Bank of England

Monetary Policy Report

Monetary Policy Committee

November 2024

Monetary policy at the Bank of England

The objectives of monetary policy

The Bank's Monetary Policy Committee (MPC) sets monetary policy to keep inflation low and stable, which supports growth and jobs. Subject to maintaining price stability, the MPC is also required to support the Government's economic policy.

The Government has set the MPC a target for the 12-month increase in the Consumer Prices Index of 2%.

The 2% inflation target is symmetric and applies at all times.

The MPC's **remit** recognises, however, that the actual inflation rate will depart from its target as a result of shocks and disturbances, and that attempts to keep inflation at target in these circumstances may cause undesirable volatility in output. In exceptional circumstances, the appropriate horizon for returning inflation to target can vary. The MPC will communicate how and when it intends to return inflation to the target.

The instruments of monetary policy

The MPC currently uses two main monetary policy tools. First, we set the interest rate that banks and building societies earn on deposits, or 'reserves', placed with the Bank of England – this is Bank Rate. Second, we can buy government and corporate bonds, financed by the issuance of central bank reserves – this is asset purchases or quantitative easing.

The Monetary Policy Report

The MPC is committed to clear, transparent communication. The Monetary Policy Report (MPR) is a key part of that. It allows the MPC to share its thinking and explain the reasons for its decisions.

The Report is produced quarterly by Bank staff under the guidance of the members of the MPC.

This Report has been prepared and published by the Bank of England in accordance with section 18 of the Bank of England Act 1998.

The Monetary Policy Committee

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- Sarah Breeden
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- Clare Lombardelli
- Catherine L Mann
- Huw Pill
- Dave Ramsden
- Alan Taylor

PowerPoint™ versions of the Monetary Policy Report charts and Excel spreadsheets of the data underlying most of them are available at **http://www.bankofengland.co.uk/monetary-policy-report/2024/november-2024**.

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Monetary Policy Summary

The Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. The MPC adopts a medium-term and forward-looking approach to determine the monetary stance required to achieve the inflation target sustainably.

At its meeting ending on 6 November 2024, the MPC voted by a majority of 8–1 to reduce Bank Rate by 0.25 percentage points, to 4.75%. One member preferred to maintain Bank Rate at 5%.

There has been continued progress in disinflation, particularly as previous external shocks have abated, although remaining domestic inflationary pressures are resolving more slowly.

CPI inflation fell to 1.7% in September but is expected to increase to around 2½% by the end of the year as weakness in energy prices falls out of the annual comparison. Services consumer price inflation has declined to 4.9%. Annual private sector regular average weekly earnings growth has continued to fall but remained elevated at 4.8% in the three months to August. Headline GDP growth is expected to fall back to its recent underlying pace of around ¼% per quarter over the second half of this year. The MPC judges that the labour market continues to loosen, although it appears relatively tight by historical standards.

Monetary policy has been guided by the need to squeeze remaining inflationary pressures out of the economy to achieve the 2% target both in a timely manner and on a lasting basis. The Committee's deliberations have been supported by the consideration of a range of cases that could impact the evolution of inflation persistence. These three cases are set out further in the accompanying November Monetary Policy Report.

In the first case, most of the remaining persistence in inflation may dissipate quickly as pay and price-setting dynamics continue to normalise following the unwinding of the global shocks that drove up inflation. In the second case, a period of economic slack may be required to normalise these dynamics fully. In the third case, some inflationary persistence may also reflect structural shifts in wage and price-setting behaviour. Each case would have different implications for how quickly the restrictiveness of monetary policy could be withdrawn.

The MPC's latest projections for activity and inflation are also set out in the accompanying November Report. This forecast is based on the second case. CPI inflation is projected to fall back to around the 2% target in the medium term, conditioned on the usual 15 day average of forward interest rates, as a margin of slack emerges later in the forecast period that acts against second-round effects in domestic prices and wages.

The combined effects of the measures announced in Autumn Budget 2024 are provisionally expected to boost the level of GDP by around ¾% at their peak in a year's time, relative to the August projections. The Budget is provisionally expected to boost CPI inflation by just under ½ of a

percentage point at the peak, reflecting both the indirect effects of the smaller margin of excess supply and direct impacts from the Budget measures.

There remains significant uncertainty around the outlook for the labour market. Data are difficult to interpret and wage growth has been more elevated than usual relationships would predict. The impact of the Budget announcements on inflation will depend on the degree to and speed with which these higher costs pass through into prices, profit margins, wages and employment.

At this meeting, the Committee voted to reduce Bank Rate to 4.75%, reflecting the continued progress in disinflation.

Based on the evolving evidence, a gradual approach to removing policy restraint remains appropriate. Monetary policy will need to continue to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium term have dissipated further. The Committee continues to monitor closely the risks of inflation persistence and will decide the appropriate degree of monetary policy restrictiveness at each meeting.

1: The economic outlook

Twelve-month CPI inflation was at the MPC's 2% target in 2024 Q3. Headline GDP growth is expected to fall back to its recent underlying pace of around ¼% per quarter in the second half of this year.

As set out in Box B, the combined effects of the measures announced in Autumn Budget 2024 are provisionally expected to boost the level of GDP by around ¾% at their peak in a year's time, relative to the August Monetary Policy Report projections. The Budget is provisionally expected to boost CPI inflation by just under ½ of a percentage point at the peak, reflecting both the indirect effects of the smaller margin of excess supply and direct impacts from the Budget measures.

In the forecast described in Section 1.2, four-quarter GDP growth is expected to pick up to almost 1¾% in the first part of the forecast period, before falling back slightly (Key judgement 1). Aggregate demand and supply are judged to be broadly in balance currently and to remain so over the coming year. A margin of economic slack is projected to emerge during 2026 in part reflecting the overall tightening in the stance of fiscal policy assumed in the Budget, and also the continued restrictive stance of monetary policy (Key judgement 2). Unemployment is expected to rise slightly in the second half of the forecast period. There remains significant uncertainty around the labour market outlook.

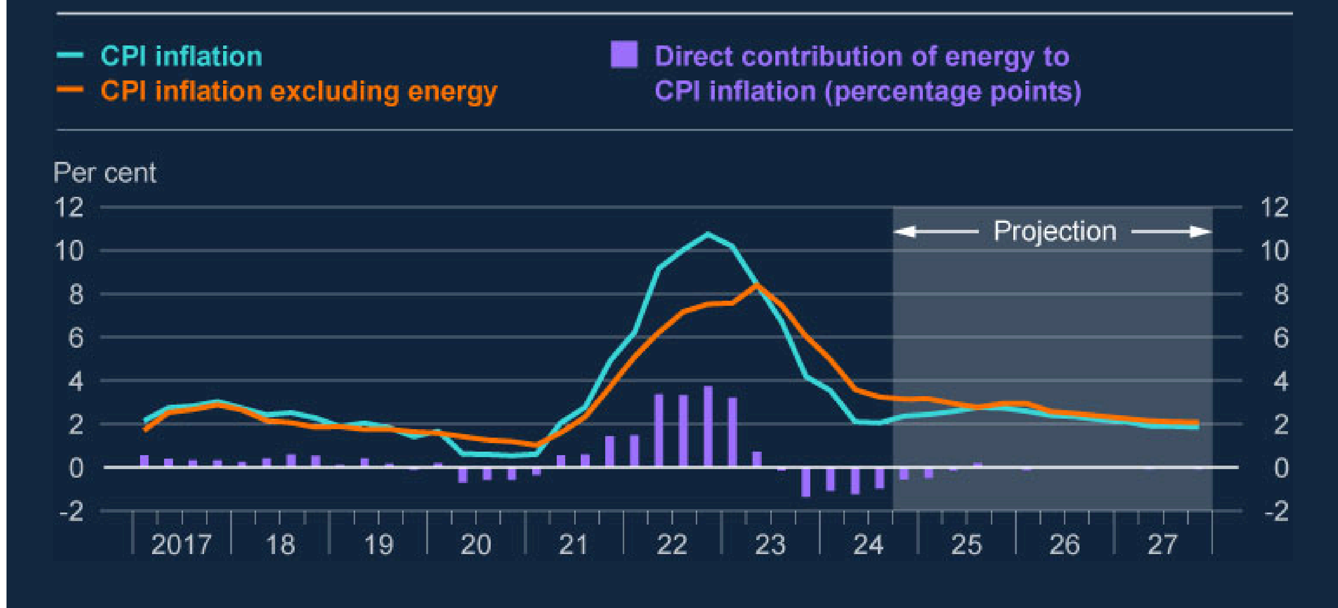
CPI inflation is expected to increase to around 2¾% by the second half of 2025 as weakness in energy prices falls out of the annual comparison, revealing more clearly the continuing persistence of domestic inflationary pressures. In the projection, second-round effects in domestic prices and wages are expected to take somewhat longer to unwind than they did to emerge (Key judgement 3). The margin of slack that emerges later in the forecast period is sufficient to act against those second-round effects, leading CPI inflation to fall back to around the 2% target in the medium term, conditioned on the usual 15 day average of forward interest rates. This forecast also incorporates a higher projection for import price inflation. Private sector regular AWE growth is expected to fall further and to reach around 3% by the start of 2026, remaining close to that level thereafter.

The Committee's deliberations have been supported by the consideration of a range of cases for the state of the economy. The MPC has considered alternative cases for how the persistence of inflationary pressures may evolve (Box A). In these cases, inflationary pressures may prove to be either less persistent or more persistent than in the forecast, which is based on the second case outlined in the **September MPC minutes** in which a period of economic slack is required in order for pay and price-setting dynamics to normalise fully.

Table 1.A: Forecast summary (a) (b)

	2024 Q4	2025 Q4	2026 Q4	2027 Q4
GDP (c)	1.7 (2)	1.7 (0.9)	1.1 (1.5)	1.4
CPI inflation (d)	2.4 (2.7)	2.7 (2.2)	2.2 (1.6)	1.8
Unemployment rate (e)	4.2 (4.4)	4.1 (4.7)	4.3 (4.7)	4.4
Excess supply/**Excess demand** (f)	0 (-¼)	-¼ (-1¼)	-½ (-1)	-¼
Bank Rate (g)	4.8 (4.9)	3.7 (4.1)	3.7 (3.7)	3.6

(a) Figures in parentheses show the corresponding projections in the August 2024 Monetary Policy Report.
(b) The numbers shown in this table are conditioned on the assumptions described in Section 1.1.
(c) Four-quarter growth in real GDP.
(d) Four-quarter inflation rate.
(e) ILO definition of unemployment. Although LFS unemployment data have been re-instated by the ONS, they are badged as official statistics in development and the LFS continues to suffer from very low response rates, which can introduce volatility and potentially non-response bias (see Box D in the May 2024 Monetary Policy Report).
(f) Per cent of potential GDP. A negative figure implies output is below potential and a positive that it is above.
(g) Per cent. The path for Bank Rate implied by forward market interest rates. The curves are based on overnight index swap rates.



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

(a) Energy prices include fuels and lubricants, electricity, gas and other fuels.

1.1: The conditioning assumptions underlying the MPC's projections

As set out in Table 1.B, the MPC's November projections are conditioned on:

- The paths for policy rates in advanced economies implied by financial markets, as captured in the usual 15 working day averages of forward interest rates to 29 October (Chart 2.6). The market-implied path for Bank Rate underpinning the November projections declines relatively rapidly in the near term and to around 3½% by the end of the three-year forecast period, similar to the endpoint in the August Report.
- A path for the sterling effective exchange rate index that is around ½% higher compared with the August Report. The exchange rate depreciates slightly over the forecast period, reflecting the role of expected interest rate differentials in the Committee's conditioning assumption.
- Wholesale energy prices that follow their respective futures curves over the forecast period. Since August, oil prices have fallen, while gas futures prices have increased slightly (Chart 2.4). Significant uncertainty remains around the outlook for wholesale energy prices, including related to geopolitical developments.
- UK household energy prices that move in line with Bank staff estimates of the Ofgem price cap implied by the paths of wholesale gas and electricity prices (Section 2.5).
- Fiscal policy that evolves in line with UK government policies to date, as announced in Autumn Budget 2024 on 30 October (see Box B).

Table 1.B: Conditioning assumptions (a) (b)

	Average 1998–2007	Average 2010–19	2023	2024	2025	2026	2027
Bank Rate (c)	5.0	0.5	5.3 (5.3)	4.8 (4.9)	3.7 (4.1)	3.7 (3.7)	3.6
Sterling effective exchange rate (d)	100	82	81 (81)	85 (84)	84 (84)	84 (83)	83
Oil prices (e)	39	77	84 (84)	75 (83)	73 (78)	71 (75)	71
Gas prices (f)	29	52	101 (101)	101 (92)	101 (95)	87 (84)	78
Nominal government expenditure (g)	7¼	2¼	7 (7)	6 (2¾)	6¾ (2¼)	3½ (2¾)	3¼

Sources: Bank of England, Bloomberg Finance L.P., LSEG Workspace, Office for Budget Responsibility (OBR), ONS and Bank calculations.

(a) The table shows the projections for financial market prices, wholesale energy prices and government spending projections that are used as conditioning assumptions for the MPC's projections for CPI inflation, GDP growth and the unemployment rate. Figures in parentheses show the corresponding projections in the August 2024 Monetary Policy Report.
(b) Financial market data are based on averages in the 15 working days to 29 October 2024. Figures show the average level in Q4 of each year, unless otherwise stated.
(c) Per cent. The path for Bank Rate implied by forward market interest rates. The curves are based on overnight index swap rates.
(d) Index. January 2005 = 100. The convention is that the sterling exchange rate follows a path that is halfway between the starting level of the sterling ERI and a path implied by interest rate differentials.
(e) Dollars per barrel. Projection based on monthly Brent futures prices.
(f) Pence per therm. Projection based on monthly natural gas futures prices.
(g) Annual average growth rate. Nominal general government consumption and investment. Projections are based on the OBR's October 2024 Economic and Fiscal Outlook. Historical data based on NMRP+D7QK.

1.2: Key judgements and risks

1.2: Key judgement 1

Four-quarter GDP growth is expected to pick up to almost 1¾% in the first part of the forecast period, before falling back slightly.

UK GDP grew by 0.5% in 2024 Q2, slightly below expectations in the August Report. Bank staff estimate that underlying momentum in demand has been slightly weaker than this, at around ¼% per quarter. GDP growth is projected to have slowed in the second half of 2024 to around that underlying rate, consistent with the steer from a range of business surveys (Section 2.3).

UK-weighted world GDP grew by 0.5% in 2024 Q2 and is projected to have grown at a similar pace in Q3 (Section 2.1). In the November Report, the paths of global GDP and trade are broadly unchanged from the August projections. Despite some strength in Q3 and a lower market-implied path of interest rates, near-term activity in the euro area is expected to be slightly weaker in these projections than in August. The outlook for the United States has remained supported by strong potential supply growth. Four-quarter UK-weighted world GDP growth is projected to rise to just over 2% in 2025 and beyond, slightly below its average rate in the decade prior to the pandemic (Table 1.D).

There remains some downside risk to global growth if domestic demand in China proves to be softer than expected, despite the recent policy support announced by the Chinese authorities. There may also be some downside risks around growth in the euro area. There is uncertainty around the path of fiscal policy in advanced economies. The continuing risk of higher commodity prices and disruption to trade flows associated with developments in the Middle East could, alongside other significant geopolitical uncertainties, lead to weaker economic activity as well as greater external inflationary pressures (Key judgement 3).

The current stance of monetary policy is restrictive. Bank staff now judge that all of the impact of higher interest rates since the middle of 2021 on the level of UK GDP is likely to have come through. Under the latest market-implied path for interest rates, including its expected impact on broader financial conditions, monetary policy is expected to have a broadly neutral impact on GDP growth over the forecast period. The restrictiveness of policy is still pushing down inflation over the forecast, however. There remain uncertainties around the impact of monetary policy on the economy (as discussed in Box C in the August Report).

The MPC’s November projections are conditioned on fiscal policy that evolves in line with UK government policies, as announced in Autumn Budget 2024. As set out in Box B, the combined effects of the measures announced in the Budget including the additional funding for previous spending pressures are provisionally expected to boost the level of GDP by around ¾% at their peak in a year’s time relative to the August Report projections, as the stronger, and relatively front-loaded, paths for government consumption and investment more than offset the impact on growth of higher taxes. The increase in employer National Insurance contributions (NICs) is also assumed to lead to a small decrease in potential supply over the forecast period (Key judgement 2). The Committee will monitor the impact of the Budget, including ahead of its next forecast round in February.

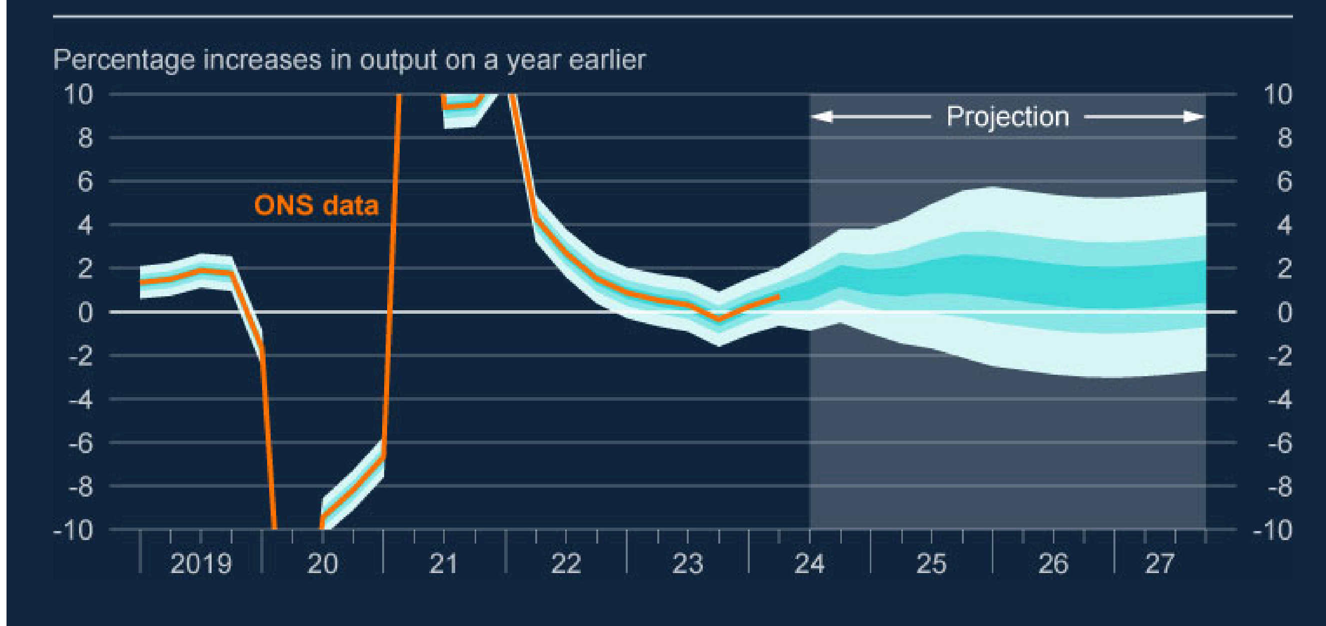
After taking account of the latest fiscal plans but also the fading impact of past loosening measures, the overall stance of fiscal policy is still expected to tighten over the forecast period. This pulls down somewhat on the GDP growth projection in the medium term.

Overall, in the November projection, four-quarter GDP growth is projected to pick up to almost 1¾% in the first part of the forecast period, before falling back slightly (Chart 1.2). GDP growth in 2025 is somewhat stronger than in the August Report, reflecting the looser near-term stance of fiscal policy and the lower market path of interest rates over the first part of the forecast period. It is slightly weaker towards the end of the period, however, reflecting an unwind of some of the Committee’s previous judgement to boost the expected path of demand relative to its standard determinants. That

change in judgement could be consistent with the upward revisions to historical GDP in Blue Book 2024, which may mean that there is less strength to come over the forecast period. It could also be consistent with more forward-looking behaviour by households and businesses such that the boost to GDP from recent fiscal news fades more quickly in the medium term than would usually be assumed.

Household spending growth is expected to follow a similar path to headline GDP growth over the forecast period, stronger in the first part of the forecast than in the August Report and weaker further out. Following downward revisions in the Blue Book, the saving ratio is expected to fall from around 10% of household income to just above 8¼% by the end of the forecast period, slightly above its pre-pandemic average. Much of this fall reflects the impact of the downward-sloping assumed path of interest rates, which would reduce incentives to save and make it cheaper to borrow. Box E discusses the risks in both directions around the saving ratio and household consumption projections. There is also uncertainty around how households will react to the news of higher government spending and taxes in the Budget, and how the state of the economy could interact with the usual pass-through of these measures to consumer spending and saving behaviour.

Chart 1.2: GDP growth projection based on market interest rate expectations, other policy measures as announced



The fan chart depicts the probability of various outcomes for GDP growth. It has been conditioned on Bank Rate following a path implied by market yields, but allows the Committee's judgement on the risks around the other conditioning assumptions set out in Section 1.1, including wholesale energy prices, to affect the calibration of the fan chart skew. To the left of the shaded area, the distribution reflects uncertainty around revisions to the data over the past. To the right of the shaded area, the distribution reflects uncertainty over the evolution of GDP growth in the future. If economic circumstances identical to today's were to prevail on 100 occasions, the MPC's judgement is that the mature estimate of GDP growth would lie within the darkest central band on only 30 of those occasions. The fan chart is constructed so that outturns are also expected to lie within each pair of the lighter aqua areas on 30 occasions. In any particular quarter of the forecast period, GDP growth is therefore expected to lie somewhere within the fan on 90 out of 100 occasions. And on the remaining 10 out of 100 occasions GDP growth can fall anywhere outside the aqua area of the fan chart. Over the forecast period, this has been depicted by the grey background. See the Box on page 39 of the November 2007 Inflation Report for a fuller description of the fan chart and what it represents. The y-axis of the chart has been truncated to illustrate more clearly the current uncertainty around the path of GDP growth, as otherwise this would be obscured by the volatility of GDP growth during the pandemic.

1.2: Key judgement 2

A margin of economic slack is projected to emerge during 2026 in part reflecting the overall tightening in the stance of fiscal policy assumed in the Budget, and also the continued restrictive stance of monetary policy.

