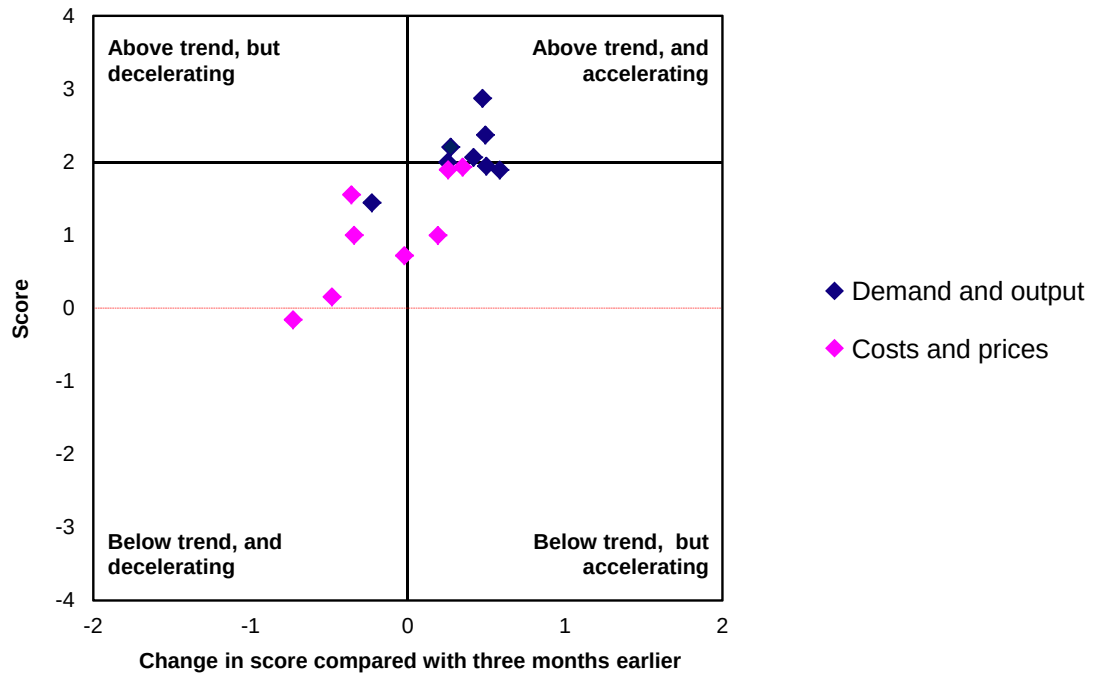
Overview

General Election uncertainties

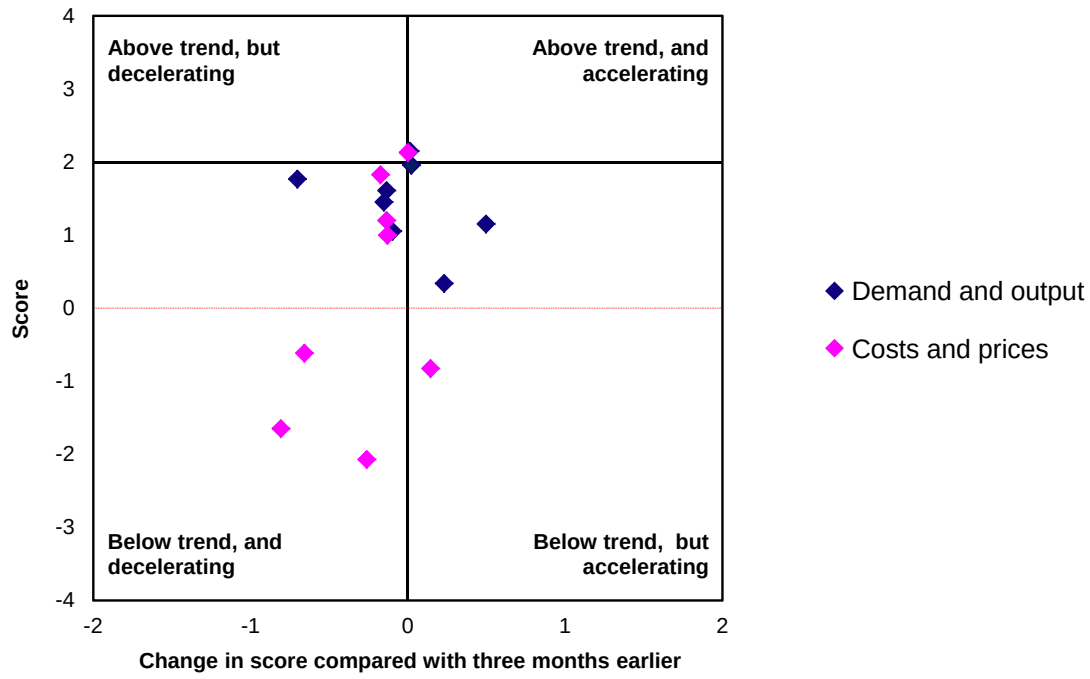
Investment

Labour costs

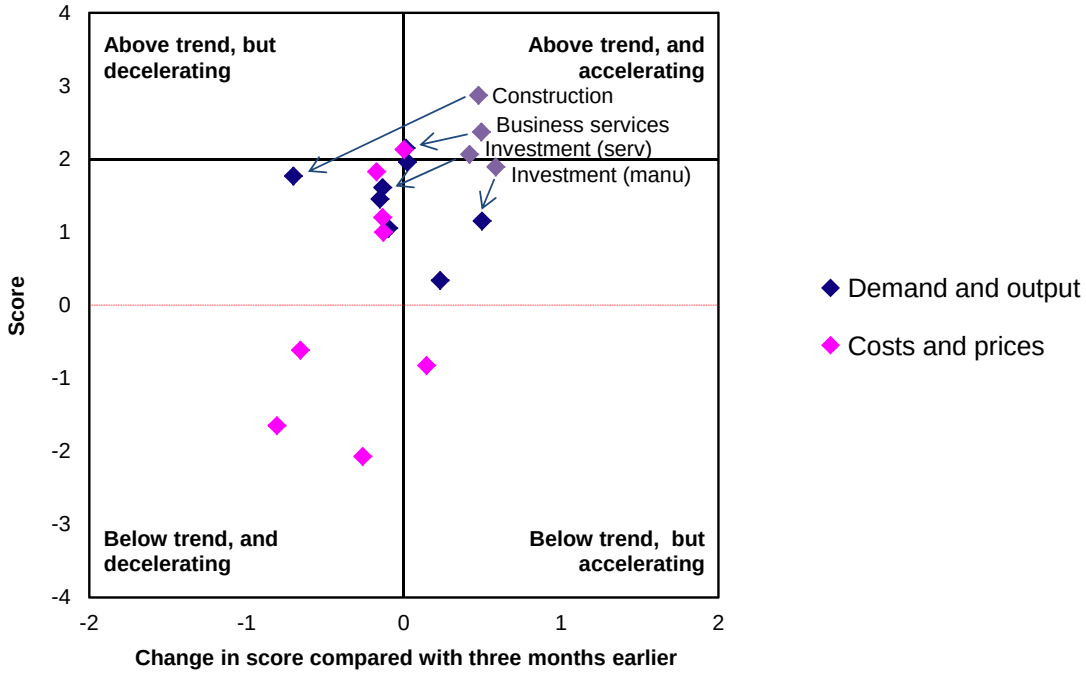
Changes in scores on 3 months earlier – April 2014



Changes in scores on 3 months earlier – April 2015



Changes in scores on 3 months earlier – April 2015



General Election uncertainties

- **Housing**
- **Property construction**
- **Public sector projects**
- **Business services**
- **Investment**
  - Utilities and Nuclear
  - Education
  - SMEs

Investment intentions (CVS)