Following a period for 2021 to 2023 in which the economy was operating with excess demand, aggregate demand and supply are judged to have been broadly in balance since the end of last year. Following the upward revisions to historical GDP in Blue Book 2024 (Chart 2.13), the degree of excess demand over the past is judged to be marginally greater than assumed at the time of the August Report. That is consistent with a judgement that around half of the news in the Blue Book is likely to have reflected additional excess demand (Section 2.4). All else equal, that also leads to a marginally higher path for the output gap currently and over much of the forecast period, relative to the August projection. The Committee continues to recognise the significant uncertainty around real-

time estimates of the output gap. It also notes that recent revisions to the output gap have tended to be in the direction of greater past excess demand or a delay to the point at which excess supply is assumed to emerge.

The MPC is continuing to consider the collective steer from a wide range of indicators to inform its view on labour market developments. As discussed in Box D in the May Report, there remain concerns about the lower achieved sample sizes and therefore the quality of the data derived from the ONS Labour Force Survey, making it more difficult for the Committee to gauge the underlying state of labour market activity.

Based on a broad set of indicators, the MPC judges that the labour market continues to ease but that it appears relatively tight by historical standards. Bank staff estimate that the unemployment rate has been broadly stable recently (Chart 2.18). This has been at a rate close to the latest reading of the much more volatile LFS measure, which fell back to 4.0% in the three months to August. The vacancies to unemployment ratio has fallen moderately since the start of 2024, to around its 2019 level.

The increase in employer NICs in the Budget represents an increase in labour costs, which will initially be fully incident on businesses. But the aggregate impacts on growth and inflationary pressures in the economy will ultimately be determined by the degree to and speed with which the tax increase is transmitted into prices, wages, employment or otherwise absorbed into profit margins or productivity growth. In the MPC's projections, the NICs change is provisionally assumed to have a small upward impact on companies' prices and a small downward impact on wages over the forecast period (Key judgement 3). That weakness in wages is also assumed to have a small downward impact on labour supply through reduced labour market participation. The Committee will monitor closely the impact of the increase in employer NICs on the labour market and the wider economy.

Other than this small change to labour supply, the Committee has not adjusted its judgements on potential supply growth over the forecast period in this Report. The Committee will undertake a review of the determinants of the short to medium-term supply capacity of the economy in its next regular stocktake ahead of the February 2025 Report.

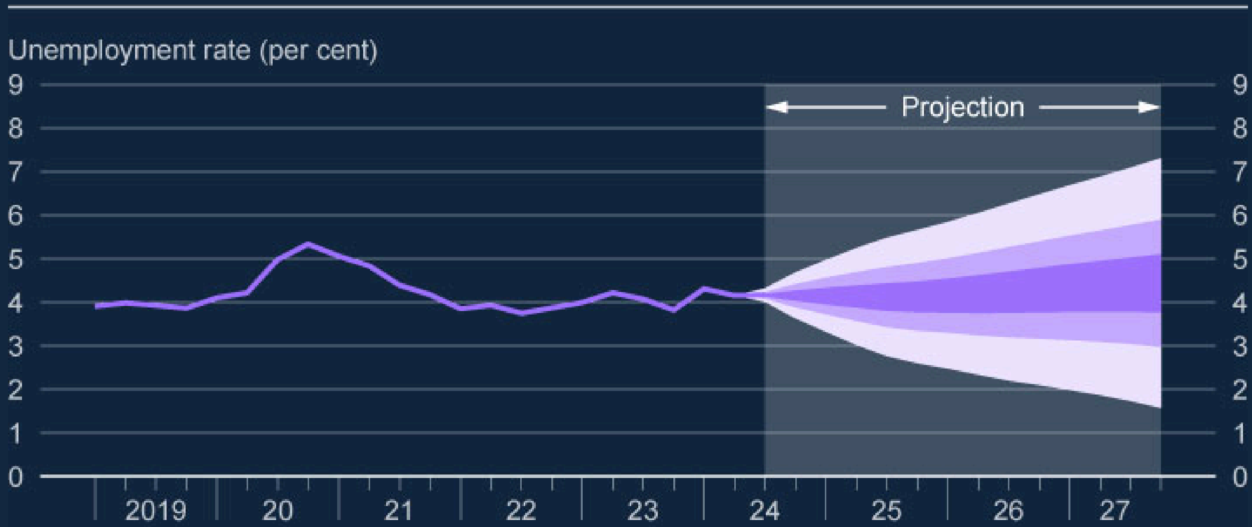
In the projection, aggregate demand and supply are judged to remain broadly in balance over the coming year. Demand growth is then expected to be weaker than potential supply growth during 2026, such that a margin of economic slack is projected to emerge. That in part reflects the overall tightening in the stance of fiscal policy that is assumed to occur following the Budget, and also the continued restrictive stance of monetary policy. The margin of aggregate excess supply is expected to reach around ½% of potential GDP in the medium term. Relative to the August Report projection, there is expected to be a smaller margin of excess supply throughout the forecast period and particularly during 2025 and the first half of 2026, in large part reflecting the news in the Budget.

The unemployment rate is projected to rise slightly in the second half of the forecast period, such that it reaches the assumed medium-term equilibrium rate of around 4½% by the end of the forecast period (Chart 1.3).

There remains significant uncertainty around the labour market outlook, and it could remain tighter or looser than projected for a number of reasons, including the risks around the outlook for demand (Key judgement 1). There is a risk that changes in the overall cost of employment for firms, including the increase in employer NICs and the National Living Wage, lead to greater cash-flow constraints for some businesses, particularly SMEs. There could, however, be an upside risk to labour demand if greater certainty in the fiscal outlook provides support to confidence and demand.

There continues to be significant uncertainty around the MPC's assumption for the path of the equilibrium rate of unemployment, developments in which would, holding demand fixed, have implications for inflationary pressures. The Committee made an upward adjustment to the medium-term equilibrium rate in the November 2023 Report, reflecting a greater degree of real income resistance following the terms of trade shock to the economy. It remains possible that the equilibrium rate of unemployment is even higher, consistent with more persistence in future wage growth (as considered in one of the alternative cases for the state of the economy discussed in Box A).

Chart 1.3: Unemployment rate projection based on market interest rate expectations, other policy measures as announced



The fan chart depicts the probability of various future outcomes for the ILO definition of unemployment and begins in 2024 Q3. Although LFS unemployment data have recently been re-instated by the ONS, they are badged as official statistics in development and the LFS continues to suffer from very low response rates, which can introduce volatility and potentially non-response bias (see Box D in the May 2024 Monetary Policy Report). The fan chart has been conditioned on Bank Rate following a path implied by market yields, but allows the Committee's judgement on the risks around the other conditioning assumptions set out in Section 1.1, including wholesale energy prices, to affect the calibration of the fan chart skew. The coloured bands have the same interpretation as in Chart 1.2 and portray 90% of the probability distribution. A significant proportion of this distribution lies below Bank staff's current estimate of the long-term equilibrium unemployment rate. There is therefore uncertainty about the precise calibration of this fan chart.

1.2: Key judgement 3

Second-round effects in domestic prices and wages are expected to take somewhat longer to unwind than they did to emerge. The margin of slack that emerges later in the forecast period is sufficient to act against those second-round effects, leading CPI inflation to fall back to around the 2% target in the medium term, conditioned on the usual 15 day average of forward interest rates.

Twelve-month CPI inflation was at the MPC's 2% target in 2024 Q3, weaker than expected in the August 2024 Report (Section 2.5), and well below the greater than 3% rate expected in the November 2023 Report.

The decline in CPI inflation since the start of this year has primarily reflected lower goods price inflation, alongside a smaller fall in services price inflation. The latter fell quite sharply to 4.9% in September, but most of the recent downside news in services inflation has been accounted for by more volatile components, some of which is expected to partially unwind in coming months. Annual private sector regular AWE growth declined to 4.8% in the three months to August, in line with expectations in the August Report and somewhat lower than the comparable forecast at the time of the November 2023 Report. Many indicators of household and business inflation expectations have normalised to around their 2010 to 2019 averages, although some household measures have risen recently.

CPI inflation is projected to increase over the next year, to around 2¾% by the second half of 2025. This profile of headline inflation is more than accounted for by developments in the direct energy price contribution to 12-month CPI inflation, which is expected to become less negative in the middle of next year and to turn slightly positive by the second half of 2025 (Chart 1.1). This is a slightly lower near-term profile for energy prices than at the time of the August Report. Relative to the assumptions in the August Report, the decision in the Budget to extend the freeze and temporary 5p cut to fuel duty rates in 2025–26 pushes down directly on inflation over the next fiscal year, offset partly by an increase in Vehicle Excise Duty, but pushes up on the 12-month inflation rate over the four quarters from 2026 Q2 as the 5p cut is assumed to expire and fuel duty is assumed to rise in line with RPI inflation thereafter.

CPI inflation excluding energy is projected to fall from 3¼% currently to around 3% in the first half of next year and to 2¾% in the second half of next year (Chart 1.1), revealing more clearly the continuing, even if gradually waning, persistence of inflationary pressures.

Four-quarter UK-weighted world export price inflation, excluding the direct effects of oil prices, was negative at the turn of this year, but has since picked up and is projected to remain slightly positive over most of the forecast period. There are risks in both directions around this projection (Section 2.1). Although there has so far continued to be a relatively limited impact on oil prices from events in the Middle East, there remains a risk of further intensification and wider economic spillovers including via greater uncertainty in financial markets. The possibility of greater trade fragmentation and increased trade restrictions could also push up on world export prices. Continued weakness in China could, however, pose a downside risk to both oil and world export prices, particularly if it were to be associated with a broader slowdown in global demand.

Alongside the sterling exchange rate, the path of world export prices is the main determinant of developments in UK import prices, which in turn pass through over time to the external pressures on CPI inflation. As discussed in Box D, the Committee has made a number of judgements over recent years on the pass-through of sterling world export prices to UK import and consumer prices. In this Report, the MPC now judges that less of the unexpected strength in import prices observed in the past will unwind, pushing up on import price inflation over the forecast period, and more than offsetting some downside news on world export prices and the impact of sterling's appreciation since the August Report. Import prices are projected to be flat in 2025 and to increase by ¾% in 2026, both somewhat stronger than the falls in import prices expected over that period in the August projection (Table 1.D).

In the November projection for CPI inflation, the Committee has maintained its broad judgement that second-round effects in wages and domestic prices will take somewhat longer to unwind than they did to emerge. As a margin of slack in the economy emerges during 2026 in the forecast (Key judgement 2), the degree of excess inflationary persistence embedded in the CPI projection starts to fade from this point onwards. In this sense, the Committee's projection is based on the second case set out in the September MPC minutes, in which a period of economic slack may be required in order for pay and price-setting dynamics to normalise fully. In order to set monetary policy in this case, the MPC needs to consider the trade-off, that emerges to some degree in the forecast, between the speed with which inflation should be brought back down to the 2% target and the costs in terms of employment and output which doing that involves.

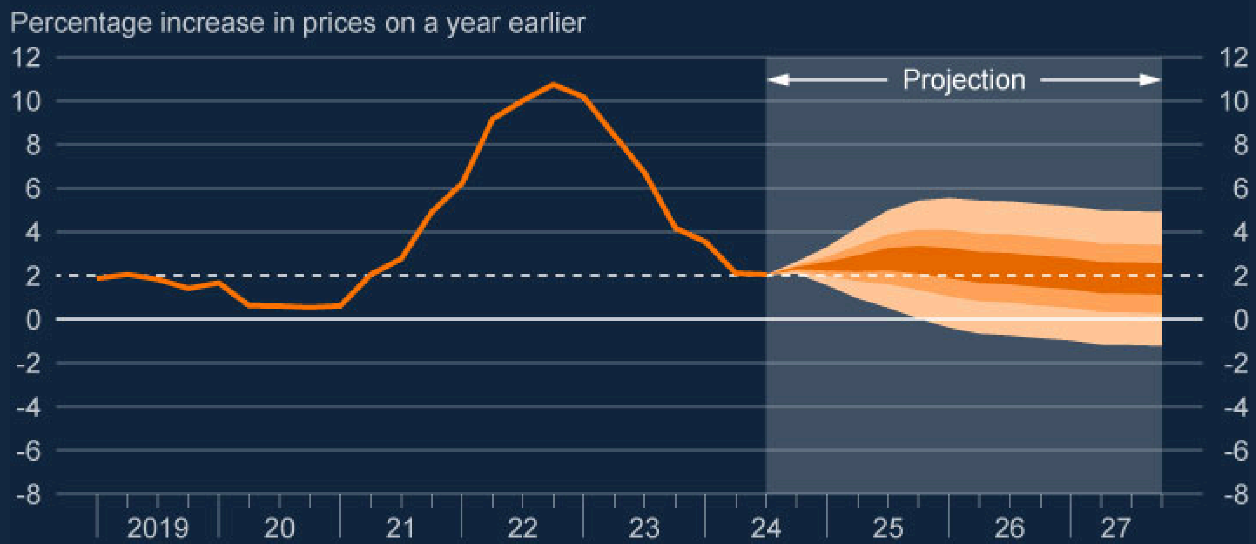
There remains considerable uncertainty around the calibration of the Committee's judgement on the current degree and future path of second-round effects in wages and domestic prices. This includes the extent to which persistent pressures prove more enduring than in the forecast, or unwind more quickly, and the role that monetary policy may need to play in ensuring that inflation returns to target in the medium term. These alternative cases for the underlying behaviour of the economy and inflationary persistence are outlined in detail in Box A. The Committee also continues to monitor the accumulation of evidence from a broad range of indicators, with a focus on the extent to which it is possible over time to use developments in data series to assess the various cases that it is considering.

In the projection conditioned on the market-implied path of interest rates in the 15 working days to 29 October, CPI inflation increases from the 2% target in 2024 Q3 to around 2¾% by the second half of 2025. Reflecting the continued restrictive stance of monetary policy and the emergence of a margin of slack in the economy, CPI inflation then falls back to around the 2% target in the medium term (Chart 1.4 and Table 1.C). The November CPI projection is somewhat higher than in August beyond the first few quarters of the forecast period. This reflects the smaller margin of excess supply (Key judgement 2), the news in the Autumn Budget on fuel duty that boosts inflation over the 12 months from 2026 Q2, and the impact of the higher projection for import price inflation.

Private sector regular AWE growth is expected to fall further and to reach around 3% by the start of 2026, remaining close to that level thereafter. This is slightly higher throughout the forecast period than in the August Report, reflecting the smaller margin of excess supply in the economy, offset

slightly by an assumption in this forecast that a small part of the increase in employer NICs will be passed through into lower wages (Key judgement 2).

Chart 1.4: CPI inflation projection based on market interest rate expectations, other policy measures as announced



The fan chart depicts the probability of various future outcomes for CPI inflation and begins in 2024 Q4. It has been conditioned on Bank Rate following a path implied by market yields, but allows the Committee's judgement on the risks around the other conditioning assumptions set out in Section 1.1, including wholesale energy prices, to affect the calibration of the fan chart skew. If economic circumstances identical to today's were to prevail on 100 occasions, the MPC's judgement is that inflation in any particular quarter would lie within the darkest central band on only 30 of those occasions. The fan chart is constructed so that outturns of inflation are also expected to lie within each pair of the lighter orange areas on 30 occasions. In any particular quarter of the forecast period, inflation is therefore expected to lie somewhere within the fans on 90 out of 100 occasions. And on the remaining 10 out of 100 occasions inflation can fall anywhere outside the orange area of the fan chart. Over the forecast period, this has been depicted by the grey background. See the Box on pages 48–49 of the May 2002 Inflation Report for a fuller description of the fan chart and what it represents.

Table 1.C: The quarterly projection for CPI inflation based on market rate expectations (a)

	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4
CPI inflation	2.4	2.4	2.6	2.8	2.7
	2026 Q1	**2026 Q2**	**2026 Q3**	**2026 Q4**	
CPI inflation	2.6	2.4	2.3	2.2	
	2027 Q1	**2027 Q2**	**2027 Q3**	**2027 Q4**	
CPI inflation	2.1	1.9	1.9	1.8	

(a) Four-quarter inflation rate.

Table 1.D: Indicative projections consistent with the MPC's forecast (a) (b)

	Average 1998–2007	Average 2010–19	2023	2024	2025	2026	2027
World GDP (UK-weighted) (c)	**3**	**2½**	**2 (1¾)**	**2 (2)**	**2 (2¼)**	**2¼ (2¼)**	**2¼**
World GDP (PPP-weighted) (d)	4	3¾	3¼ (3¼)	3 (3)	3 (3)	3¼ (3)	3
Euro-area GDP (e)	2½	1½	½ (½)	¾ (¾)	1¼ (1½)	1¾ (1½)	1¾
US GDP (f)	3	2½	3 (2½)	2¾ (2½)	2 (2)	2 (2)	2
Emerging market GDP (PPP-weighted) (g)	5½	5	4½ (4¼)	4 (4¼)	4 (4)	4 (4)	4
of which, China GDP (h)	10	7½	5¼ (5½)	4¾ (4¾)	4½ (4¼)	4 (4)	4
UK GDP (i)	**2¾**	**2**	**¼ (0)**	**1 (1¼)**	**1½ (1)**	**1¼ (1¼)**	**1¼**
Household consumption (j)	3¼	2	¾ (¼)	¾ (½)	1¾ (1½)	2 (1¾)	1½
Business investment (k)	3	4¼	2¾ (5½)	1½ (1)	3¼ (2¼)	2¾ (2)	2¼
Housing investment (l)	3¼	4	-7 (-7½)	-½ (¾)	3½ (2¾)	2½ (1½)	1½
Exports (m)	4½	3½	-2¼ (-½)	-¾ (-3¼)	2¼ (1¾)	1¾ (2¾)	2
Imports (n)	6	4	-3½ (-1½)	2½ (-1½)	4¼ (4¼)	3¾ (3¼)	2¾
Contribution of net trade to GDP (o)	-¼	-¼	½ (¼)	-1 (-½)	-¾ (-¾)	-¾ (-¼)	-¼
Real post-tax labour income (p)	3¼	1½	1½ (¾)	4¼ (3½)	1½ (1½)	¼ (½)	¾
Household saving ratio (q)	7¼	7¾	7¼ (9¾)	10 (11¾)	10¼ (11¼)	9 (10½)	8½

Credit spreads (r)	¾	2½	¾ (¾)	1 (1)	1¼ (1¼)	1½ (1½)	1½
Excess supply/**Excess demand** (s)	0	-1¾	**¾ (½)**	0 (-¼)	0 (-¾)	-¼ (-1¼)	-½
Labour productivity (output per worker) (t)	1¾	¾	-¼ (-½)	¾ (1½)	½ (¼)	¾ (¾)	½
Employment (u)	1	1¼	¼ (¼)	¾ (0)	½ (¾)	½ (¾)	¾
Working-age (16+) population (v)	¾	¾	¾ (¾)	¾ (¾)	1 (1)	1 (1)	¾
LFS unemployment rate (w)	5¼	6	3¾ (3¾)	4¼ (4½)	4¼ (4¾)	4¼ (4¾)	4½
Participation rate (x)	63	63½	62¾ (62¾)	63 (62¾)	62¾ (62½)	62½ (62½)	62½
CPI inflation (y)	**1½**	**2¼**	**4¼ (4¼)**	**2¼ (2¾)**	**2¾ (2¼)**	**2¼ (1½)**	**1¾**
UK import prices (z)	-¼	1¼	1¼ (½)	-1¼ (-¾)	0 (-1)	¾ (-¼)	½
Energy prices – direct contribution to CPI inflation (aa)	¼	¼	-1¼ (-1¼)	-½ (-¼)	0 (0)	0 (-¼)	0
Private sector regular average weekly earnings (AWE) (ab)	4	2¼	6¼ (6¼)	5 (5)	3¼ (3)	3¼ (2¾)	3
Private sector regular pay-based unit wage costs (ac)	2	1¾	6¾ (7)	4 (2)	2¼ (3)	2¾ (1¾)	2

Sources: Bank of England, Bloomberg Finance L.P., Department for Energy Security and Net Zero, Eurostat, IMF World Economic Outlook (WEO), National Bureau of Statistics of China, ONS, US Bureau of Economic Analysis and Bank calculations.