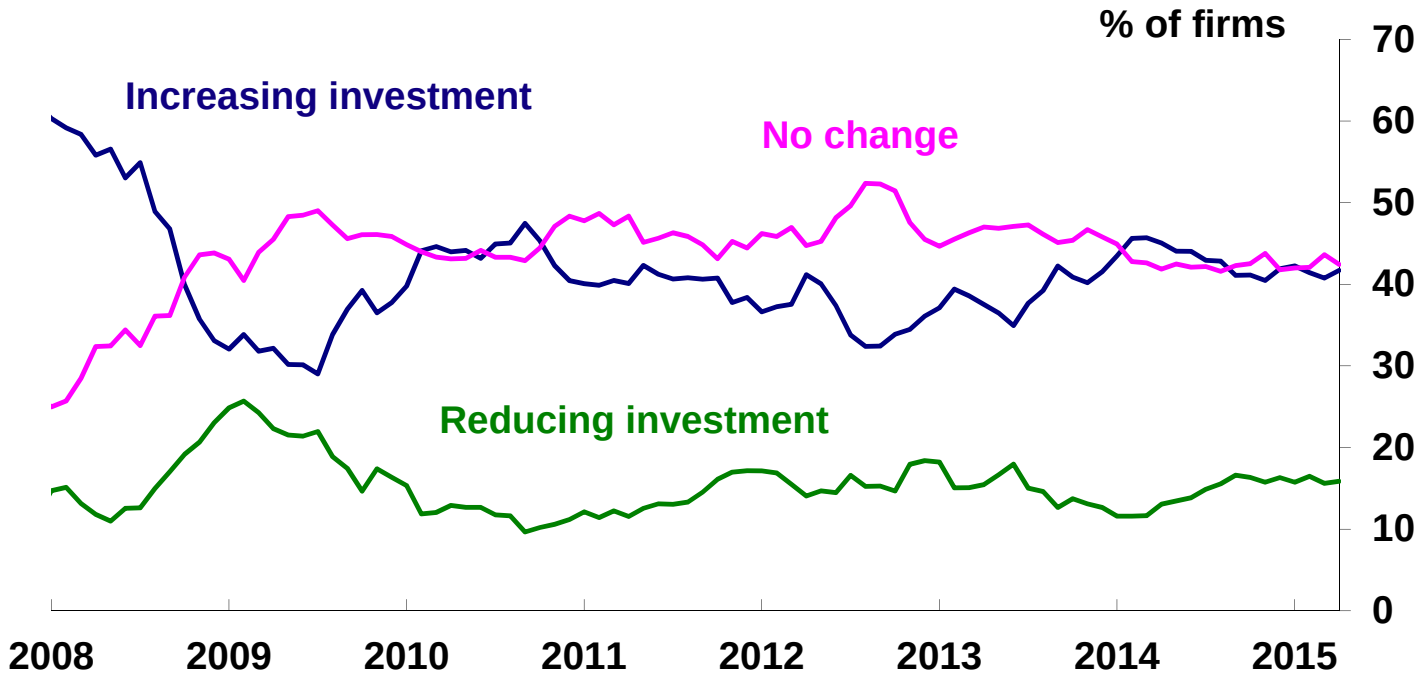


Chart shows three month rolling average percentages of all firms experiencing increasing, no change, and reducing investment based on forward-looking Agents' Company Visit Scores.

Investment intentions (Agents' scores)