(a) The profiles in this table should be viewed as broadly consistent with the MPC's projections for GDP growth, CPI inflation and unemployment (as presented in the fan charts).
(b) Figures show annual average growth rates unless otherwise stated. Figures in parentheses show the corresponding projections in the August 2024 Monetary Policy Report. Calculations for back data based on ONS data are shown using ONS series identifiers.
(c) Chained-volume measure. Constructed using real GDP growth rates of 188 countries weighted according to their shares in UK exports.
(d) Chained-volume measure. Constructed using real GDP growth rates of 189 countries weighted according to their shares in world GDP using the IMF's purchasing power parity (PPP) weights.
(e) Chained-volume measure. The forecast was finalised before the release of the preliminary flash estimate of euro-area GDP for Q3, so that has not been incorporated.
(f) Chained-volume measure. The forecast was finalised before the release of the advance estimate of US GDP for Q3, so that has not been incorporated.
(g) Chained-volume measure. Constructed using real GDP growth rates of 155 emerging market economies, weighted according to their relative shares in world GDP using the IMF's PPP weights.
(h) Chained-volume measure.
(i) Chained-volume measure.
(j) Chained-volume measure. Includes non-profit institutions serving households. Based on ABJR+HAYO.
(k) Chained-volume measure. Based on GAN8.
(l) Chained-volume measure. Whole-economy measure. Includes new dwellings, improvements and spending on services associated with the sale and purchase of property. Based on DFEG+L635+L637.
(m) Chained-volume measure. The historical data exclude the impact of missing trader intra-community (MTIC) fraud. Since 1998 based on IKBK-OFNN/(BOKH/BQKO). Prior to 1998 based on IKBK.
(n) Chained-volume measure. The historical data exclude the impact of MTIC fraud. Since 1998 based on IKBL-OFNN/(BOKH/BQKO). Prior to 1998 based on IKBL.
(o) Chained-volume measure. Exports less imports.
(p) Wages and salaries plus mixed income and general government benefits less income taxes and employees' National Insurance contributions, deflated by the consumer expenditure deflator. Based on [ROYJ+ROYH-(RPHS+AIIV-CUCT)+GZVX]/[(ABJQ+HAYE)/(ABJR+HAYO)]. The backdata for this series are available at **Monetary Policy Report – Download chart slides and data – November 2024**.
(q) Annual average. Percentage of total available household resources. Based on NRJS.
(r) Level in Q4. Percentage point spread over reference rates. Based on a weighted average of household and corporate loan and deposit spreads over appropriate risk-free rates. Indexed to equal zero in 2007 Q3.
(s) Annual average. Per cent of potential GDP. A negative figure implies output is below potential and a positive figure that it is above.
(t) Real GDP (ABMI) divided by total 16+ employment (MGRZ). Although LFS employment data have been re-instated by the ONS, they are badged as official statistics in development and the LFS continues to suffer from very low response rates, which can introduce volatility and potentially non-response bias (see Box D in the May 2024 Monetary Policy Report).
(u) Four-quarter growth in the ILO definition of employment in Q4 (MGRZ). Although LFS employment data have been re-instated by the ONS, they are badged as official statistics in development and the LFS continues to suffer from very low response rates, which can introduce volatility and potentially non-response bias (see Box D in the May 2024 Monetary Policy Report).
(v) Four-quarter growth in Q4. LFS household population, all aged 16 and over (MGSL). Growth rates are interpolated between the LFS and ONS National population projections: 2021-based interim within the forecast period.
(w) ILO definition of unemployment rate in Q4 (MGSX). Although LFS unemployment data have been re-instated by the ONS, they are badged as official statistics in development and the LFS continues to suffer from very low response rates, which can introduce volatility and potentially non-response bias (see Box D in the May 2024 Monetary Policy Report).
(x) ILO definition of labour force participation in Q4 as a percentage of the 16+ population (MGWG). Although LFS participation data have been re-instated by the ONS, they are badged as official statistics in development and the LFS continues to suffer from very low response rates, which can introduce volatility and potentially non-response bias (see Box D in the May 2024 Monetary Policy Report).
(y) Four-quarter inflation rate in Q4.
(z) Four-quarter inflation rate in Q4 excluding fuel and the impact of MTIC fraud.
(aa) Contribution of fuels and lubricants and gas and electricity prices to four-quarter CPI inflation in Q4.
(ab) Four-quarter growth in Q4. Private sector average weekly earnings excluding bonuses and arrears of pay (KAJ2).
(ac) Four-quarter growth in private sector regular pay-based unit wage costs in Q4. Private sector wage costs divided by private sector output at constant prices. Private sector wage costs are average weekly earnings (excluding bonuses) multiplied by private sector employment.

Box A: Alternative cases for the persistence of domestic inflationary pressures

In the forecast, conditioned on the market path for interest rates, CPI inflation is expected to rise to around 2¾% by the second half of 2025 before falling back to around the 2% target in the medium term. There are significant risks around how the economy will evolve, however, particularly around the pace at which domestic inflationary pressures will unwind.

As set out in the **September MPC minutes**, the Committee's recent policy deliberations have been supported by the consideration of three cases that impact the evolution of inflation persistence. The forecast is based on the second case, in which a period of economic slack is required in order for pay and price-setting dynamics to normalise fully (Section 1.2).

To understand better some of the uncertainties around the forecast, this box explores in more detail the two other cases for how the persistence of inflationary pressures may evolve. In these cases, inflationary pressures may prove to be either less persistent or more persistent than in the forecast. The box expands on some potential economic mechanisms underpinning these cases and the evidence that could support the economy developing in line with them. It also sets out the possible monetary policy implications.

The alternative cases described in this box are not necessarily mutually exclusive. Some portion of the remaining persistence in inflation may dissipate quickly in line with the first case, while some portion of it may reflect lasting changes in the structure of the economy in line with the third case.

> **In the first case, the unwinding of global shocks may continue to feed through to weaker pay and price-setting dynamics, without the need for a period of economic slack.**

CPI inflation has fallen sharply since 2022 as energy and food price shocks have waned and global goods price inflation has fallen back. But indirect and second-round effects of higher inflation have generated persistence in domestic inflationary pressures.

In the first case, the unwinding of the global shocks that drove up inflation and the resulting fall in headline inflation may continue to feed through to weaker pay and price-setting dynamics, without the need for a period of economic slack to emerge.

In this case, the remaining persistence in domestic inflationary pressures may simply be the result of lagged effects from the global shocks that drove up inflation. As such, persistence may dissipate as the unwinding of those global shocks, and the resulting fall in headline inflation and inflation expectations, continue to return pay and price-setting dynamics to levels consistent with the inflation target. In this case, second round effects might be expected to unwind faster than in the forecast (Section 1.2).

Several developments may be consistent with this first case arising.

There are several data developments that may be consistent with pay and price-setting dynamics normalising relatively quickly. As global shocks have unwound, world export price and producer price inflation have fallen back (Sections 2.1 and 2.4), and that has contributed to an easing in UK firms' non-labour cost growth.

While pay growth remains elevated, there are some signs that it will normalise as the lagged effects from the global supply shocks continue to feed through. Mirroring the falls in headline inflation, many indicators of households' and firms' inflation expectations have normalised to around their 2010 to 2019 averages (Section 2.5). And conditions in the labour market have eased, although they appear relatively tight by historical standards (Section 2.4). One model estimated by Bank staff (Chart 2.30), which allows for quite long lags between inflation expectations and wage growth, as well as accounting for developments in productivity and labour market slack, can fully explain current wage growth. Related, evidence from the DMP Survey suggests that, on average, firms tend to set wages less frequently than prices, which could be consistent with there being some lags in the pass-through of recent developments to wage growth.

Some developments in firms' price-setting behaviour appear consistent with inflationary pressures continuing to dissipate as wage pressures ease. As described in Section 2.5 for example, intelligence from the Bank's Agents suggests that companies' margins are likely to remain compressed in coming quarters. Price pressures also appear to be fading more quickly than businesses had expected a year ago. Firms' own price inflation, as reported in the Bank's DMP Survey, has on average been 0.6 percentage points lower over 2024 than they expected a year previously.

In the third case, the economy may have been subject to structural shifts in wage and price-setting behaviour following the major supply shocks experienced over recent years.

In the third case, there is a risk that the economy has been subject to lasting changes in wage and price-setting following the major supply shocks experienced over recent years. These changes in wage and price-setting behaviour may lead to a more lasting rise in inflation persistence.

One mechanism that could cause this to arise is if some domestic firms and employees continue to seek higher nominal selling prices and higher pay to recover any reductions in real income that they have experienced in the past. Analysis by Bank staff suggests that, while real incomes have risen on average since 2019 (Section 2.3), workers in some sectors, and in some parts of the wage distribution, have experienced a reduction in real incomes relative to others over that period. At present, for example, the dispersion in real wage growth experienced since 2019 Q4 across sectors is greater than seen over the same time span prior to the pandemic. And wage growth in the lower deciles of the income distribution has

outpaced that of other deciles, in part due to the notable rises in the National Living Wage (NLW) (Section 2.5). If workers seek to re-establish previous pay differentials, that could result in more persistent strength in wage growth.

If this mechanism were at play, it would result in a stronger outlook for wage growth for any given level of unemployment. This could be broadly equivalent to a further shift up in the medium-term equilibrium rate of unemployment, resulting in a reduction in the potential growth rate of supply relative to the forecast.

Employers are more likely to re-establish pay differentials if the labour market remains relatively tight. As outlined in Box F, contacts of the Bank's Agents who expect higher wages and prices to persist for longer cited the possible role of factors such as Covid and Brexit in lowering labour supply. Alongside labour market tightness, firms' ability to raise prices in order to preserve their margins will depend on the strength in demand (Section 2.5).

A range of developments may support this third case materialising.

There are some signs in the data that, were they to continue, may be consistent with this case. While annual CPI inflation has fallen below the MPC's 2% target, wages and services price inflation remain elevated (Section 2.5). And, although both of these are expected to moderate gradually in the forecast, some indicators suggest that the pace of normalisation may have slowed. Firms' year ahead expectations for wage growth reported in the Bank's DMP Survey, for example, have remained around 4% over recent months (Chart 2.31), and analysis by Bank staff suggests that firms' expectations are skewed to the upside of that estimate. In addition, while the labour market has eased, it appears relatively tight by historical standards, with measures such as the vacancies to unemployment ratio still slightly elevated (Chart 2.19).

As noted above, increases in the NLW will have narrowed pay differentials between those on the NLW and those paid above it. While the estimated effect of the NLW in the aggregate pay data appears to have been fairly limited so far, some contacts of the Bank's Agents report that they are coming under pressure to maintain pay differentials between scales. Bank staff's estimate of the effects of the 2024 NLW (Section 2.5) incorporates some degree of spillovers from this channel based on what has occurred over the past, although, given the size of the 2024 and 2025 NLW increases, there is a risk that these spillovers could be larger than in previous years.

Some aspects of firms' price-setting behaviour may also be consistent with persistent inflationary pressures remaining. The share of prices that are changed in any given month, for example, has remained elevated (Chart 2.25). Prior to the pandemic, a broadly stable share of services prices were increased and decreased each month, but the net share of services price quotes in the CPI increasing each month rose sharply in 2022 and has remained notably high. In addition, to the extent that profit margins have fallen in recent years (Section 2.5), as relatively soft consumer demand has constrained firms' ability to fully pass through cost rises, there is a risk that firms will seek to rebuild their margins. There is limited evidence of this occurring in the data so far, however.

Both alternative cases would necessitate different future monetary policy stances to ensure that inflation is returned sustainably to target.

If pay and price-setting dynamics were to normalise more quickly than expected, as in the first case, the lower degree of inflationary pressures would require a less restrictive future stance of monetary policy than would be implied by the forecast. And if these dynamics were subject to lasting change, as in the third case, policy would need to be somewhat more restrictive.

The MPC will continue to monitor closely the risks around inflation persistence.

The Committee will continue to monitor the accumulation of evidence from a broad range of indicators of inflation persistence, including evidence that could point to either of the alternative cases laid out in this box having begun to materialise.

Box B: Autumn Budget 2024

The Government has set out its tax and spending plans in Autumn Budget 2024, published on 30 October. This box outlines the broad composition of the fiscal measures announced in the Budget and how these have been incorporated provisionally into the MPC's projections. The Committee will monitor the impact of the Budget, including ahead of its next forecast round in February.

The Government has adopted a new set of fiscal rules.

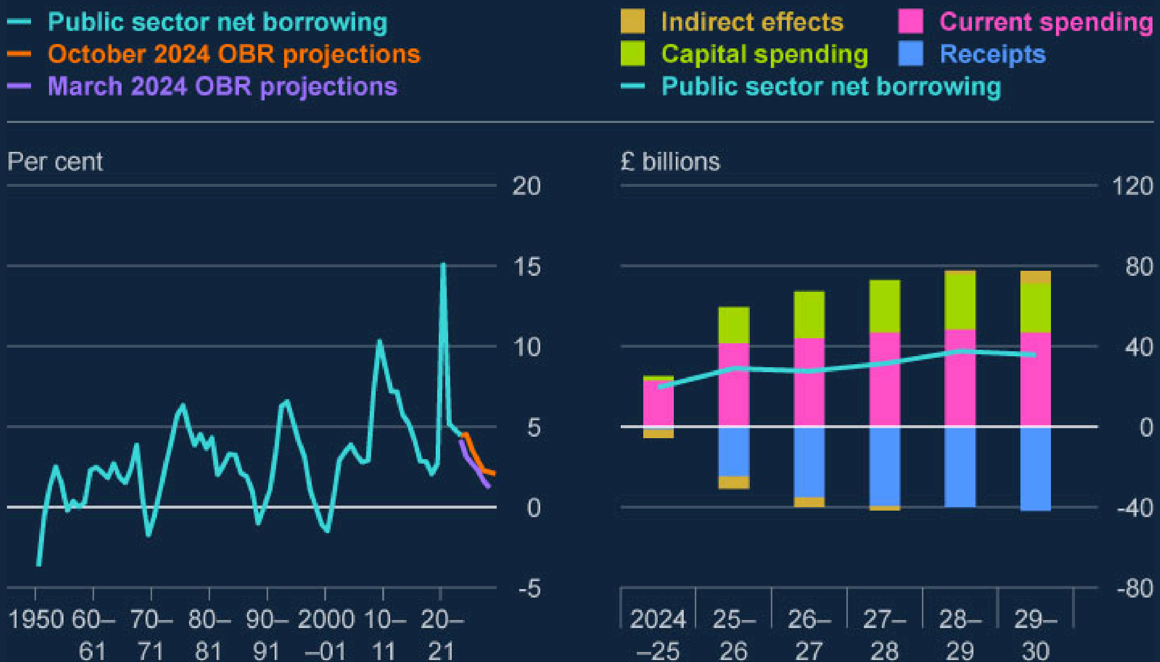
The Government announced new fiscal rules in Autumn Budget 2024. The Government's updated Fiscal Mandate requires the current budget, defined as revenues minus day-to-day expenditure, to be in surplus by fiscal year 2029–30. In addition, net financial debt, as measured by public sector net financial liabilities (PSNFL), is required to be falling as a share of GDP by 2029–30. Once 2029–30 becomes the third year of the forecast, both rules will then need to be met by the third year of a rolling forecast period. The OBR has judged that, under the plans laid out in Autumn Budget 2024, the Government will meet both fiscal rules two years earlier than required. The OBR expects that the requirement for the current budget to be in surplus will be met by a margin of around £10 billion in 2029–30.

Higher expenditure is partly offset by higher taxation.

The fiscal plans outlined in Autumn Budget 2024 represent a substantial near-term loosening of fiscal policy compared with the plans outlined by the previous Government in March. Public sector net borrowing (PSNB) is now projected by the OBR to decline from 4.5% of GDP in 2024–25 to 2.1% in 2029–30 (left-hand panel of Chart A). Relative to the OBR's March forecast, PSNB is projected to be around 1 percentage point higher as a share of GDP on average over the next three years, equivalent to around £30 billion per year (right-hand panel of Chart A). The effects of new policy announcements raise government expenditure on average by around £70 billion per year from 2025–26 onwards compared with the OBR's March projections, of which two thirds is accounted for by higher current expenditure (pink bars) and one third by higher capital expenditure (green bars). Higher expenditure is partly offset by taxation measures which, relative to previous plans, are projected to raise receipts by an average of £36 billion per year from 2025–26 onwards (blue bars).

Chart A: Public sector net borrowing is projected to be higher than under the OBR's March projections

Public sector net borrowing (PSNB), as a percentage of GDP (left panel) and contributions to change in the OBR's PSNB projection between March 2024 and October 2024 (right panel) (a)



Sources: OBR and Bank calculations.

(a) Projections are based on OBR forecasts. Indirect effects capture the OBR's estimate of the change in borrowing resulting from measures-induced changes to macroeconomic variables or tax-bases.

The largest change to taxation was an increase in employer National Insurance contributions (NICs), which is forecast to raise £26 billion by 2029–30. From April 2025 onwards, the NICs rate that firms pay will increase from 13.8% to 15%. And the threshold at which NICs are levied on employers will be lowered from £9,100 to £5,000. This is partially offset by an increase in the generosity of the Employment Allowance which employers can claim on their NICs liabilities. The Budget included a number of measures that raise receipts, including changes to capital gains tax and inheritance tax, reforms to the taxation of non-domiciled individuals and the introduction of VAT on private school fees.

Budget spending policies raise current expenditure by £23 billion in 2024–25 relative to the OBR's March forecast, reflecting a combination of funding for previous spending pressures and the cost of new measures announced on 30 October. Current expenditure is then around £45 billion per annum higher over the remainder of the OBR's five-year forecast period, relative to its March forecast. In real terms, annual departmental current expenditure growth is expected to be 5.5% and 3.5% in 2024–25 and 2025–26, respectively, after which it slows to 1.3% per annum.

Capital expenditure is also higher than assumed in the OBR's March forecast. In real terms, capital spending is set to rise by 9.9% in 2025–26, up from 4.5% in the OBR's March projection, before slowing across the remaining years of the forecast.

The National Living Wage will increase by 6.7% in 2025.

The Government has accepted the recommendation of the Low Pay Commission regarding the 2025 uplift for the National Living Wage (NLW). In line with this, it has announced a 6.7% increase in the NLW main rate in April 2025. That is somewhat lower than the 9.8% increase in April 2024 (Section 2.5).

Measures announced at Autumn Budget 2024 are expected to boost GDP growth over the MPC's forecast period.

The MPC's projections are conditioned on the Government's tax and spending plans set out in Autumn Budget 2024. The impacts of the measures included in the Autumn Budget have been estimated using multipliers, which capture the total effect of fiscal policy changes on GDP, including via indirect effects on private incomes and spending. These fiscal multipliers vary according to the type of measure. For further details see the **May 2021 Report**.

The combined effects of the new measures announced in Autumn Budget 2024, including the additional funding for previous spending pressures, are provisionally expected to boost the level of GDP by around ¾% at their peak in a year's time relative to the August Report projections. This reflects the stronger, and relatively front-loaded, paths for government consumption and investment more than offsetting the impact on growth of higher taxes.

The increase in employer NICs is assumed to lead to a small decrease in potential supply over the forecast period. That reflects an assumption that employers will pass some of the rise in NICs through to wages, which results in slightly lower labour supply through reduced labour market participation. Broader uncertainties surrounding the aggregate impacts from the NICs increase on growth and inflationary pressures in the economy are discussed in Section 1.2.

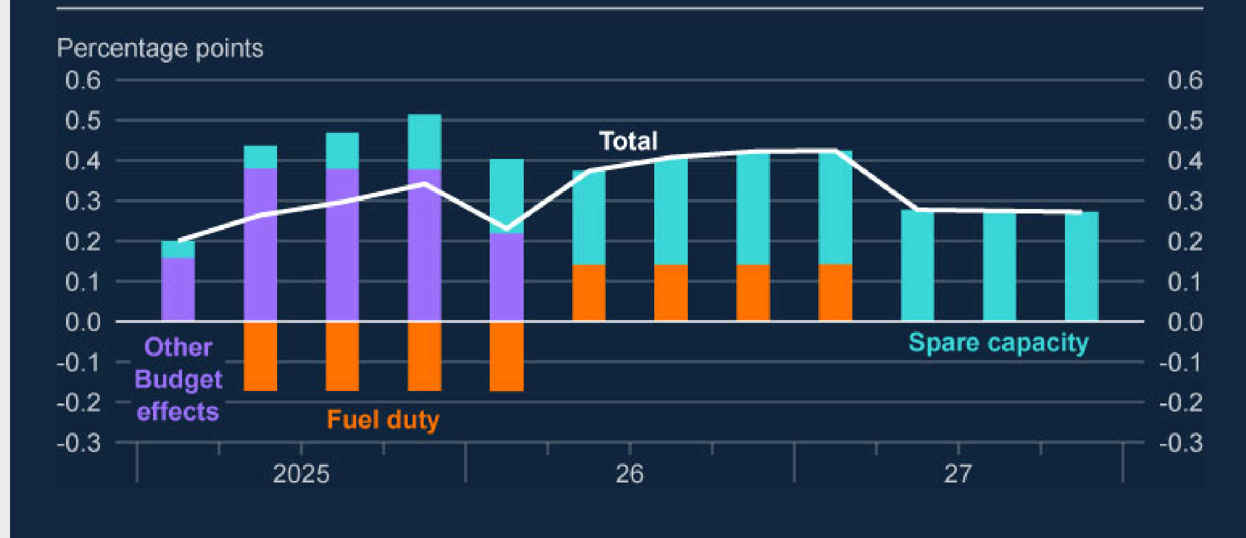
Additional public investment would, if sustained, be expected to increase the productive capacity of the economy in the long run. The impact on potential supply of the public investment announced in the Budget is provisionally expected to be very small over the MPC's forecast period, and to build thereafter. Overall, the changes announced in the Budget are expected to reduce the margin of spare capacity in the economy over the MPC's forecast period.

The combined effects of the measures included in the Budget are provisionally expected to boost CPI inflation by just under ½ of a percentage point at their peak relative to the projection in the August Report (Chart B). In the near term, the direct effects of the rise in the cap on single bus fares from £2 to £3 and the introduction of VAT on private school fees from January, and the increase in Vehicle Excise Duty from April, push up the MPC's projection for CPI inflation from 2025 Q1 and Q2 (purple bars). The increase in employer NICs is also assumed to have a small upward impact on inflation. These effects are partly offset by the 5p cut and extension of the freeze in fuel duty rates from March and April 2025, respectively

(orange bars). Further out, the 5p cut is assumed to expire and fuel duty is assumed to rise in line with RPI inflation from 2026 Q2, such that it pushes up the MPC's CPI inflation projection in the year from that point. The assumed reduction in excess supply due to the Budget also raises the projection for CPI inflation (aqua bars).

Chart B: Policies included in the Budget are expected to raise CPI inflation by just under ½ of a percentage point at their peak

Impact of Budget on CPI inflation forecast (a)



(a) The 'other Budget effects' bars account for the effects of the rise in the cap on single bus fares, the rise in vehicle excise duty, the introduction of VAT on private school fees and Bank staff's estimates for the CPI impact of the change in employer NICs. The 'fuel duty' bars account for the extension of the freeze and the 5p cut to fuel duty rates, followed by the assumption that the 5p cut will expire and fuel duty will rise in line with RPI from 2026 Q2. The 'spare capacity' bars capture the impact on inflation of changes to excess supply as a result of fiscal policy.

Box C: Monetary policy since the August 2024 Report

At its meeting ending on 18 September 2024, the MPC voted by a majority of 8–1 to maintain Bank Rate at 5%. One member preferred to reduce Bank Rate by 0.25 percentage points, to 4.75%. The Committee voted unanimously to reduce the stock of UK government bond purchases held for monetary policy purposes, and financed by the issuance of central bank reserves, by £100 billion over the next 12 months, to a total of £558 billion.

Monetary policy decisions had been guided by the need to squeeze persistent inflationary pressures out of the system so as to return CPI inflation to the 2% target both in a timely manner and on a lasting basis. Policy had been acting to ensure that inflation expectations remained well anchored. As set out at the time of the August Monetary Policy Report, the Committee's deliberations had been supported by the consideration of a range of cases, to which different probabilities and different risks could be attached.

In the first case, the unwinding of the global shocks that drove up inflation and the resulting fall in headline inflation should continue to feed through to weaker pay and price-setting dynamics. The persistence of inflationary pressures would therefore dissipate with a less restrictive stance of monetary policy than in other cases.

In the second case, a period of economic slack, in which GDP fell below potential and the labour market eased further, might be required in order for pay and price-setting dynamics to normalise fully. Domestic inflationary persistence would then be expected to fade away, owing to the opening up of slack from a more restrictive stance of monetary policy relative to the first case.

In the third case, the economy might be subject to structural shifts such as changes in wage and price-setting following the major supply shocks that had been experienced over recent years. The degree of restrictiveness of monetary policy might be less than embodied in the Committee's latest assessment, meaning that monetary policy would have to remain tighter for longer.

Since the MPC's August meeting, global activity growth had continued at a steady pace, although some data outturns suggested greater uncertainty around the near-term outlook. Oil prices had fallen back, reflecting in large part weaker demand. Market-implied paths for policy rates across major advanced economies had declined.

There had generally been limited news in UK economic indicators relative to the Committee's expectations in the August Monetary Policy Report. Headline GDP growth was expected to return to its underlying pace of around 0.3% per quarter in the second half of the year. Twelve-month CPI inflation had been 2.2% in August, and was expected to increase to around 2½% towards the end of this year as declines in energy prices last year fell out of the annual

comparison. Services consumer price inflation had remained elevated at 5.6% in August. Private sector regular average weekly earnings growth had declined to 4.9% in the three months to July.

In the absence of material developments, a gradual approach to removing policy restraint remained appropriate. Monetary policy would need to continue to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium term had dissipated further. The Committee continued to monitor closely the risks of inflation persistence and would decide the appropriate degree of monetary policy restrictiveness at each meeting.

2: Current economic conditions

Global GDP continues to grow steadily at rates a little below pre-Covid averages. Headline consumer price inflation has fallen across advanced economies over the past two years, with services inflation and wage growth still elevated but slowly moderating. The market-implied paths for interest rates on which the November forecast is conditioned are consistent with a faster near-term pace of cuts across advanced economies than was the case three months ago.

UK GDP grew by 0.5% in 2024 Q2, slightly below expectations in the August Report. Underlying momentum in demand is judged to be a little weaker than this, at around ¼% per quarter. GDP growth is projected to have slowed somewhat in the second half of 2024 to around that underlying rate, consistent with the steer from a range of business surveys.

The labour market has continued to ease but appears relatively tight by historical standards. Large uncertainties remain around the LFS labour market statistics. Bank staff's indicator-based models suggest that employment growth has remained positive, while unemployment has been roughly flat. Aggregate demand and supply in the economy appear to remain broadly in balance.

CPI inflation has fallen since the August Report and was 1.7% in September, slightly below the MPC's 2% target. Goods price inflation has been muted, reflecting past declines in external cost pressures. Services price inflation remains elevated but was lower than expected in the August Report at 4.9% in September. Headline CPI inflation is projected to rise to 2.5% by the end of the year, as the drag on annual inflation from lower domestic energy bills wanes, before rising somewhat further over 2025 (Section 1).

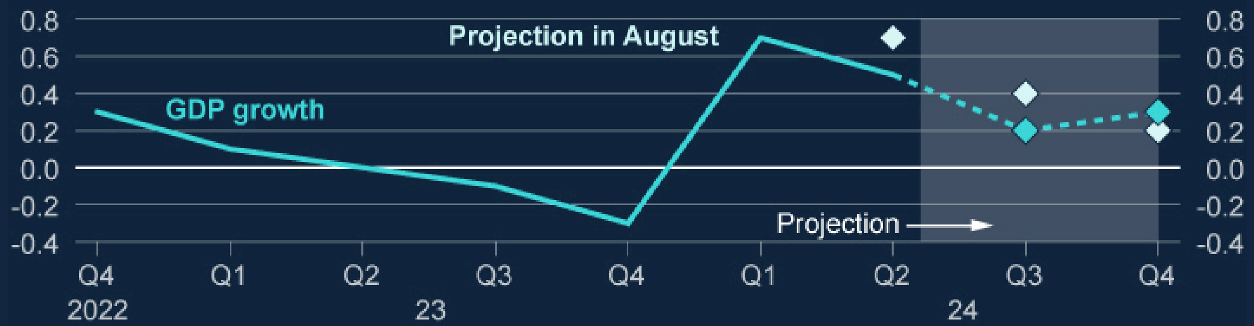
Annual private sector regular average weekly earnings (AWE) growth has fallen back but remained elevated at 4.8% in the three months to August. Annual private sector wage inflation is expected to slow further in 2025.

Chart 2.1: In the MPC's latest projections, headline GDP growth falls back slightly and the unemployment rate is flat in the second half of this year; CPI inflation rises moderately in Q4

Near-term projections (a)

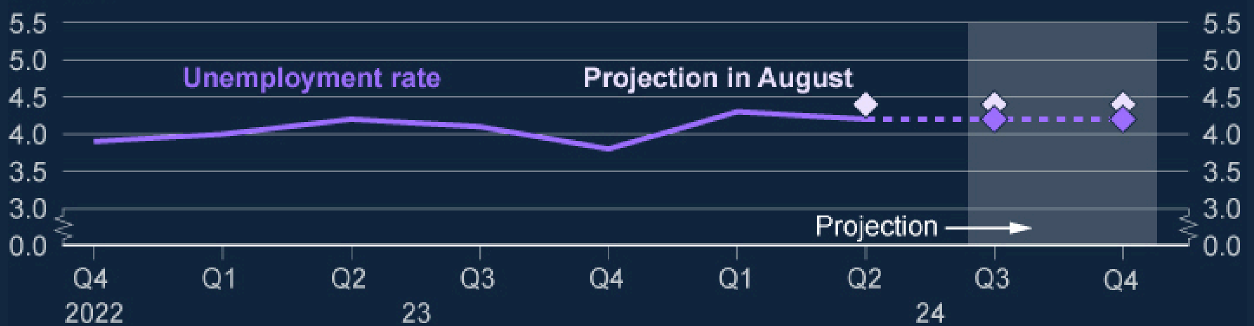
2024 Q3: 0.2% **2024 Q4: 0.3%**

Percentage change on a quarter earlier



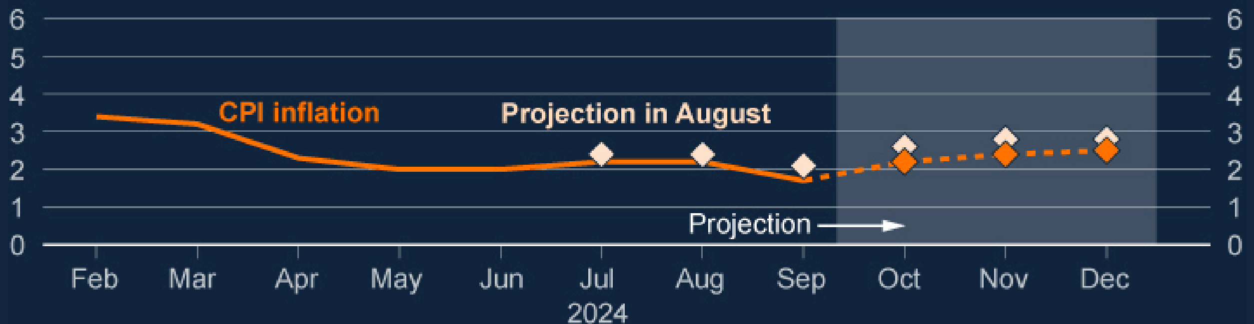
2024 Q3: 4.2% **2024 Q4: 4.2%**

Per cent



2024 Q3: 2.0% **2024 Q4: 2.4%**

Per cent



Sources: ONS and Bank calculations.

(a) The lighter diamonds show Bank staff's projections at the time of the August 2024 Monetary Policy Report. The darker diamonds show Bank staff's current projections. Projections for GDP growth and the unemployment rate are quarterly and show 2024 Q3 and Q4 (August projections show 2024 Q2 to 2024 Q4). Projections for CPI inflation are monthly and show October to December 2024 (August projections show July to December 2024). The GDP growth and unemployment rate projections for 2024 Q3 are based on official data to August, while the CPI inflation figure is an outturn. Although LFS unemployment data have been re-instated by the ONS, they are

badged as official statistics in development and the LFS continues to suffer from very low response rates, which can introduce volatility and potentially non-response bias (Box D, **May 2024 Report**).

2.1: Global economy and financial markets

Global activity growth is expected to remain steady.

Demand conditions in other countries are an important determinant of UK trading prospects. UK-weighted world GDP grew by 0.5% in 2024 Q2 and is projected to have grown at a similar pace in Q3. Four-quarter global growth is expected to remain around this pace in 2024 Q4 (Chart 2.2).

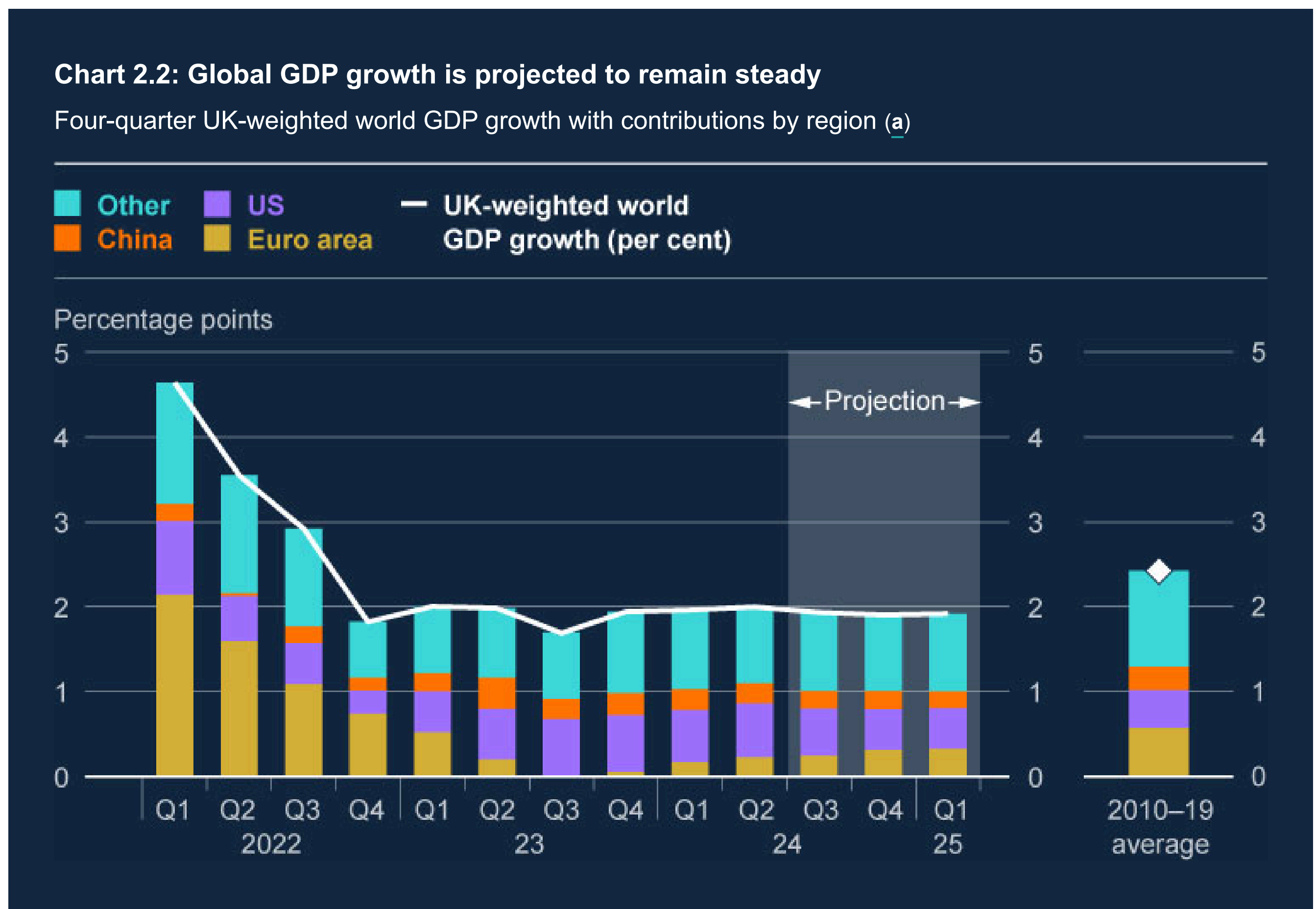


Chart 2.2: Global GDP growth is projected to remain steady

Four-quarter UK-weighted world GDP growth with contributions by region (a)

Sources: LSEG Workspace and Bank calculations.

(a) See footnote (c) of Table 1.D for definition. Figures for 2024 Q3 to 2025 Q1 are Bank staff projections. These projections do not include the advance estimate of US GDP in 2024 Q3 or the preliminary flash estimate of euro-area GDP for the same quarter, as the data were not received in time to incorporate fully into the forecast.

According to the advance estimate, US GDP expanded by 0.7% in 2024 Q3, following growth of 0.7% in Q2. US GDP growth is expected to remain robust at 0.5% in Q4, consistent with the composite output PMI and monthly retail sales data having remained resilient, and with US supply growth being expected to remain strong. There are risks to US demand and activity in both directions. US labour market data have been volatile in recent months, but vacancies have fallen steadily towards pre-pandemic levels. On the one hand, a further decline in labour demand could be

associated with a larger-than-expected rise in unemployment, which may weigh on confidence and reduce spending. On the other hand, US supply growth could be stronger than expected, further supporting activity.

According to the preliminary flash release, euro-area GDP grew by 0.4% in 2024 Q3, above the 0.2% growth in Q2 and higher than expected in the August Report. Developments have, however, been mixed across the largest euro-area economies, with German GDP growth underperforming, in part reflecting weakness in Chinese demand and a subdued outlook for global manufacturing growth. The recent weakening in forward-looking indicators such as the euro-area PMI highlights downside risks to euro-area demand. While the euro-area labour market remains resilient, it has loosened in recent months and vacancies are approaching historically normal levels. There is a risk that further demand weakness could be amplified if unemployment increases.

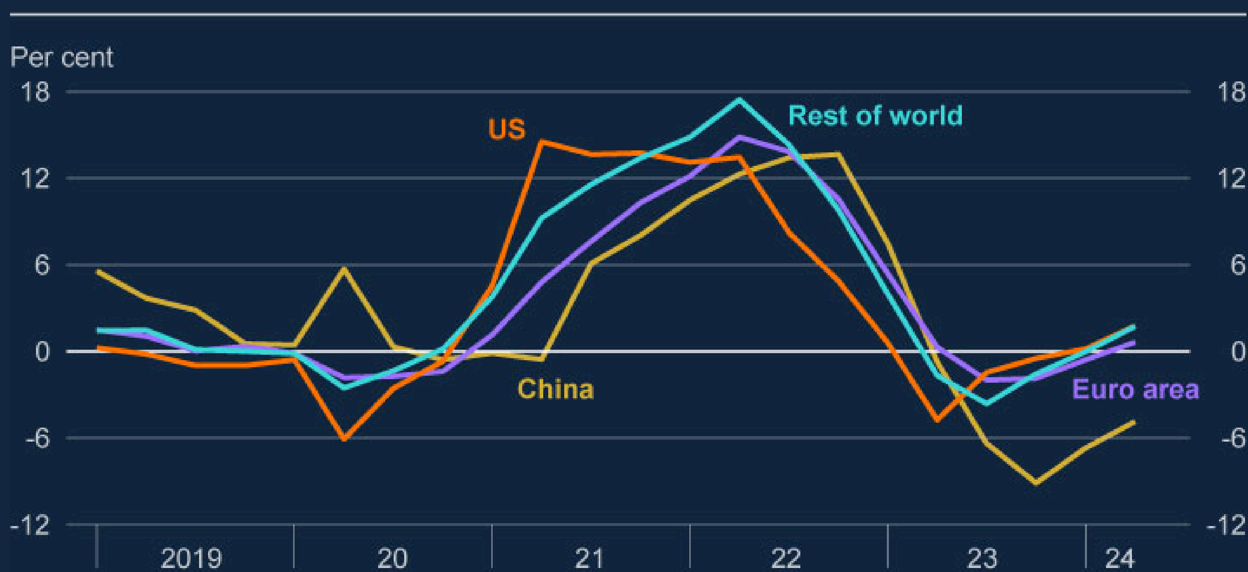
While China accounts for only a small share of UK exports, its prominent role in global manufacturing lends it an important influence in commodities and globally traded goods markets. Chinese GDP growth remains weak, having expanded by 0.9% in 2024 Q3, up from 0.5% in Q2 but slightly below the projection in the August Report. Chinese growth is expected to pick up in the November projections, driven partly by policy support. However, there is a risk that subdued consumer spending and weakness in the property sector continue to drag on growth.

Global export price inflation is expected to remain subdued, with risks in both directions.

Following sharp increases in 2021 and 2022, global export price inflation fell back in 2023. Four-quarter world export price inflation, excluding major oil exporters, is projected to be around ½% at the end of this year, slightly lower than expected at the time of the August Report (Box D). However, there is significant uncertainty around this central projection, with downside risks emanating from China and upside risks from the Middle East.

Chart 2.3: Export price inflation has picked up slightly, but remains weak in China

Four-quarter export price inflation across regions (a)



Sources: European Central Bank (ECB), General Administration of Customs of the People's Republic of China, US Bureau of Economic Analysis, other national statistical agencies and Bank calculations.

(a) 'Rest of world' is a weighted average of 31 countries excluding major oil exporters and including China. Countries are weighted by their shares of UK imports. The final data points refer to 2024 Q2.

Chinese export prices have fallen since 2023 (Chart 2.3), partly driven by subdued domestic inflationary pressures resulting from weak domestic demand. A crystallisation of the downside risks to domestic demand discussed above could prevent a recovery in Chinese export prices and put further downward pressure on global goods price inflation. Staff analysis suggests that the associated spillovers to the UK would be modest but could be more material if associated with a broader slowdown in global demand growth.

Geopolitical developments in the Middle East pose upside risks to energy and global goods prices.

Geopolitical risks have intensified following events in the Middle East, although there has so far been a limited impact on wholesale energy prices. A further escalation in tensions could lead to a significant rise in oil prices and, since oil is an input into the production for many goods, global goods price inflation. Such an escalation in tensions could also affect the UK through other channels, including via greater uncertainty in financial markets.

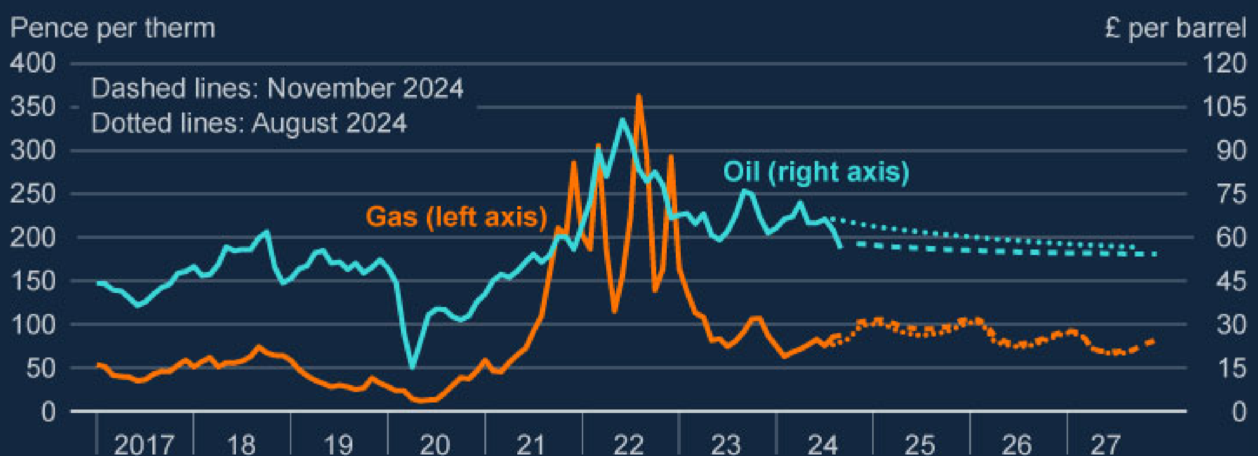
Despite recent developments in the Middle East, oil prices have fallen since the August Report, which may partly reflect downside risks to the global demand outlook.

Staff analysis suggests that perceptions of risks to global oil supply, stemming mainly from geopolitical events in the Middle East, have pushed up oil prices somewhat since the August Report. Nevertheless, the Brent spot and near-term futures oil price, converted into sterling terms, has fallen

by around 10% (Chart 2.4). Anticipated increases in OPEC+ oil production have weighed on oil prices, but some of the fall may also reflect weaker-than-expected growth in China and perceptions of downside risks to the global demand outlook. Meanwhile, European wholesale natural gas prices have increased modestly.