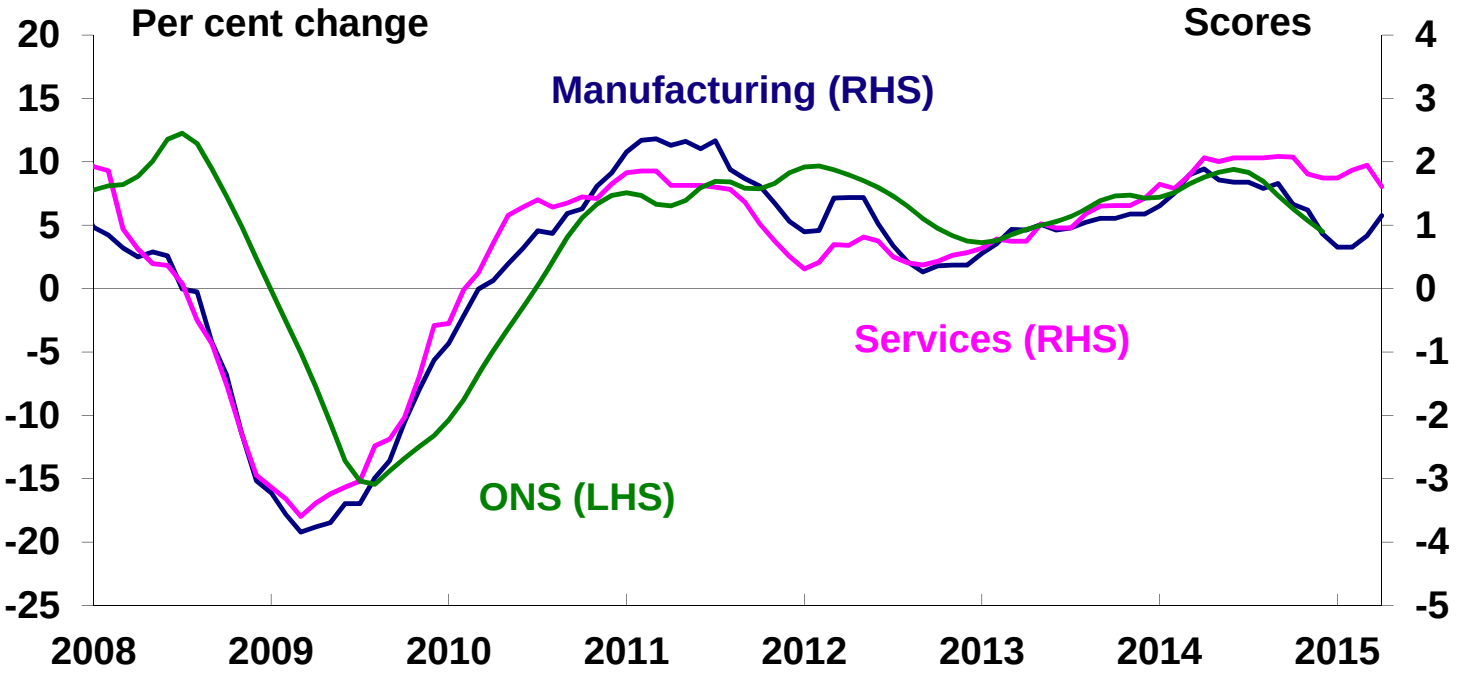


Chart shows average of monthly Agents' Annex scores – over the coming twelve months.
ONS data shows per cent change of investment (whole economy) – past three months compared with the same period a year earlier.

Per capita labour costs

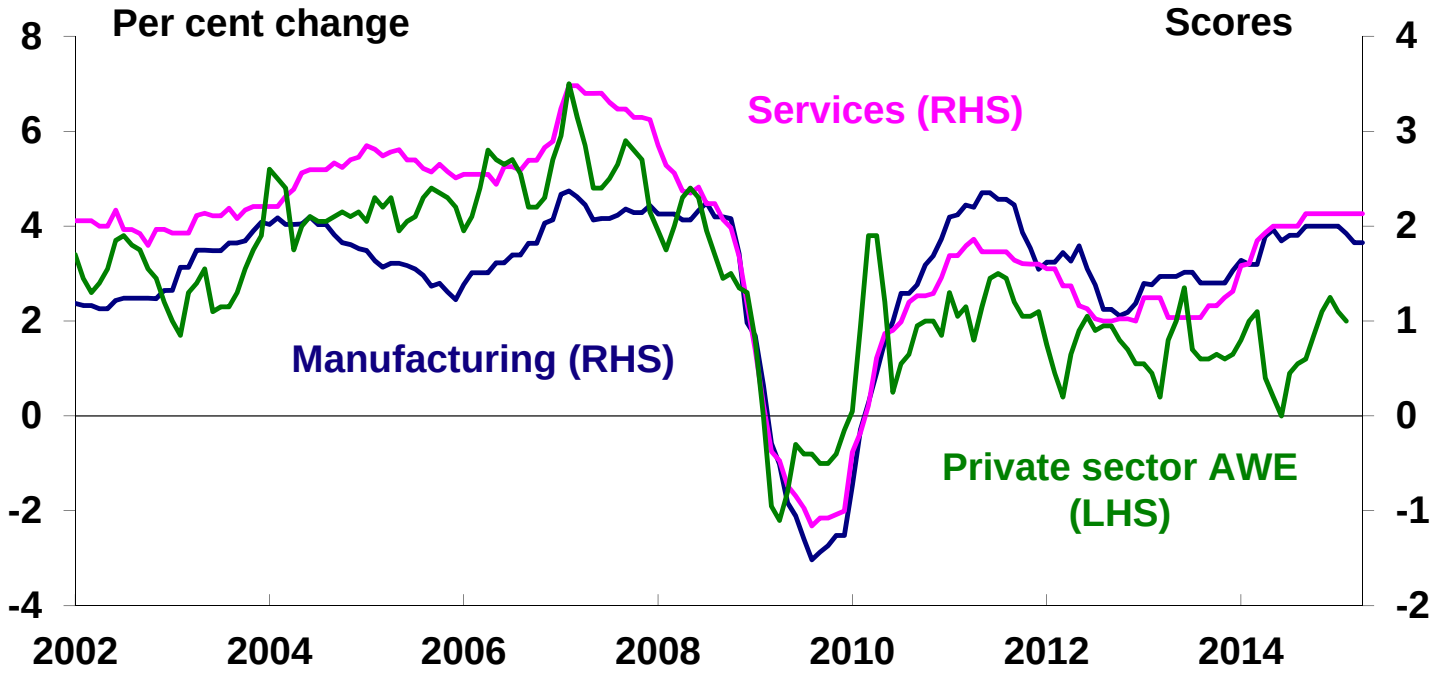