Chart 2.4: Oil prices have fallen since the August Report, while gas prices have increased modestly

UK wholesale oil and gas prices (a)



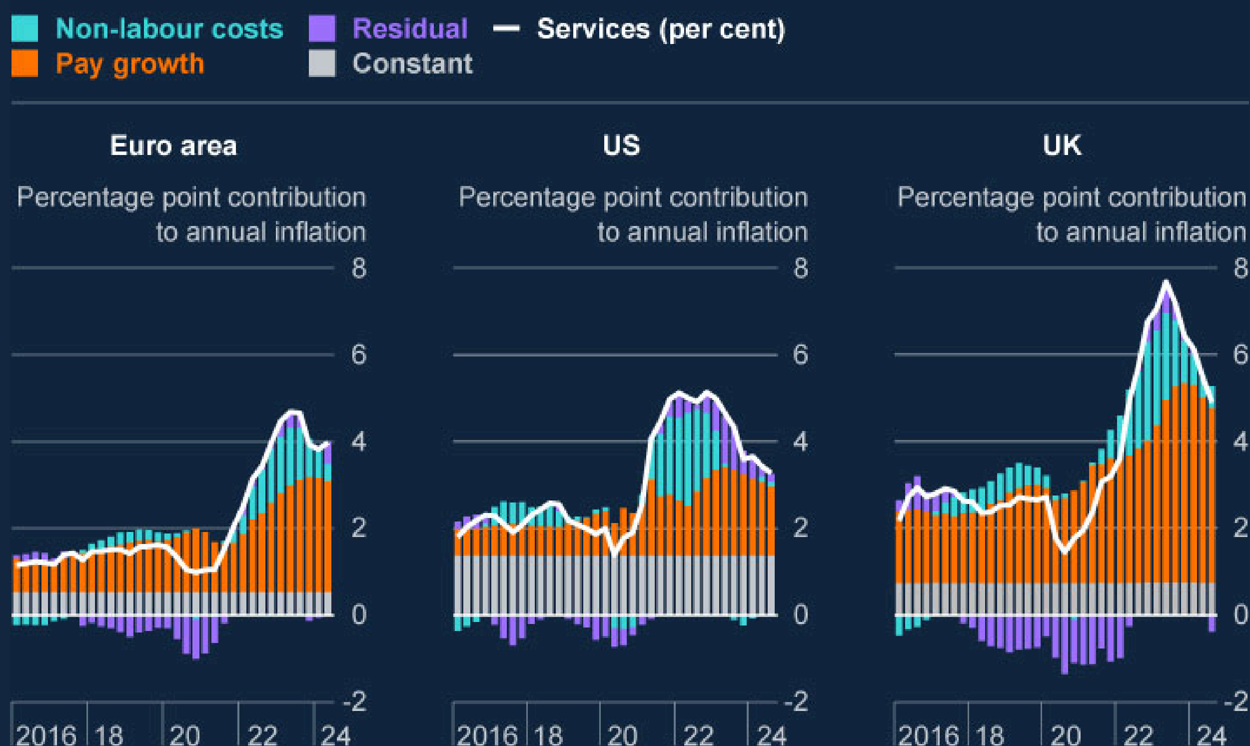
Sources: Bloomberg Finance L.P. and Bank calculations.

(a) Oil prices are Brent crude, converted to sterling. Gas prices are Bloomberg UK NBP Natural Gas Forward Day price. Dashed lines refer to respective futures curves using one-month forward prices based on the 15-day average to 29 October 2024, while dotted lines are based on the 15-day average to 22 July 2024. The final data points shown are forward prices for December 2027.

A cooling in non-labour costs has driven a moderation in services inflation across economies.

Headline and core consumer price inflation have fallen back from their 2022 peaks in the US and in the euro area. Falls in core inflation over recent quarters have been accounted for mainly by weaker core goods price inflation, on account of stronger global supply conditions and the indirect effects of lower energy prices.

Consumer services price inflation is falling back more slowly across regions. The moderation in services inflation has, to date, largely reflected a reduction in non-labour costs (Chart 2.5). As wage growth continues to ease, services inflation is expected to fall further.



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

(a) The data shown are HICP core services inflation for the euro area, PCE services inflation excluding energy and housing for the US, and core services inflation excluding rents for the UK. The latest data are for 2024 Q3 for the US and the UK and for 2024 Q2 for the euro area. The UK model is estimated based on seasonally adjusted quarterly data excluding VAT. Estimated contributions to services inflation are based on autoregressive distributed lag regressions of services inflation on metrics of pay growth (orange bars) and manufacturing PPI inflation (aqua bars). See also **Greene (2024)** and **Mann (2024)**. Note that services inflation in the US has also been boosted by continued strength in housing services inflation, which has been stripped out of these data.

Headline inflation is now close to central banks' targets across advanced economies.

US headline PCE inflation fell to 2.1% in September. Upside risks to US inflation remain, such as from the possibility of larger-than-expected persistence in shelter inflation and higher oil prices, although there are also downside risks from a greater-than-expected softening in the labour market. Euro-area headline inflation was at the ECB's 2% target in October but is expected to rise somewhat at the end of the year as previous falls in energy prices drop out of the annual comparison. In both economies, further reductions in core inflation will likely need to rely on a continued normalisation of wage pressures, the speed of which remains uncertain.

The market-implied paths for policy rates on which the November forecast is conditioned have shifted down since the August Report.

In recent months, central banks in the UK, US and euro area have begun to reduce their respective policy rates (Chart 2.6). The Federal Reserve's Federal Open Market Committee reduced the target range for the federal funds rate by 50 basis points to 4.75%–5% in September, while the ECB Governing Council cut its main policy rate by 25 basis points to 3.25% in October.

The market-implied paths based on the 15 days up to 29 October are consistent with a continued reduction in policy rates in coming quarters across advanced economies, though the expected pace and extent of reduction differ. Since the August Report, fading inflationary pressures in the US as well as communications from the Fed have been associated with a shift down in the market-implied path for US policy rates of around 30 basis points on average over the next three years. Market expectations for euro-area and UK policy rates have fallen by 60 basis points and 20 basis points respectively. Across jurisdictions, expected policy rates have moved down more materially in the near term than in the medium term since the August Report. Policy rates are now expected to stand at 2.0% in the euro area, 3.4% in the US and 3.6% in the UK in three years' time.

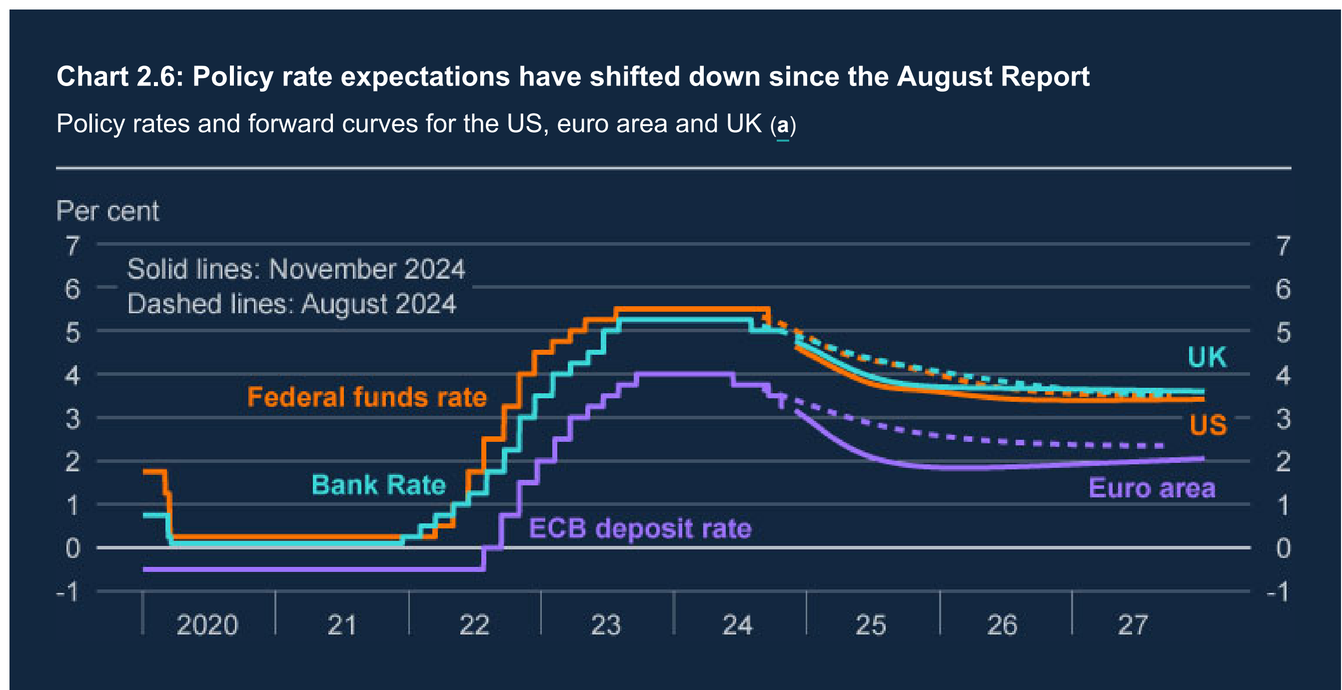


Chart 2.6: Policy rate expectations have shifted down since the August Report

Policy rates and forward curves for the US, euro area and UK (a)

Sources: Bloomberg Finance L.P. and Bank calculations.

(a) All data as of 29 October 2024. The August curves are estimated based on the 15 UK working days to 22 July 2024. The November curves are estimated using the 15 working days to 29 October 2024. Federal funds rate is the upper bound of the announced target range. ECB deposit rate is based on the date from which changes in policy rates are effective. The final data points shown are forward rates for December 2027.

Financial conditions are broadly unchanged, while the sterling exchange rate has appreciated.

Corporate bond spreads have narrowed slightly across advanced economies since August, while equity prices have picked up by 4% in the US and by 1% in the UK and in the euro area. The sterling effective exchange rate has appreciated by 0.7% since the August Report. All else equal, that will put

some downward pressure on UK import price inflation (Box D and Section 2.5). Sterling has appreciated by around 1% against both the dollar and the euro, reflecting in part the relatively smaller decline in market expectations for UK policy rates since August.

2.2: Credit conditions

The reduction in Bank Rate in August and the associated falls in market interest rates have been feeding through to household lending and deposit rates.

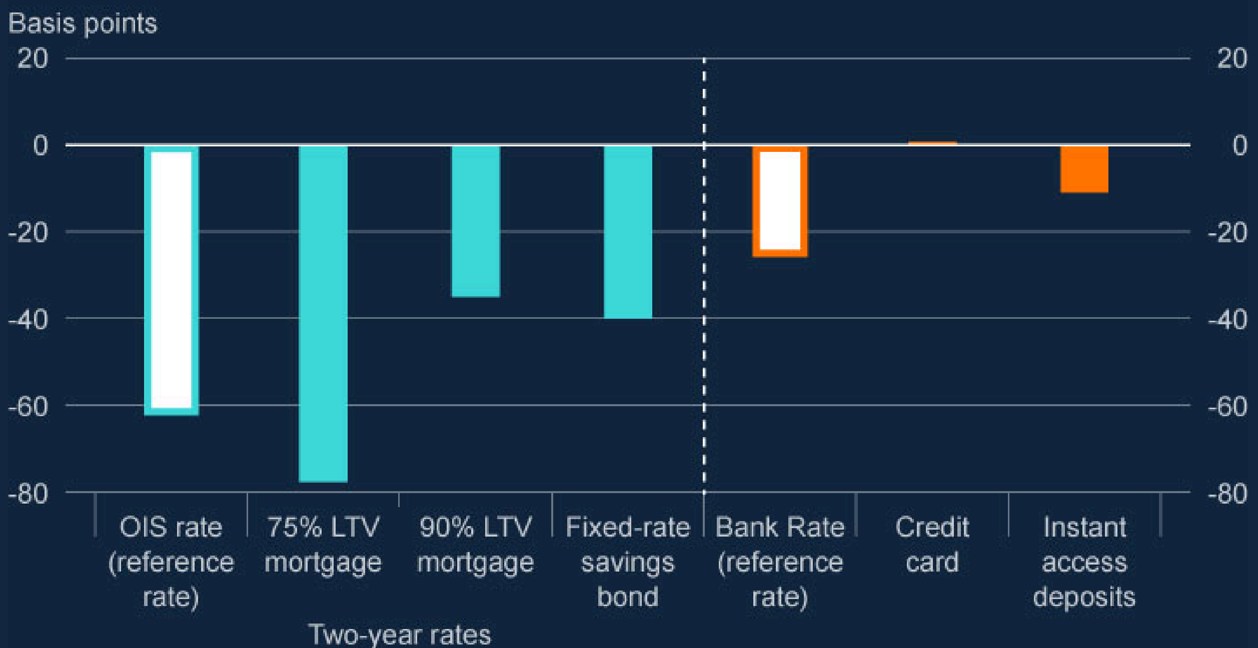
The MPC reduced Bank Rate by 25 basis points in August 2024 and the market-implied path for interest rates has fallen since its peak around May 2024. That fall in interest rates has begun to pass through to household loan and deposit rates. Pass-through so far appears to be progressing in line with expectations, with interest rates for some retail products taking time to fall, reflecting the typical lags between reference rate changes and product rate changes.

Quoted instant-access deposit rates, for which Bank Rate is the main reference rate, had fallen by 11 basis points on average by October, a little under half of the reduction in Bank Rate (Chart 2.7). Credit card rates were largely unchanged, reflecting the fact that these rates tend to respond to changes in reference rates extremely slowly.

OIS rates have fallen by more than Bank Rate and that has been reflected in larger falls, on average, in mortgage and term deposit rates. Average quoted rates on mortgages with a loan to value (LTV) ratio of 75% had fallen by 78 basis points since May. Rates for mortgages with higher LTV ratios had fallen by less. Two-year fixed rate savings rates had fallen by 40 basis points by October. OIS reference rates have increased somewhat in recent weeks, although it is too soon to assess the impact on household and corporate rates.

Chart 2.7: The declines in Bank Rate and the market-implied path of future Bank Rate have started to feed through to household deposit and lending rates

Changes in average interest rates on selected household products and their respective reference rates between May and October 2024 (a)



Sources: Bank of England, Bloomberg Finance L.P. and Bank calculations.

(a) Loan and deposit rates are based on average quoted rates. The Bank's quoted rates series are weighted monthly average rates advertised by all UK banks and building societies with products meeting the specific criteria. For more information, see **Introduction of new Quoted Rates data**. The 75% and 90% LTV mortgage rates are for two-year fixed-rate products. The reference rate for these, and for fixed-rate savings bonds, is the two-year overnight index swap (OIS) rate. Deposit and loan rates used for October represent averages of daily quoted rates using data to 29 October 2024 and were provisional. OIS rate and Bank Rate show monthly averages with OIS rates including daily rates up to 29 October 2024. Personal loans are excluded as recent changes in average quoted rates have been partly driven by a change in the composition of lenders in the data sample.

Despite the fall in quoted rates for new lending, past interest rate rises are continuing to feed through to higher interest rates for existing mortgagors.

Most UK mortgages are held on a fixed-rate basis, with around two-thirds of the stock of mortgages currently at a five-year fixed rate period from origination. This means that many households who took out mortgages prior to the sharp rise in interest rates in 2021 are yet to face an increase in their mortgage costs. Around 800,000 fixed-rate mortgages currently with an interest rate of 3% or below are expected to be refinanced per year, on average, until the end of 2027. Some mortgage holders have reduced their spending in anticipation of paying higher rates (Box E). Interest rates for those on variable rate mortgages have fallen, however, and a growing number of those who are already paying higher rates may be able to refinance at a lower rate over the next two years.

Money growth has been normalising since its post-pandemic weakness.

Aggregate broad money holdings increased markedly during the pandemic, reflecting a combination of resilient bank lending growth and the effects of quantitative easing (Box B in the **May 2024 Report**). This was followed by a period of notably weak money growth in 2022 and 2023, such that the ratios of aggregate money to GDP and household holdings of money to gross disposable income have returned to close to, although a little below, their pre-pandemic trends (left panel in Chart 2.8).

Money growth has picked up in 2024. In the year to 2024 Q2, aggregate money increased by 1.0% and growth in household money was 3.6% (right panel of Chart 2.8). These growth rates are slightly weaker than on average prior to the pandemic, however, particularly for aggregate money. That reflects continuing weakness in bank lending growth and the impact of quantitative tightening, which in the first instance reduces the deposits of non-bank investors who purchase government bonds from the Bank of England.

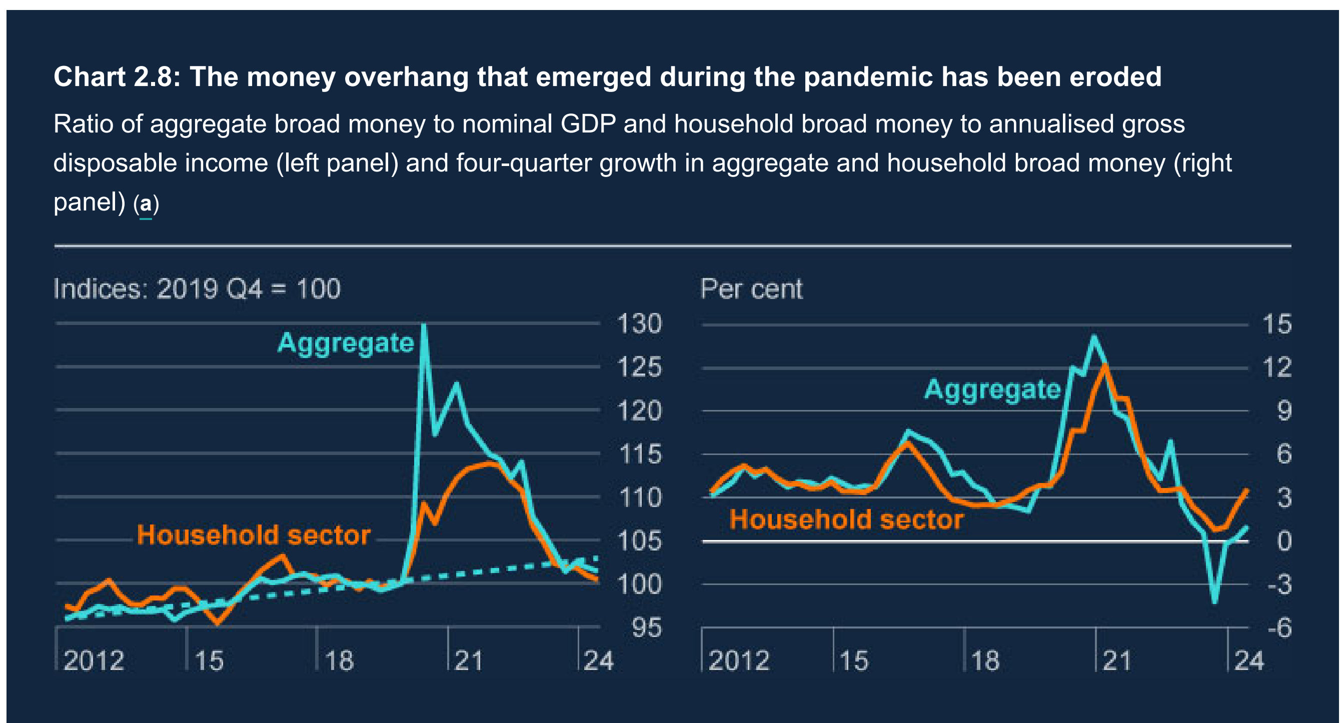


Chart 2.8: The money overhang that emerged during the pandemic has been eroded

Ratio of aggregate broad money to nominal GDP and household broad money to annualised gross disposable income (left panel) and four-quarter growth in aggregate and household broad money (right panel) (a)

Sources: Bank of England, ONS and Bank calculations.

(a) Aggregate broad money captures M4 excluding the deposits of intermediate other financial corporations. For more detail on what is captured within the household sector, see **Further details about sectoral analysis of M4 and M4 lending data**. The dashed line in the left panel shows the 2012–19 trend in the ratio of aggregate broad money to nominal GDP, projected forward. Final data points shown are for 2024 Q2.

Higher interest rates meant that time deposits and cash ISAs captured a greater share of household savings flows in late 2022 and 2023, but savings patterns in 2024 have been closer to historical norms.

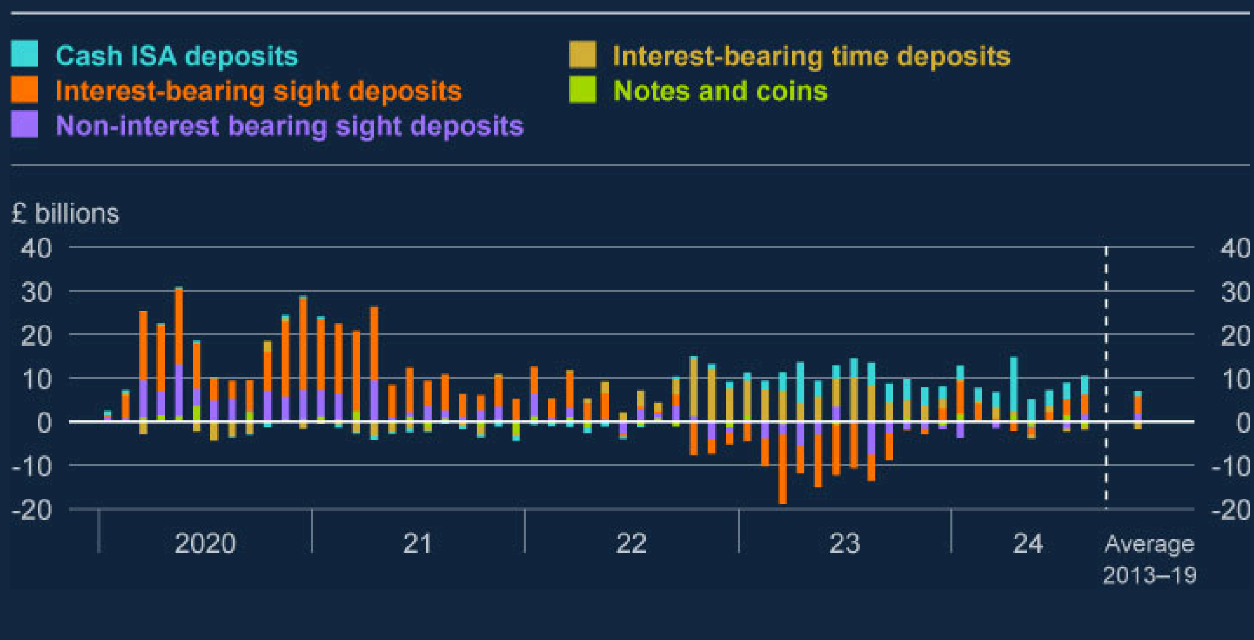
During the pandemic, some households were able to increase their savings as spending opportunities were limited, with much of this showing up as a flow into interest-bearing sight deposits (Chart 2.9). As interest rates rose, household time deposit rates rose faster than rates on sight deposits such that the interest rate differential between fixed-rate and instant-access accounts grew

larger. This encouraged households to shift savings from sight deposits to time deposits. Higher interest rates also encouraged additional use of ISA accounts as more households started to receive interest income in excess of the minimum tax threshold. Box E discusses aggregate trends in savings in more detail.

More recently, household deposit flows have returned to patterns closer to those in the years prior to the pandemic. The average spread between a two-year fixed-rate deposit account and an instant-access account has declined by around 180 basis points since its peak in July 2023. Net inflows into time deposit accounts are now small. Flows into cash ISA accounts continue to be higher than in recent years, and higher than the 2013–19 average. As deposit flows tend to be small relative to the stock of deposits, these changes in flows have had little impact on the overall composition of household savings.

Chart 2.9: There have been material changes in the pattern of household saving over the past four years

Real household deposit and money flows, by product, £ billions (a)



Sources: Bank of England and Bank calculations.

(a) Cash ISA deposits include both sight and time deposits as available data do not provide a split between these accounts. Deposit flows are deflated with the CPI index and shown in August 2024 prices. Latest data are to August 2024.

There are signs that housing market activity is picking up…

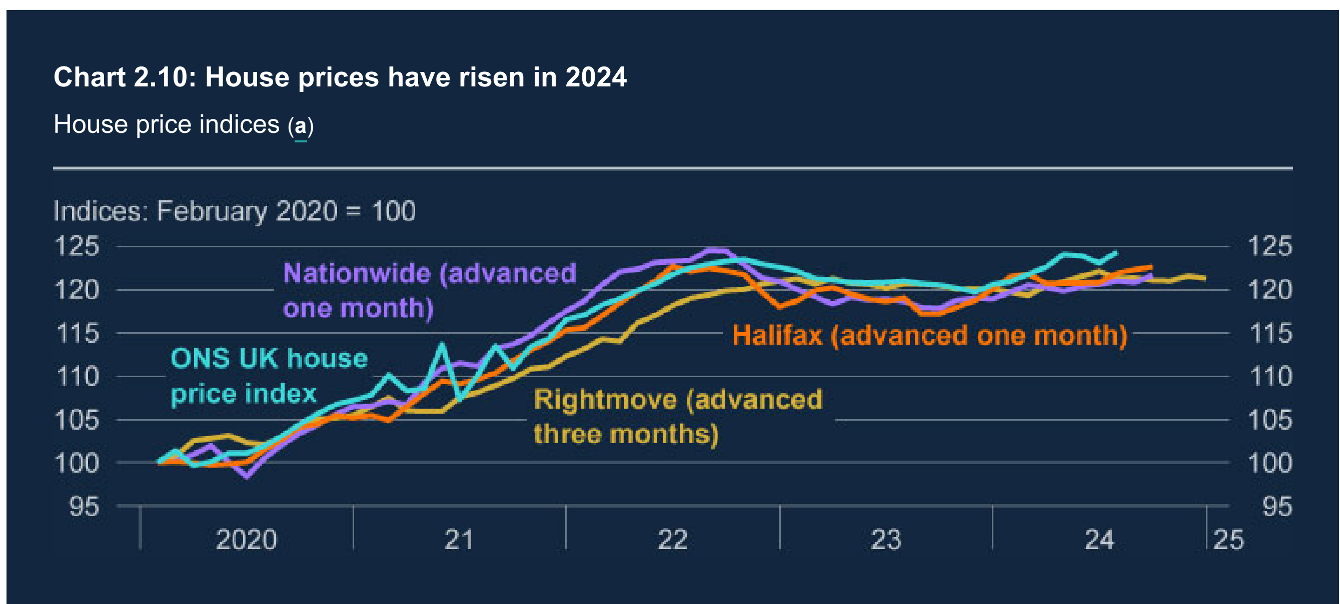
Housing market activity appears to be recovering from the lows observed in 2023. Monthly mortgage approvals for house purchase, a key part of the pipeline for housing market activity, have risen by around 50% since the start of 2023 and are now close to their average between 2014 and the start of

the pandemic. Intelligence from the Bank's Agents suggests there is growing optimism among estate agents around the prospects for housing market activity in 2025, despite some reporting a brief lull in activity in the run-up to the Budget.

In line with the recovery in mortgage approvals, nominal house prices have continued to pick up. The range of measures shown in Chart 2.10 points to a rise in house prices over the past year. The ONS measure rose by 2.7% over the 12 months to August, and by 0.4% in real terms. That followed a 2.6% and 6.3% fall in nominal and real terms respectively over 2023. The recovery in house prices partly reflects a waning drag from past interest rate rises, consistent with the impact of higher interest rates having materialised more quickly than in the past, as discussed in Box C of the **August 2024 Report**.

Chart 2.10: House prices have risen in 2024

House price indices (a)



Sources: Nationwide, ONS, LSEG Workspace, Rightmove.co.uk, S&P Global/Halifax and Bank calculations.

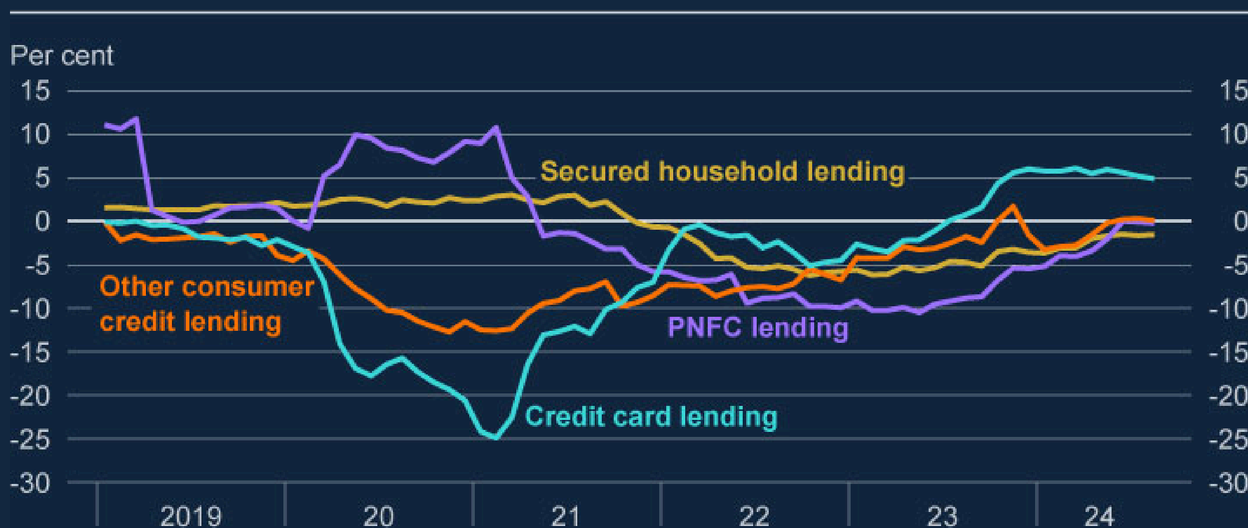
(a) The latest data point for the ONS House Price Index is August 2024. Halifax and Nationwide data to September 2024 and Rightmove data to October 2024 are advanced to reflect the respective timing of each data source in the house-buying process. The Nationwide and Halifax figures for October were released after the data cut-off.

…and that recovery will boost household secured lending growth, which currently remains weak.

The recovery in housing market activity has led to a small turnaround in the growth rate of secured lending to households. Secured household lending growth remains weak in real terms, however, and has been negative since late 2021 (Chart 2.11). A continued pickup in housing market activity should lead to a strengthening in secured lending growth. Consistent with that, banks responding to the 2024 Q3 **Credit Conditions Survey** expected demand for secured credit to increase in 2024 Q4.

Chart 2.11: Secured household lending growth has risen but remains subdued

Twelve-month growth rate of M4 lending in real terms, by sector (a)



Sources: Bank of England and Bank calculations.

(a) Private non-financial corporation (PNFC) lending includes loans to and securities issued by private non-financial corporations. Changes in the stock of M4 include transactions and other changes in asset values, see **Further details about changes, flows, growth rates data**. Data are deflated using the CPI index. Final data points refer to August 2024.

Consumer credit growth has slowed a little but remains strong.

In contrast to the weakness in mortgage lending, consumer credit growth has been strong for the past year, particularly growth in credit card lending. After falling during the pandemic, twelve-month growth in credit card lending, measured in real terms, climbed to around 5% in the second half of 2023 (Chart 2.11). That may have partly reflected a post-pandemic catch-up as wealthier households built up transactor balances (those balances which cover monthly expenditure and then are paid off each month, in contrast to balances which are not paid off each month and are charged interest). And some households may have borrowed to smooth their consumption in response to recent high inflation (**StepChange (2024)**). Credit card lending growth has fallen back slightly over 2024 but it remains elevated. Banks responding to the 2024 Q3 **Credit Conditions Survey**, on average, expected a small decrease in unsecured household lending in 2024 Q4.

There has been a notable pickup in corporate lending, although it remains weak.

Corporate lending was weak following the pandemic, reflecting the fact that many businesses had borrowed through the various pandemic-era government loan schemes. But real corporate lending growth has since recovered somewhat. Banks responding to the 2024 Q3 Credit Conditions Survey expected an increase in demand for lending from medium and large businesses in Q4. Small and medium-sized enterprise (SME) lending remains weak, in part reflecting continued repayments of pandemic-era loans. Responses to the Q3 Credit Conditions Survey pointed to a modest expected fall in demand for credit for small firms in Q4, consistent with intelligence from the Bank's Agents.

2.3: Domestic activity

GDP growth in 2024 Q2 was slightly weaker than expected…

GDP grew by 0.5% in 2024 Q2, 0.2 percentage points below the projection in the August Report. The largest positive contributions were from business investment and government expenditure, partly offset by a contraction in housing investment (Chart 2.12).

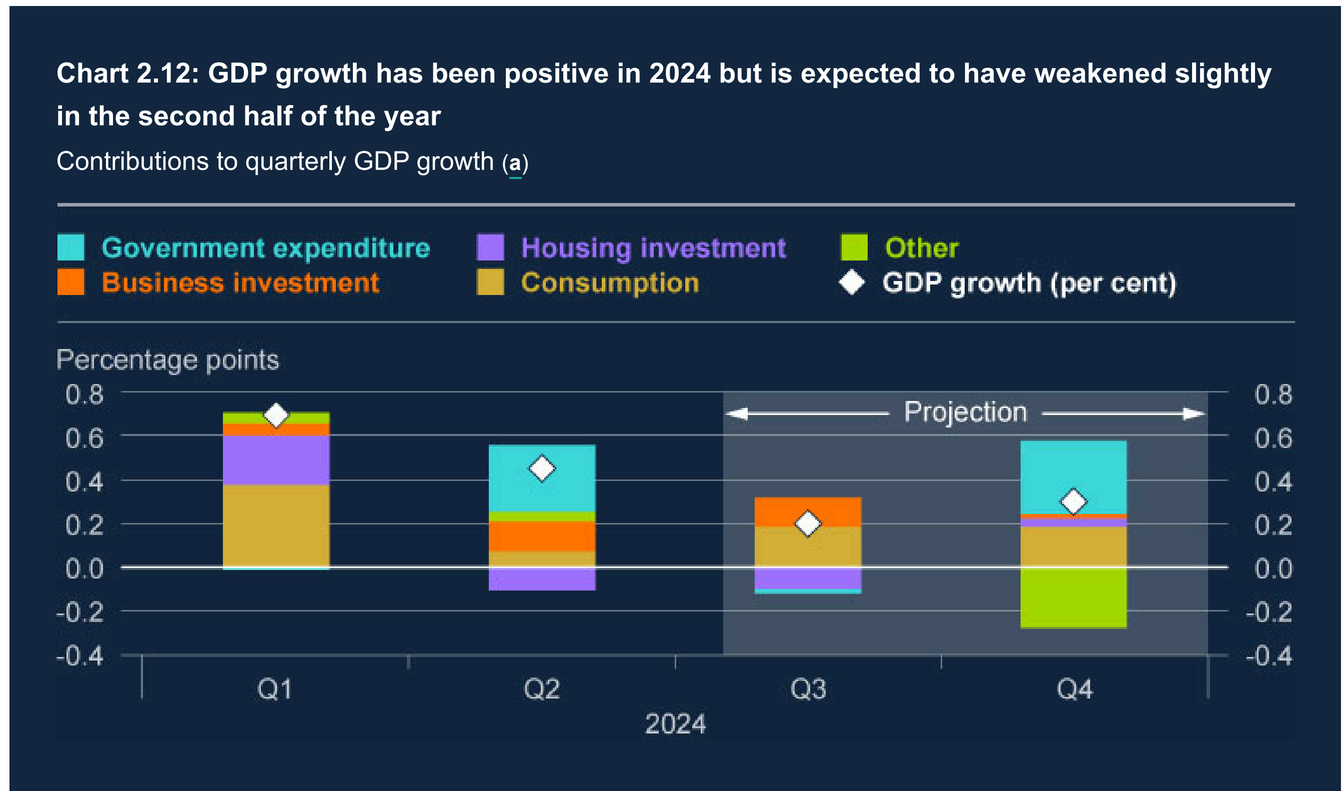


Chart 2.12: GDP growth has been positive in 2024 but is expected to have weakened slightly in the second half of the year

Contributions to quarterly GDP growth (a)

Sources: ONS and Bank calculations.

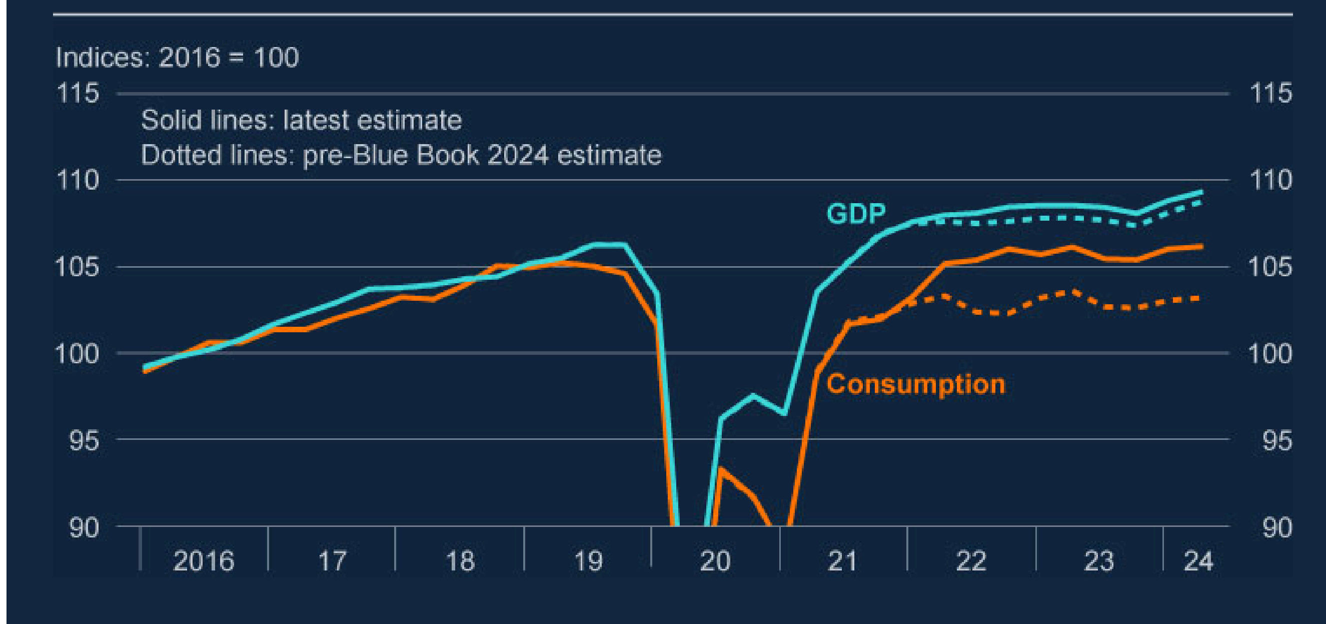
(a) Diamonds show quarterly headline GDP growth. Figures for 2024 Q3 and Q4 are Bank staff projections.

…but Blue Book 2024 materially revised up estimated GDP, implying a stronger recovery from the pandemic.

Data revisions in Blue Book 2024 indicate that the recovery in GDP since the pandemic was stronger than previously estimated, particularly in late 2021 and early 2022. The level of real GDP in 2024 Q2 was 2.9% higher than in 2019 Q4, 0.5 percentage points higher than the estimate prior to the Blue Book revisions (Chart 2.13). Dynamics over 2023 and 2024 have been revised relatively little. Consumption accounted for most of the upward revision to GDP: consumption in 2024 Q2 is now estimated to have grown by 1.5% since 2019 Q4, compared with the previous estimate of -1.3%. The revisions to household consumption have important implications for the household saving ratio, discussed further in Box E.

Chart 2.13: Consumption and GDP were revised materially higher in Blue Book 2024

GDP and household consumption, chained-volume measures (a)



Sources: ONS and Bank calculations.

(a) Household consumption includes consumption by non-profit institutions serving households. The final data points are for 2024 Q2.

GDP growth is expected to have fallen back to Bank staff's estimates of underlying momentum in the second half of 2024.

GDP growth is projected to slow in the second half of this year, to 0.2% in Q3 and 0.3% in Q4. Headline GDP growth has been volatile over the past year, with negative growth in 2023 before strong growth in early 2024. But Bank staff's indicator model, consistent with the collective steer from business surveys, has implied a smoother path for output growth over that period (Chart 2.14). On balance, while there is judged to have been some weakening in output in late 2023, reflecting the effects of higher interest rates, followed by an unwind of that weakness in the first half of this year, that pattern is likely to have been somewhat less pronounced than implied by the official data.

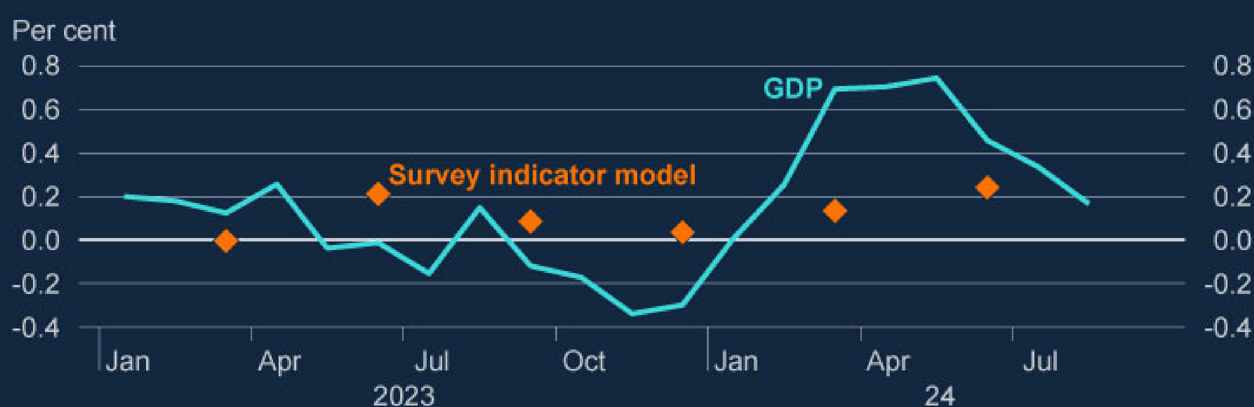
GDP growth is projected to be broadly in line with Bank staff's estimate of underlying momentum in the economy in 2024 H2, of around ¼% per quarter. The latest indications from business surveys currently point to growth of around this rate. And three-month on three-month GDP growth rates were 0.3% and 0.2% respectively in July and August 2024. The economy's supply potential is judged to be growing at a broadly similar rate.

There are some downside risks to the near-term outlook. Contacts of the Bank's Agents report that, while the August Bank Rate reduction and anticipated further cuts in interest rates are continuing to improve business sentiment, expectations for activity have weakened slightly since the August Report. Some other indicators have also declined. The S&P Global/CIPS UK composite current output PMI weakened in October and was at its lowest level since November 2023. Reports from the

Bank's Agents' contacts and survey measures of activity are likely to have been affected by temporary uncertainty ahead of Autumn Budget 2024, however, and so may be less indicative of GDP growth than would be typical.

Chart 2.14: GDP growth was lower than implied by business surveys in 2023 but recovered in the first part of 2024

Three-month on three-month growth in GDP and quarterly GDP growth implied by business surveys (a)



Sources: British Chambers of Commerce (BCC), CBI, Lloyds Business Barometer, ONS, S&P Global/CIPS and Bank calculations.

(a) Bank staff's indicator-based model of GDP uses mixed-data sampling (MIDAS) techniques (Daniell and Moreira (2023)).

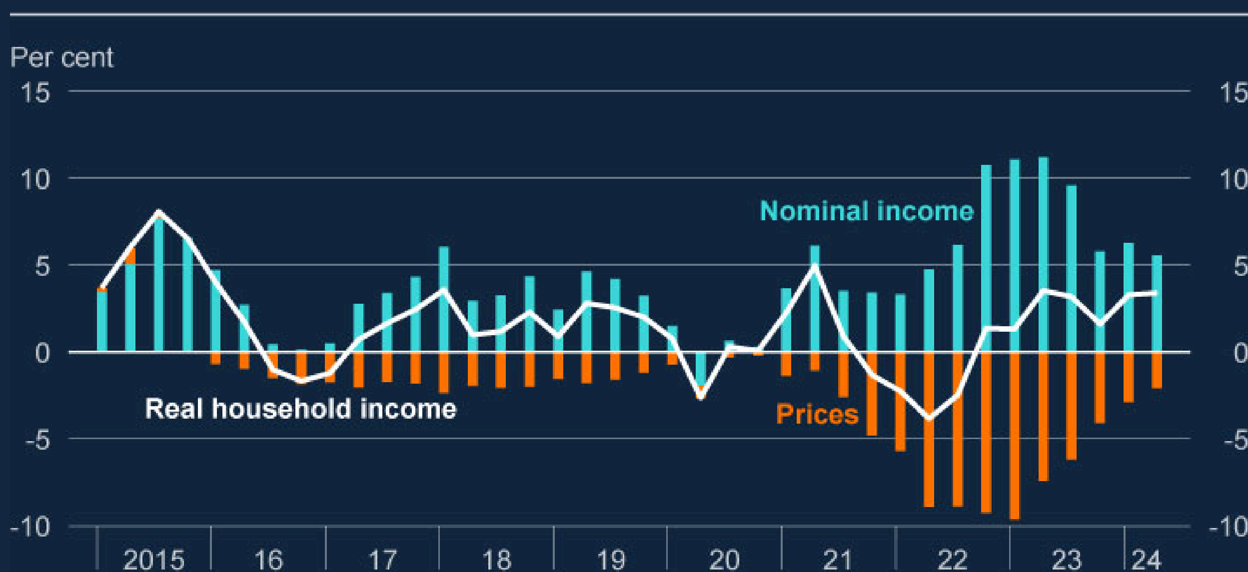
Near-term GDP growth is expected to be underpinned by growth in household consumption and business investment. Government expenditure is also expected to support GDP growth.