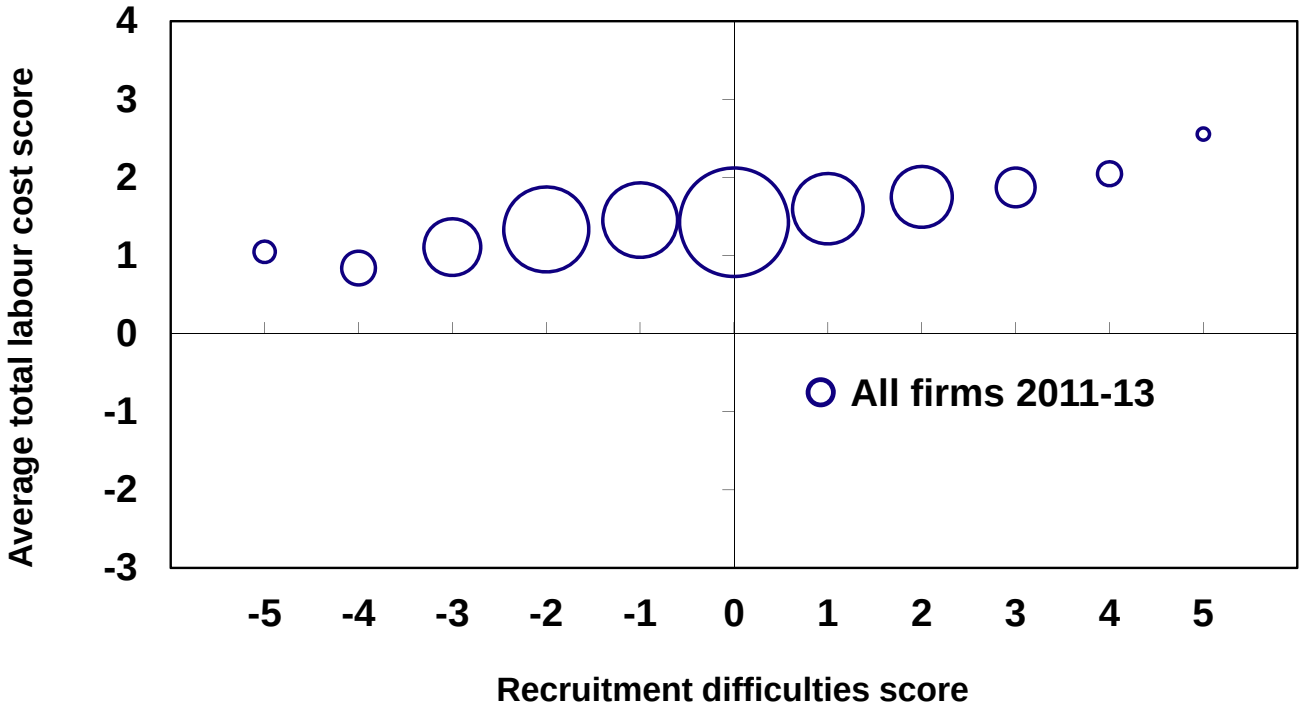
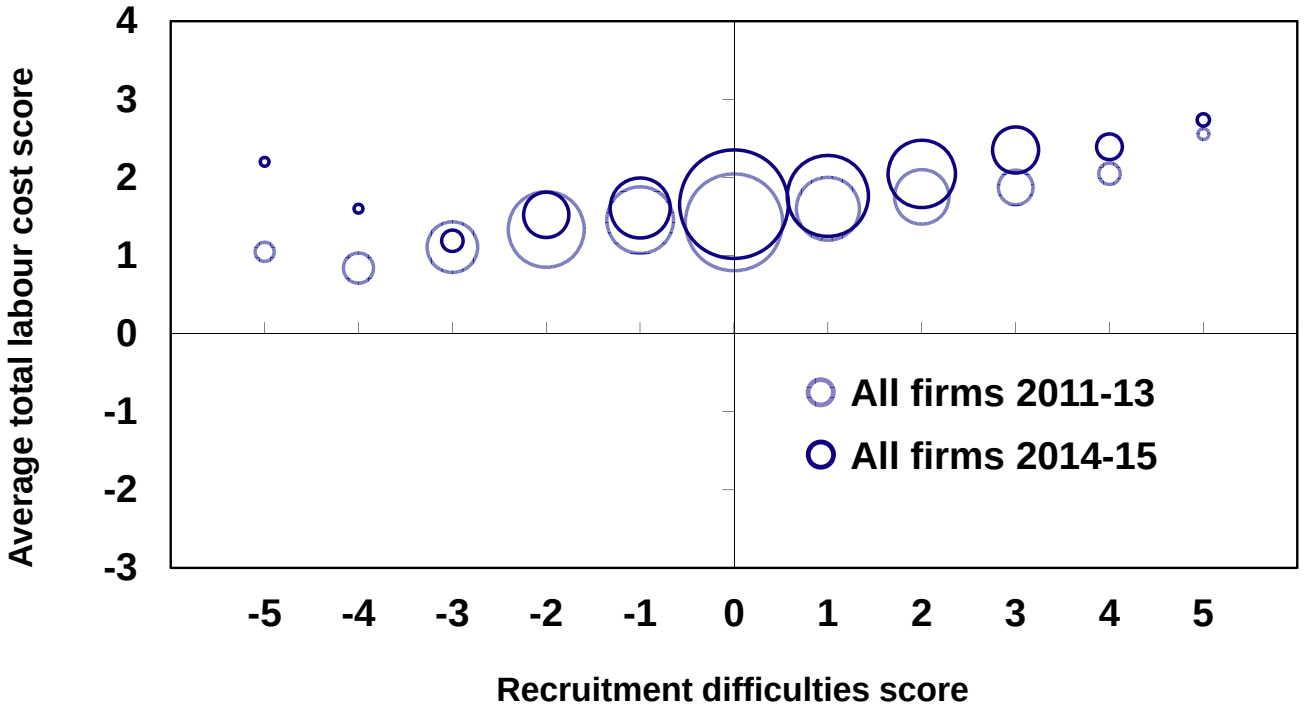


Chart shows average of monthly Agents' Annex scores – past three months compared with the same period a year earlier.
ONS data shows per cent change of AWE (private sector) – past three months compared with the same period a year earlier.
for guidance on interpreting the Agents' pay scores

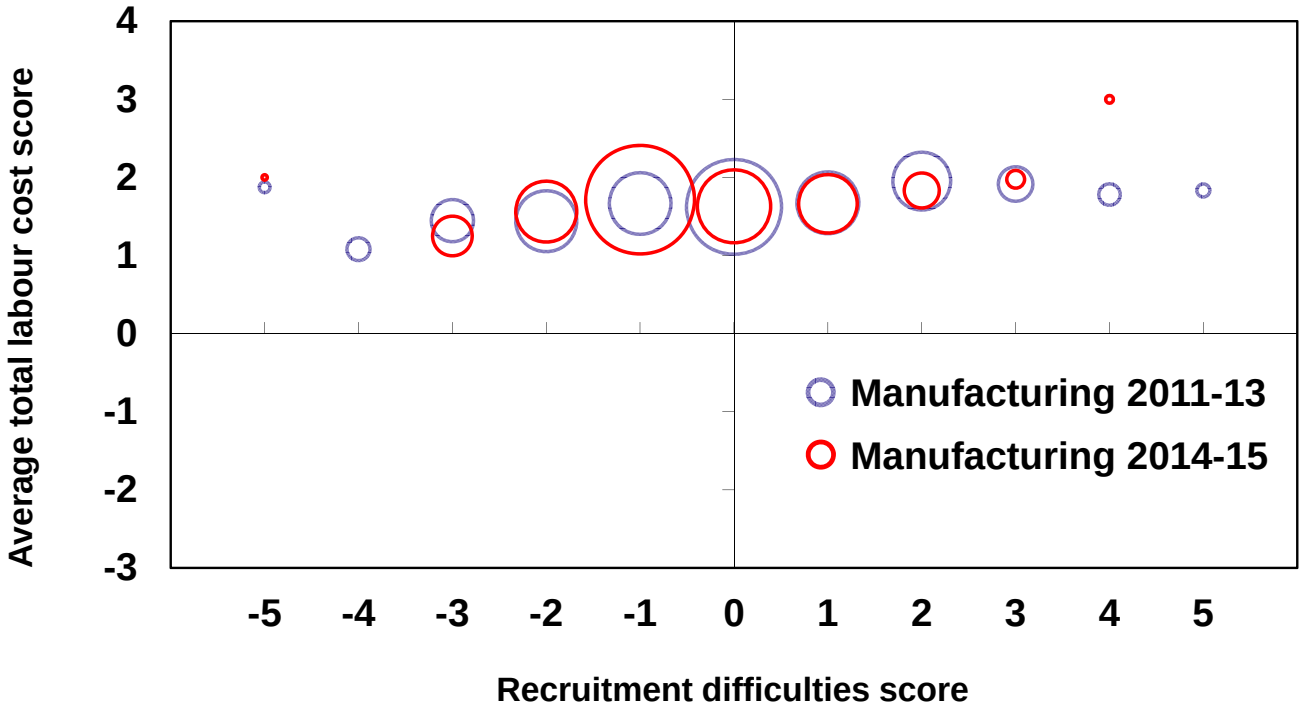
Recruitment difficulties and per capita labour costs



Recruitment difficulties and per capita labour costs



Recruitment difficulties and per capita labour costs



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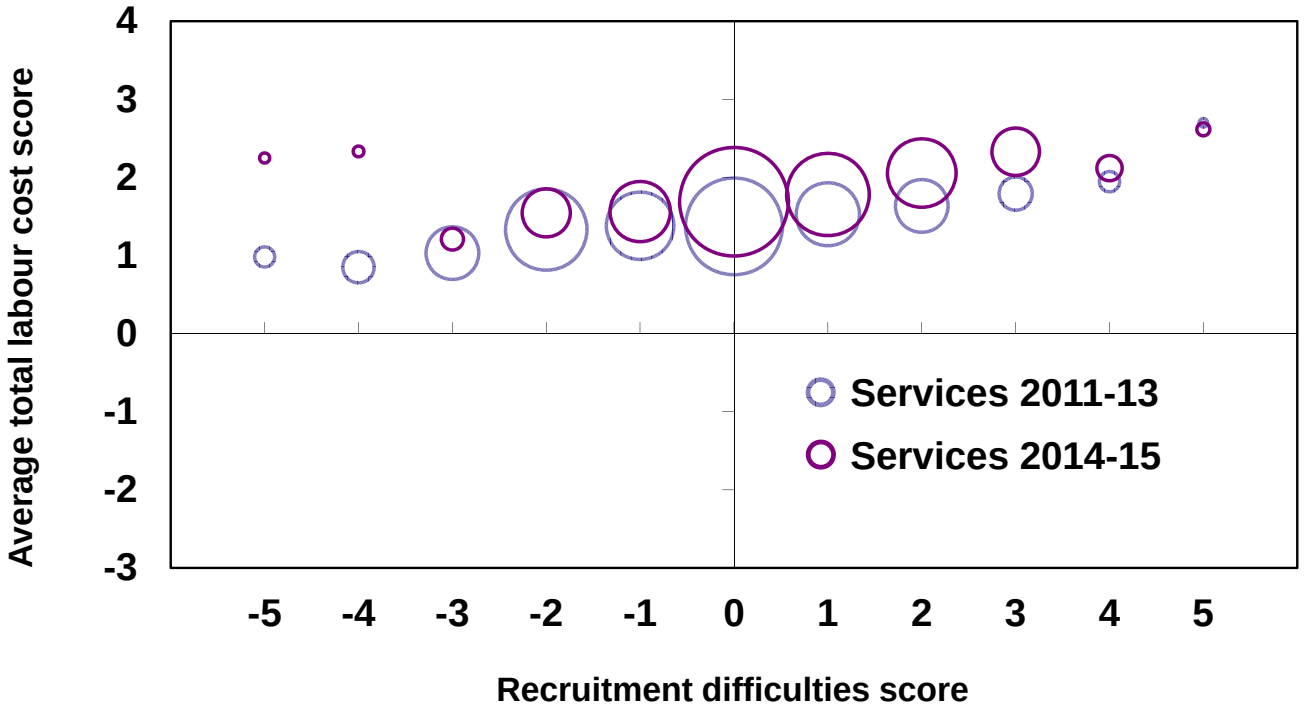
Recruitment difficulties and per capita labour costs