Household consumption grew by 0.1% in 2024 Q2. And it is projected to grow by 0.3% in 2024 Q3 and Q4, similar to expectations at the time of the August Report. Consumption is expected to be supported by continued growth in household real incomes and a waning drag from higher interest rates. Retail sales volumes growth has picked up, growing by 1.9% in 2024 Q3. Having fallen in 2022, real household incomes have recovered as inflation has fallen, growing by 3.4% over the year to 2024 Q2 (Chart 2.15).

There is, however, significant uncertainty over the outlook for consumption. Some measures of consumer confidence have weakened slightly in recent months, and the GfK consumer confidence index for major purchases remains low, despite picking up since its trough at the end of 2022. This is reflected in reports from the Bank's Agents, where consumer-facing contacts have, on average, reported less optimism about the economic outlook. But weak consumer sentiment may reflect temporary uncertainty prior to the Autumn Budget 2024 and could unwind. The outlook for household savings and consumption is discussed in further detail in Box E.

Chart 2.15: Real income growth has picked up as inflation has slowed

Contributions to four-quarter growth in real household disposable income (a)



Sources: ONS and Bank calculations.

(a) Income is the ONS measure of household disposable income. This is total household income, including labour income, pensions, investment and benefits, net of direct taxes. The contribution from prices is based on the consumption deflator. Data cover households and non-profit institutions serving households. Data are to 2024 Q2.

Business investment growth was relatively strong in 2024 H1. That strength is projected to continue, with quarterly growth of 1.3% in 2024 Q3 and 0.2% in 2024 Q4. Consistent with that, contacts of the Banks' Agents report that, despite uncertainty around the economic outlook, investment intentions have improved since August. Some contacts have highlighted strength in labour costs as having incentivised additional investment. In addition, lower current and expected future interest rates will be incentivising additional investment as financing costs fall.

Housing investment growth has been volatile so far in 2024, rising by 4.7% in 2024 Q1 before falling back by 2.1% in Q2. Housing investment has historically been sensitive to interest rates. As discussed in Box C of the **August 2024 Report**, as the effects of higher interest rates on house prices continue to wane, and housing activity continues to pick up, housing investment is expected to strengthen. In the near term, housing investment is projected to fall by 2.1% in 2024 Q3 before growing by 0.8% in 2024 Q4.

Central government spending has pushed up GDP growth in Q1 and Q2. Government spending so far in 2024–25 has been higher than the OBR's March projections, partly reflecting the impact of additional in-year spending pressures. Measures announced at Autumn Budget 2024 are expected to boost GDP over the MPC's forecast period as additional investment and current departmental spending more than offset announced net tax rises (Box B).

2.4: The labour market and slack

Bank staff estimates suggest that employment growth has remained modest.

The ONS Labour Force Survey (LFS) estimate of employment increased by 0.3% in 2024 Q2. The LFS measure has been particularly volatile over recent quarters, however, reflecting significant challenges with the survey collection: the achieved sample size in the LFS remains historically low and there is material uncertainty around any estimates (**Box D May 2024 Monetary Policy Report**). An alternative measure based on a broader range of employment indicators (including the HMRC RTI payrolls employee data, business surveys and the Bank's Agents' employment score) points to slow but positive employment growth of 0.2% in 2024 Q2 (Chart 2.16). This model estimate has been broadly stable over recent quarters and points to a similar rate of growth continuing in the near term.

Chart 2.16: Employment growth is estimated to have been stable

Quarterly employment growth (a)

Sources: Bank of England Agents, HM Revenue and Customs, KPMG/REC/S&P Global UK Report on Jobs, Lloyds Business Barometer, ONS, S&P Global/CIPS and Bank calculations.

(a) Bank staff's indicator-based model of near-term employment growth use mixed-data sampling (MIDAS) techniques (**Daniell and Moreira (2023)**). Latest data are to 2024 Q2 and the diamond shows Bank staff's projection for 2024 Q3.

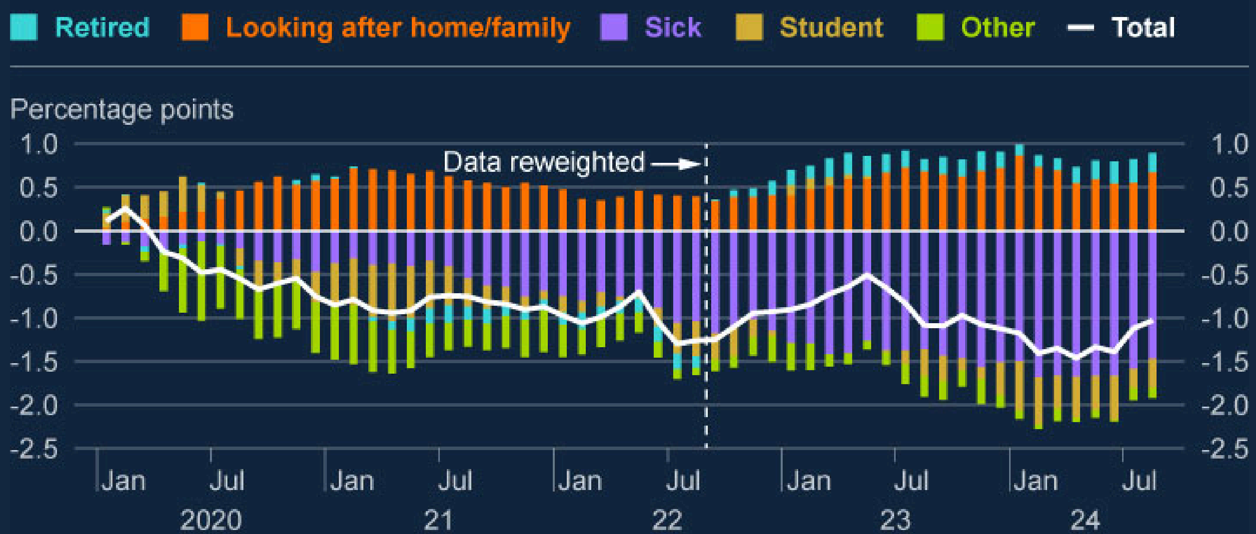
The Labour Force Survey (LFS) suggests that the economic activity rate has fallen since the pandemic, but there is uncertainty around this estimate.

The share of adults aged 16–64 who are economically active, meaning that they have a paid job or are actively looking for one, fell from 79.2% in 2019 Q4 to 78.2% in the three months to August 2024, according to the LFS. There is uncertainty over the drivers of this fall in the economic activity rate, but the largest contributor to the fall appears to have been a rise in the share of working-age adults reporting that they are not in the labour force primarily due to sickness (Chart 2.17). These data are particularly uncertain given the challenges with the LFS noted above and because the ONS has not

provided consistent historic estimates for these series after it reweighted estimates from September 2022 onwards. Overall, despite the economic activity rate seeming to be lower than prior to the pandemic, there has been relatively little change over the past two years.

Chart 2.17: Increasing levels of reported sickness since the pandemic have driven a fall in the economic activity rate, based on LFS estimates

Contribution to change in economic activity rate since 2019 Q4, by main reason for economic inactivity (a)



Sources: ONS and Bank calculations.

(a) Changes are shown from the three months to December 2019 and are based on those aged 16–64. Other reasons include: discouraged workers; those awaiting the results of a job application; have not yet started looking for work; do not need or want employment; have given an uncategorised reason; or have not given a reason. Sickness includes both those long-term and temporarily sick. The LFS was reweighted from September 2022. Prior estimates of the number of people outside the labour force by main reason were not adjusted leading to a structural break in the series. To provide a consistent estimate over this period, the contributions to the activity rate prior to the reweighting are calculated based on the relative shares of each group scaled to match the overall (reweighted) change in the activity rate. The final data points are the three months to August 2024.

Revisions by the ONS to its estimates of the size of the UK population mean that current LFS estimates of employment, and consequently the number of economically active individuals, are likely to be too low. The UK population is estimated to have grown faster than the measure of population used in the current LFS, partly as a result of higher net migration. The ONS plans to account for these larger population estimates in December 2024 (**ONS (2024)**). While the levels of employment and economic activity are expected to be revised up, Bank staff estimates suggest that the corresponding rates of employment and economic activity are likely to be revised down slightly.

The unemployment rate is judged to have been little changed over 2024.

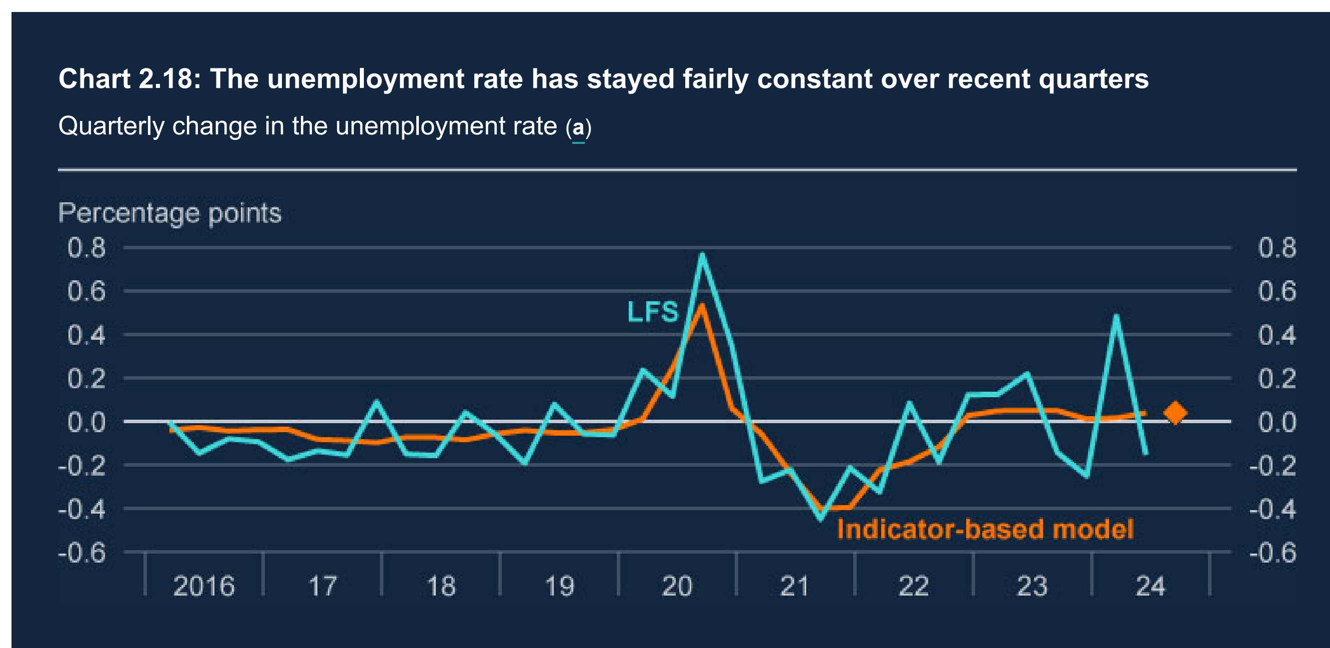
The latest LFS data suggest that the unemployment rate was 4.0% in the three months to August. A model drawing on non-LFS indicators of unemployment, which includes the claimant count and the Agents' score for recruitment difficulties, suggests that the underlying unemployment rate – the rate

of unemployment abstracting from data noise in the LFS – has been broadly flat over the last few quarters, although there are uncertainties around this estimate (Chart 2.18). The ONS measure of redundancies has also remained low.

Looking ahead, the unemployment rate is projected to be a little over 4% in coming quarters before rising slightly further out (Section 1).

Chart 2.18: The unemployment rate has stayed fairly constant over recent quarters

Quarterly change in the unemployment rate (a)



Sources: Bank of England Agents, Google Trends, IHS Markit, KPMG/REC UK Report on Jobs, ONS and Bank calculations.

(a) Bank staff's indicator-based models of near-term unemployment use mixed-data sampling (MIDAS) techniques (**Daniell and Moreira (2023)**). Latest data are to 2024 Q2 and the diamond shows Bank staff's projection for 2024 Q3.

The labour market has continued to ease but appears relatively tight by historical standards.

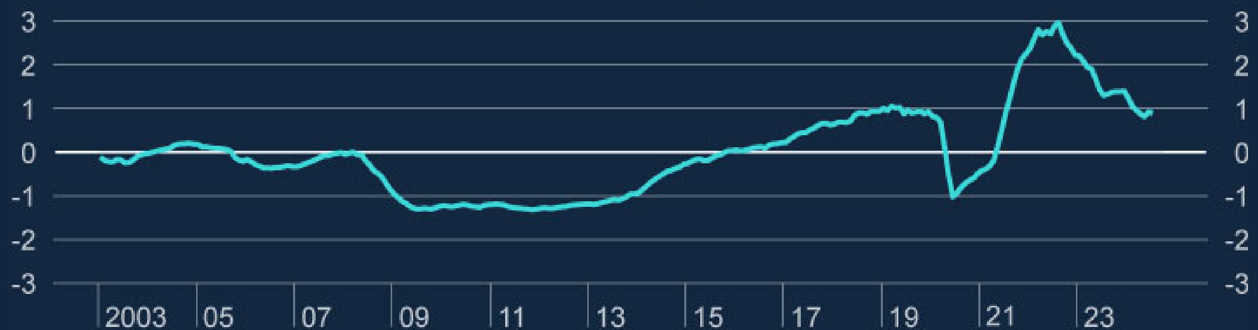
A key measure of labour market tightness is the ratio of job vacancies to the number of people unemployed: when it is high there are few unemployed people available to fill any given vacancy, which can lead to upward pressure on wage growth as businesses compete to hire workers (Section 2.5). The vacancies to unemployment ratio has fallen moderately since the start of 2024 and is now in line with its 2019 level, although that was somewhat tighter than in the past (Chart 2.19). The pace of easing appears to have slowed somewhat, in part as the decline in vacancies has slowed: in mid-2023, the number of vacancies had fallen by more than 20% compared with a year earlier; that compares with a fall of 14% in the year to September 2024.

Alternative measures are also consistent with a continued easing in the labour market. The Bank's Agents' measure of recruitment difficulty has fallen back to levels last seen in 2017. And 6.4% of firms responding to the Business Insights and Conditions Survey reported experiencing difficulties in recruiting staff in September 2024, down from around 13% in mid-2022.

Chart 2.19: Tightness in the labour market continues to ease, although at a slower pace than in 2023

Vacancies to unemployment ratio (a)

Difference from average (number of standard deviations)



Sources: ONS and Bank calculations.

(a) Comparisons in the vacancies to unemployment ratio over long periods are uncertain because, for example, the falling average cost of posting a job vacancy may have affected the number of vacancies posted for a given level of labour market tightness. The series is shown relative to the 2002 to 2024 Q2 average. The final data point is the three months to August 2024.

Some measures of labour market tightness have eased by less. The proportion of people who want more hours in their current job, which would be expected to be low if the labour market is tight, was estimated to have been 5.7% on a seasonally-adjusted basis in 2024 Q2, only slightly higher than its average rate of 5.5% in 2022 and well below typical levels in the 2010s (Chart 2.20). Relatively large movements over recent quarters may reflect volatility due to the low sample sizes in the current LFS. More broadly, average hours worked by full time workers has mostly recovered from the pandemic period. However, at an average of 36.6 hours per week, it remains lower than at any point during the 2010s.

Chart 2.20: The share of workers wanting to work more hours in their current jobs remains low

Percentage of workers reporting wanting to work more hours in their existing job (a)

Sources: ONS and Bank calculations.

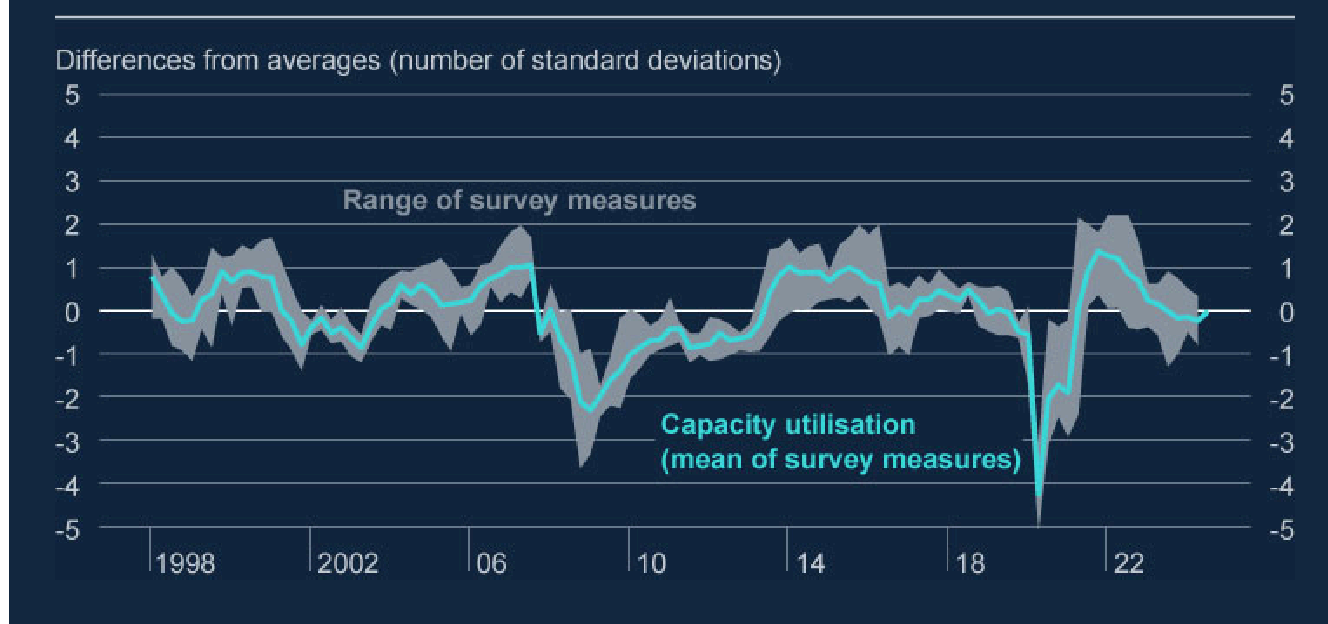
(a) The final data point is 2024 Q2.

Spare capacity within firms appears to be close to historical averages.

Measures of capacity utilisation can indicate the extent to which firms are able to expand output without generating additional inflationary pressures. This partly captures additional available labour supply within firms, such as those wanting more hours. But it also captures underutilised capital such as additional machines or office space, which can be used to expand output at a low marginal cost. Survey measures of capacity utilisation suggest that, while firms were operating above their normal levels of capacity immediately following the pandemic, capacity utilisation has since returned to around historical average (Chart 2.21). These measures have been little changed since the start of 2024.

Chart 2.21: Measures of capacity utilisation are close to their average levels over the past

Survey indicators of capacity utilisation (a)



Sources: Bank of England Agents, British Chambers of Commerce (BCC), CBI, S&P Global/CIPS, ONS and Bank calculations.

(a) Standard deviations from averages between 2000–19. The measures included in the swathe are from the Bank's Agents, the BCC (non-services and services), the CBI (manufacturing (capacity); financial services, business/consumer/professional services and distributive trade (business relative to normal)) and CIPS (manufacturing (backlogs); services (outstanding business)). Sectors are weighted using shares in gross value added. The BCC data are not seasonally adjusted. The data are shown to 2024 Q3.

Aggregate demand and supply are judged to be broadly in balance.

The MPC judges that aggregate supply and demand remain broadly in balance. The margin of economic slack is judged to be slightly smaller than assumed at the time of the August Report, at around zero (Section 1). That is consistent with half of the upward revision to GDP in Blue Book 2024 having reflected additional excess demand. The MPC tends to revise its judgement on the level of economic slack over time as data are released and revised. A fuller assessment of the supply capacity of the economy will be conducted as part of the MPC's next stocktake. The MPC judges that aggregate demand and supply will remain balanced in the near term, before a degree of slack opens up in the second half of the forecast period (Section 1).

2.5: Inflation and wages

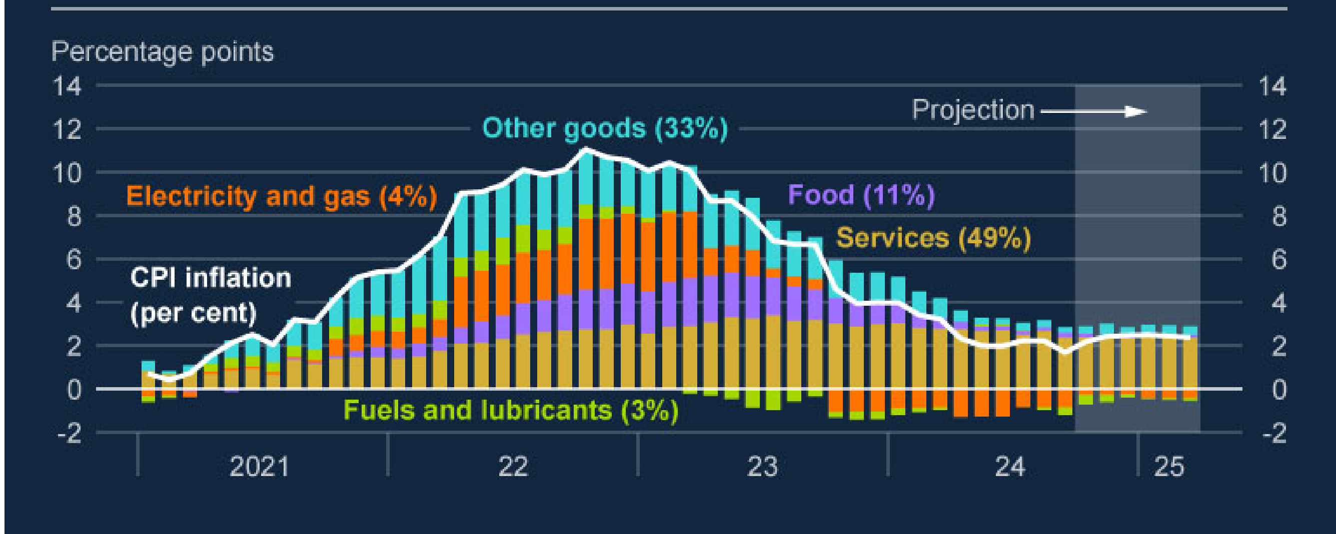
Consumer price inflation was slightly below the MPC's 2% target in September.