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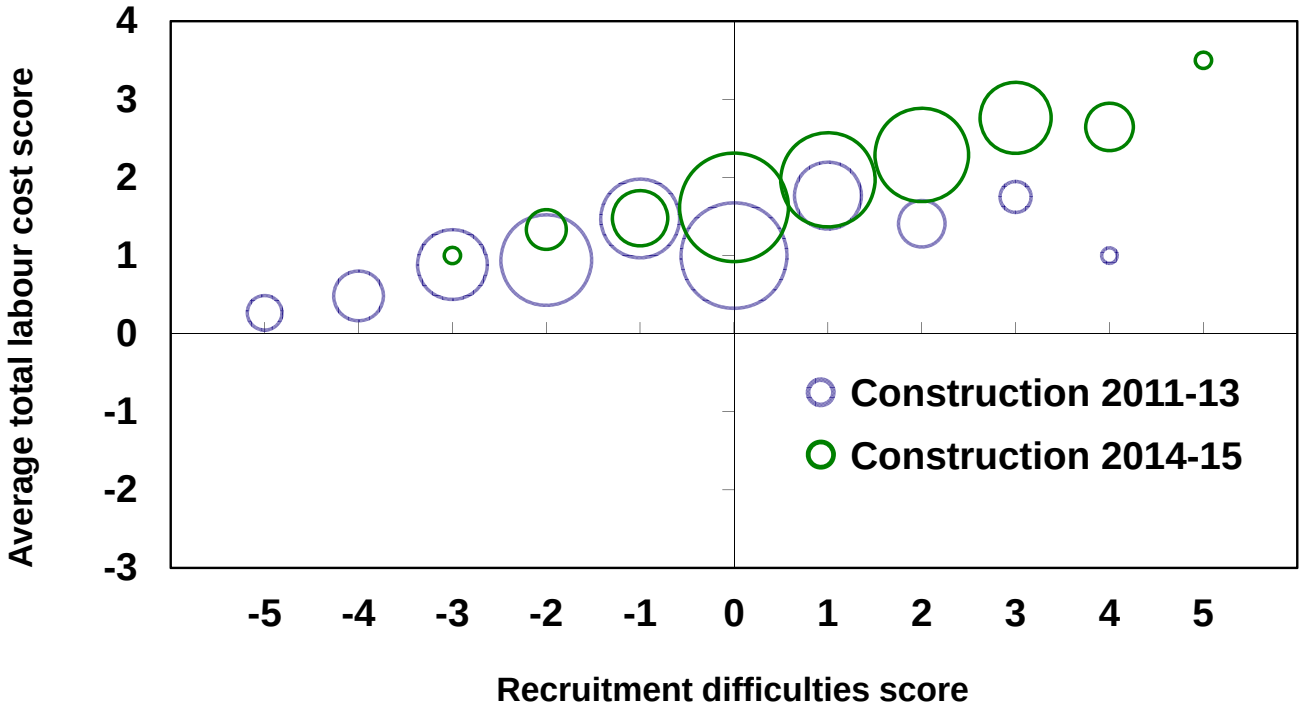
Recruitment difficulties and per capita labour costs



Pressures on labour costs growth

Upward

Recruitment difficulties

Above-inflation increase in Minimum Wage

Spread of Living Wage

Downward

Low inflation

Exchange rate pressure on margins

Pay freezes in oil & gas sector

Evolution of auto-enrolment

Summary

- Slowing in activity and weakening in inflation
- Election uncertainties apparent but dispersed
- Investment growth holding up reasonably well
- Upward pressure on labour costs from recruitment difficulties, but balanced by other factors