Twelve-month CPI inflation fell to 1.7% in September, from 2.2% in July and August (Chart 2.22). That was 0.4 percentage points below the August Report projection, accounted for by lower-than-expected prices of fuel, accommodation and airfares. Since the start of the year, the fall in headline CPI inflation has largely reflected lower core goods and food price inflation. Services inflation has declined to a lesser degree, from 6.5% in January to 4.9% in the latest data.

Core CPI inflation, which excludes energy, food, beverages and tobacco, was 3.2% in September, down from 3.5% in June and much lower than its level of 5.1% at the start of the year.

Chart 2.22: CPI inflation fell to 1.7% in September, but it is expected to rise again before the end of the year

Contributions to CPI inflation (a)



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

(a) Figures in parentheses are CPI basket weights in 2024. Data to September 2024. Component-level Bank staff projections from October 2024 to March 2025. The food component is defined as food and non-alcoholic beverages. Fuels and lubricants estimates use Department for Energy Security and Net Zero petrol price data for October 2024 and are then based on the sterling oil futures curve.

Inflation is projected to rise above the 2% target in the final quarter of 2024.

Headline CPI inflation is projected to rise to 2.5% around the turn of the year. Reductions in the Ofgem price cap in 2023 Q3 and Q4 mean that utilities prices have been weighing on headline CPI inflation. As those reductions drop out of the annual comparison, CPI inflation is expected to rise somewhat. Additionally, the increase in the Ofgem price cap for the typical household from £1,568 in July to £1,717 in October of this year will add an estimated 0.3 percentage points to CPI inflation in 2024 Q4.

The near-term path for CPI inflation is 0.4 percentage points lower than expected in the August Report. The recent fall in sterling oil prices and the resulting path for fuel prices accounts for 0.3 percentage points of the downward revision, with a further 0.3 percentage points accounted for by a lower expected contribution from services inflation. This is partially offset by small upside news spread among the food, core goods and utilities components.

Taken together, the policies announced at Autumn Budget 2024 are expected to add just under 0.2 percentage points to the projection for annual CPI inflation in 2025 Q1. This is accounted for by the rise in the cap on bus fares and introduction of VAT on private school fees (see below), which push

inflation up from January. The effects of the Budget on inflation in the medium term are discussed further in Section 1 and Box B.

Core goods inflation has been subdued but is expected to return to its pre-Covid average in coming months.

Annual core goods CPI inflation was 0.2% in September, below its pre-Covid average and slightly above expectations in the August Report. Core goods inflation has fallen materially over the past 18 months, driven by declines in the prices of energy and other imported goods as previous global shocks have unwound.

Bank staff expect core goods inflation to return to around its pre-Covid average over the coming months (Chart 2.23). Indicators of input cost pressures generally remain muted. PPI input prices have been flat in recent months, and although the PMI manufacturing input price index had been around its historical average since the summer, the October release recorded a sharp decline, likely reflecting the fall in oil prices. Global export price inflation, a key driver of goods prices in the UK (see Box D), has fallen back since its peak in 2022 and is expected to be subdued in coming quarters, although there are risks in both directions (Section 2.1).

Food price inflation has also declined significantly, to 1.9% in September from a peak of 19.1% in March 2023, owing to lower energy and agricultural commodities prices. Bank staff expect annual food price inflation to average 1.1% across the coming six months, below its pre-Covid average.

Chart 2.23: Services inflation remains elevated relative to its pre-Covid average

Annual inflation rates for components of CPI (a)

Sources: ONS and Bank calculations.

(a) The core goods component is defined as goods excluding food and non-alcoholic beverages, alcohol, tobacco and energy. Data are to September 2024. Bank staff projections from October 2024 to March 2025. Dashed lines represent 2010–19 averages which are 3.0% and 0.8% for services and core goods respectively.

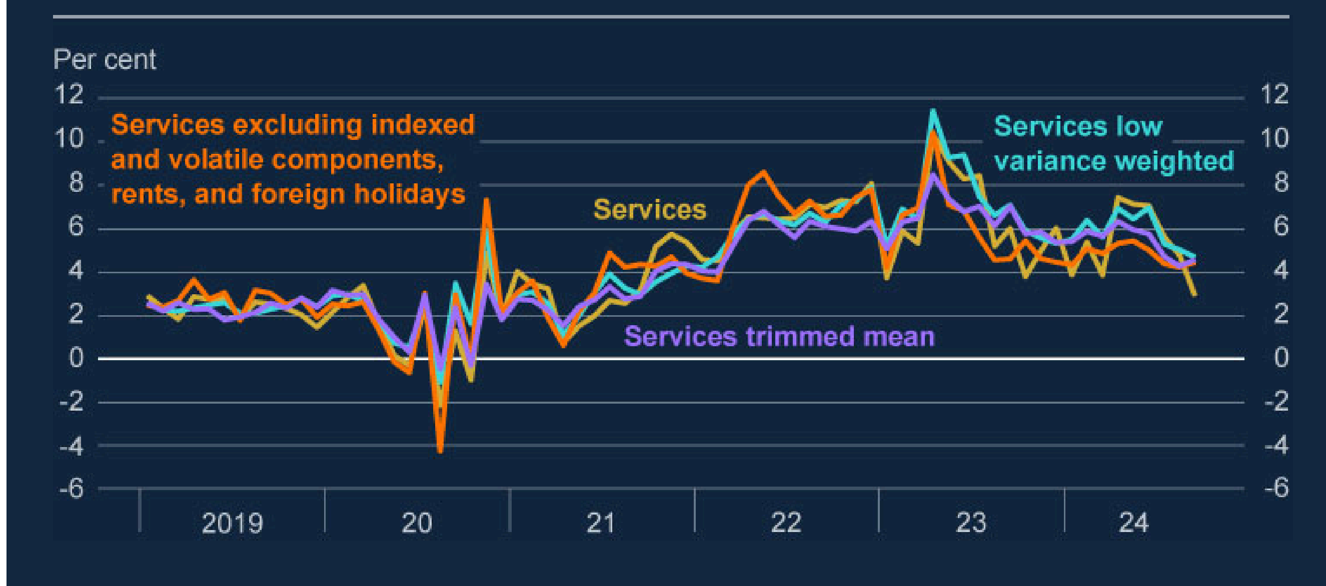
Services price inflation has fallen gradually over 2024 but remains elevated.

Services consumer price inflation was 4.9% in September, 0.6 percentage points below the August Report projection. Most of the downside news reflected lower-than-expected inflation in volatile components, including accommodation and airfares, and higher-frequency measures have been more stable. Staff expect a small amount of the volatility in services inflation to unwind in coming months. More generally, annual services inflation has crept down over the course of 2024 but remains elevated.

Higher-frequency measures of services price inflation, which can be indicative of near-term inflation momentum, have moved lower in the most recent data but have tended to remain elevated. There are a range of approaches to assessing near-term momentum in services prices, and Chart 2.24 presents three alternative measures in addition to the headline series. The orange line, which excludes some of the most volatile components of services inflation, has remained at, or just below, the bottom of its range observed since mid-2023. A 'low variance' measure of services inflation (aqua line), which dynamically reduces the weights of the most volatile components of the CPI basket, has fallen a little lower, but by less than the headline services measure. A similar picture is observed for the trimmed mean inflation measure (purple line), which removes some of the largest and smallest price changes. All of these measures point to a three-month average of monthly annualised services inflation of around 4.6% in September, higher than the 2.9% annualised rate implied by the headline services measure.

Chart 2.24: Part of the fall in higher-frequency services price inflation reflects volatility

Measures of higher-frequency services price inflation (a)



Sources: ONS and Bank calculations.

(a) Measures shown are three-month averages of seasonally adjusted monthly annualised inflation. The low variance measure is calculated by weighting each component of services inflation by the inverse variance of the change in 12-month inflation of that component from 12 months previously. The maximum adjusted weight is capped at twice its original value. Details on the components which have been included/excluded from the 'Services excluding indexed and volatile components, rents and foreign holidays' measure are included in the accompanying spreadsheet published online. The trimmed mean measure excludes the 10% largest and 10% smallest price changes. The latest data points shown refer to September 2024.

Elevated inflationary pressures also remain evident in the frequency of price changes among services. The proportion of services prices rising in each month has been higher than its pre-pandemic average since 2022, although it has fallen from its peak in 2023 (Chart 2.25). The frequency of price changes – rather than the magnitude of each price change – tends to be the primary driver of the overall inflation rate, particularly in high inflation episodes (**Nakamura et al (2018)**). Looking ahead, consumer-facing services respondents in the DMP Survey expect the share of prices that change each month to remain elevated next year, similar to the rates seen in 2023–24, and still much higher than those seen in 2019.

Chart 2.25: The share of prices being increased each month has risen sharply since 2022

Share of monthly CPI services price quotes that show price increases or decreases, total services and excluding catering and accommodation (a)

Sources: ONS and Bank calculations.

(a) Chart shows a rolling 12-month average. Catering and accommodation services are excluded from the dashed lines as these have been more affected by recent external cost shocks – for example elevated food price inflation – than other types of services. The latest data points refer to September 2024.

Waning non-labour cost pressures have driven services inflation lower, but labour costs remain elevated.

The fall in services inflation from its recent peak has largely been driven by easing non-labour cost pressures. Consistent with that, the share of respondents to the ONS Business Insights and Conditions Survey (BICS) citing non-wage costs as the cause of price rises has declined since mid-2022, while the share citing labour costs as being important has been broadly stable. Consumer-facing services contacts of the Bank's Agents cite wage pressures as a key factor affecting pricing decisions.

The extent to which firms pass higher labour costs into prices will be an important determinant of the outlook for services inflation.

While the evidence is mixed, firms appear not to have fully passed cost increases into prices in recent years. Respondents to the DMP Survey reported falling and flat profit margins in 2022 and 2023, respectively. National Accounts data suggest that the profit share of income has fallen slightly relative to pre-pandemic levels (Chart 2.26), and the labour share of income has risen a little. Taken together, these data are broadly consistent with reports from the Bank's Agents that margins are compressed.

Margins compression appears to have caused increased cash-flow constraints for a subset of small-sized firms. Responses to the BICS point to some deterioration in cash reserves for small-sized firms over 2024, with around 40% of respondents now holding cash reserves sufficient to cover less than four months' expenses, compared with around 35% in 2023. There is less evidence of a deterioration

in cash flow for medium and large-sized firms. There is a risk that cash-flow constraints translate into reduced employment for those firms affected, particularly if labour costs remain elevated. Staff analysis of the BICS responses, for example, suggests that having lower cash reserves in a given month increases firms' expectations of having to reduce headcount the following month.

Chart 2.26: The profit share of income has fallen slightly in recent years

Private sector profit share, four quarter moving average (a)

Sources: ONS and Bank calculations.

(a) The private sector profit share is calculated as the private sector gross operating surplus (private sector non-financial corporations and financial corporations excluding the alignment adjustment) divided by private sector gross operating surplus plus compensation of employees. Data are to 2024 Q2.

The extent to which firms pass higher labour costs, including those associated with the higher rate of employer National Insurance contributions (NICs) announced at the Budget, into prices in coming quarters will depend in part on the strength of demand in the economy as well as the competitive pressures they face. At present, the scope for such pass-through appears to be limited. The Bank's Agents' intelligence suggests that firms in consumer-facing industries face difficulties in passing through costs given subdued demand. And while firms responding to the DMP Survey expected some margin expansion in coming quarters, firms in sectors with the largest weights in consumption, including retail, accommodation and food services, expected only modest increases. Large corporates responding to the 2024 Q3 Deloitte CFO survey on balance expected margins to remain broadly unchanged over the coming 12 months.

Services price inflation is projected to remain above its pre-Covid average in the near term.

Annual services price inflation is expected to be broadly stable over the coming six months at above its pre-Covid average level, averaging 4.9% (Chart 2.23). Within that, the expected impact of introducing VAT on private school fees raises the contribution of education to overall services inflation by 0.2 percentage points from January 2025. In addition, the announced increase in the cap on single bus fares from £2 to £3 is expected to add around 0.1 percentage points to services inflation from January (Box B).

Beyond the next six months, consumer-facing service sector respondents to the October DMP Survey expected their own price inflation to fall by around 1 percentage point, to just over 4% over the year ahead (Chart 2.27). Those expectations have stabilised in recent months and are somewhat higher than the average of responses between 2018 and 2019. Box A outlines risks in both directions to the outlook for inflation.

Chart 2.27: Firms responding to the DMP Survey expect further declines in services price inflation

Annual consumer service price inflation, realised and expected (a)

Sources: DMP Survey and Bank calculations.

(a) Data are three-month averages and the final realised data point is October 2024. The diamonds show expectations for the year ahead from successive survey waves.

Inflation expectations have largely returned to historical averages.

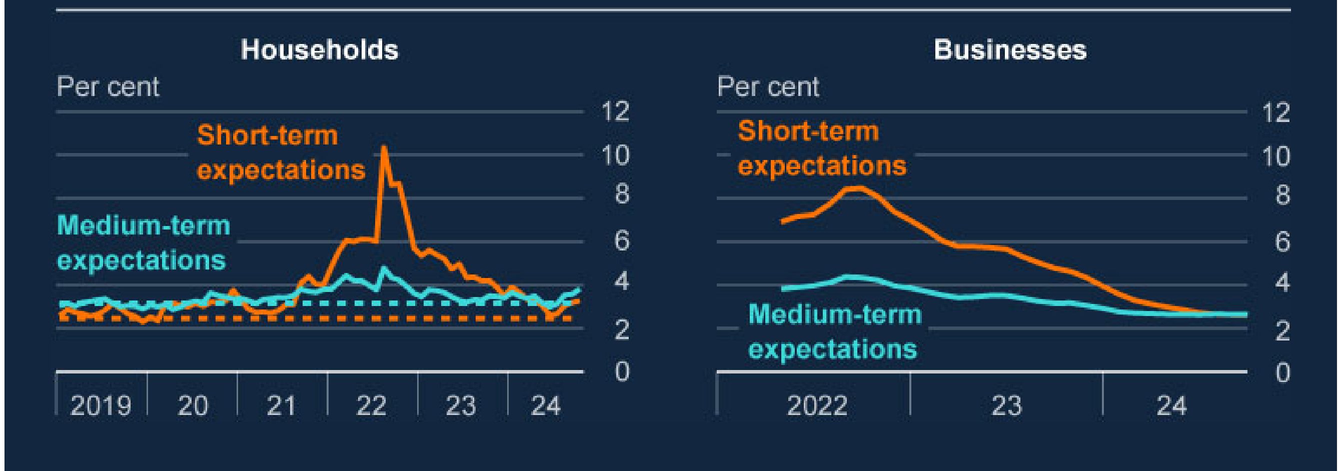
Household and business expectations for CPI inflation play an important role in wage and price-setting dynamics. Inflation expectations rose sharply alongside actual inflation in 2022. With inflation now around the 2% target, however, some measures of inflation expectations are back to around their 2010–19 averages.

Inflation expectations, as measured by the Bank/Ipsos survey, were a little below their pre-Covid averages at the one and five-year horizons in 2024 Q3. The short and medium-term inflation expectations measures reported in the Citi/YouGov survey have picked up somewhat since August but remain lower than recent peaks (Chart 2.28). Part of that rise may have reflected the October increase in the Ofgem price cap. Households' perceptions of current inflation reported in the Bank/Ipsos survey remained elevated at around 5.2% in 2024 Q3. The current gap between households' perceptions of inflation and CPI inflation outturns is relatively large by historical standards.

Firms' short and medium-term expectations for inflation have also fallen back from their peaks in 2022. Firms responding to the October DMP Survey expected inflation at a one-year horizon to be 2.7%, down from 3.4% at the start of the year (Chart 2.28). Firms' three-year CPI expectations have been stable since January at around 2.7%. The Deloitte CFO survey measure of two-year CPI expectations was 2.3% in Q3, slightly higher than the 2.1% figure reported in Q2.

Chart 2.28: Inflation expectations have largely normalised, although some measures have ticked up in recent months

Survey-based measures of household (a) and business (b) inflation expectations



Sources: Citigroup, DMP Survey, YouGov and Bank calculations.

(a) Data shown are the 1-year and 5–10-year inflation expectations measure from Citi. Dashed lines represent the series averages over 2010–19. The latest data points are for October 2024.
(b) Data shown are from the DMP Survey and are based on three-month averages of responses to the question: 'What do you think the annual CPI inflation rate will be in the UK, one year from now and three years from now?'. The latest data points are for October 2024.

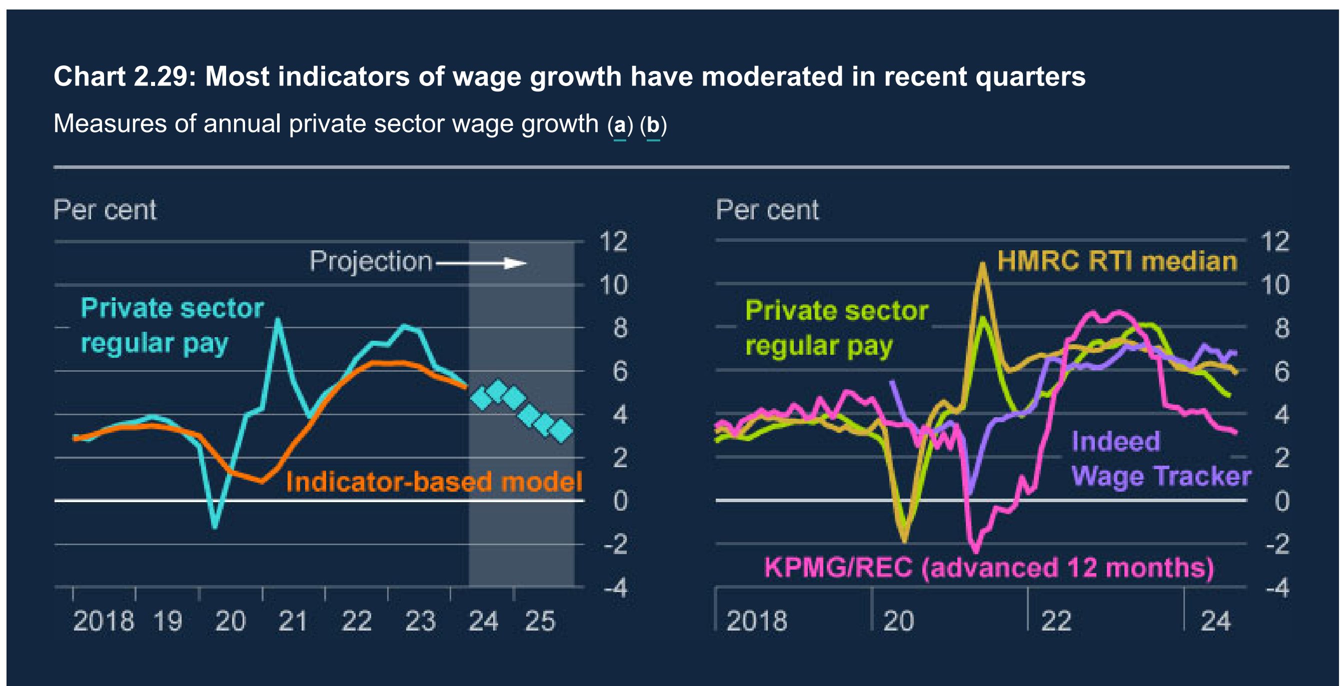
Wage growth has eased further but remains elevated.

Wage growth is the most important factor behind the remaining persistence in services inflation. Annual growth in private sector regular AWE eased to 4.8% in the three months to August, down from a peak of just above 8% in mid-2023 and in line with the projection at the time of the August Report. The normalisation in inflation expectations and easing in labour market tightness have supported that moderation in pay growth.

Consistent with the slowing in the official measure of pay growth, Bank staff's indicator model of underlying pay growth – based on a statistical combination of signals from a range of pay indicators – has also declined in recent quarters and points to underlying wage growth of around 4.9% in 2024 Q3 (left panel of Chart 2.29). Within that, the Indeed Wage Tracker (purple line in right panel), which measures the average annual change in wages stated on job adverts, pointed to higher pay growth of around 6.8% in the year to September. Meanwhile, the KPMG/REC UK Report on Jobs measure, which measures monthly changes in wages for new permanent hires, has been pointing to pay growth below the official measure in recent months, of around 3% in the three months to September. The correlation between the REC measure and the official data appears to have weakened in recent years, however.

Chart 2.29: Most indicators of wage growth have moderated in recent quarters

Measures of annual private sector wage growth (a) (b)



Sources: HMRC, Indeed, KPMG/REC UK Report on Jobs, ONS and Bank calculations.

(a) Series shown in the left-hand panel are at a quarterly frequency. Bank staff's indicator-based model of near-term private sector regular pay growth uses mixed-data sampling (or MIDAS) techniques. A range of indicators inform the model, including series from the Bank of England Agents, the Lloyds Business Barometer, Indeed, ONS/HMRC PAYE payrolls and the KPMG/REC UK Report on Jobs. Indicators are weighted together according to their relative forecast performance in the recent past. Private sector regular pay growth is the ONS measure of private sector regular average weekly earnings growth (quarter on same quarter a year ago). Latest data points are for 2024 Q2, with diamonds showing projections for private sector regular pay growth for 2024 Q3–2025 Q4.
(b) Series shown in the right-hand panel are at a monthly frequency. Definitions of wage growth vary between each of the measures. Private sector regular pay growth is the ONS measure of private sector regular average weekly earnings growth (three-month average on same three-month average a year ago). KPMG/REC shows average starting salaries for permanent staff compared to the previous month. HMRC Real-Time Information (RTI) shows median of private sector employee pay growth. Indeed shows annual average job title matched pay growth for UK job vacancies. The KPMG/REC index is mean-variance adjusted to ONS private sector regular pay growth over 2002–19 and is advanced by 12 months, which better reflects the leading relationship between the KPMG/REC index and the ONS measure of pay growth. Latest data points are September 2024 for Indeed, HMRC RTI and the KPMG/REC index, and the three months to August 2024 for private sector regular pay.

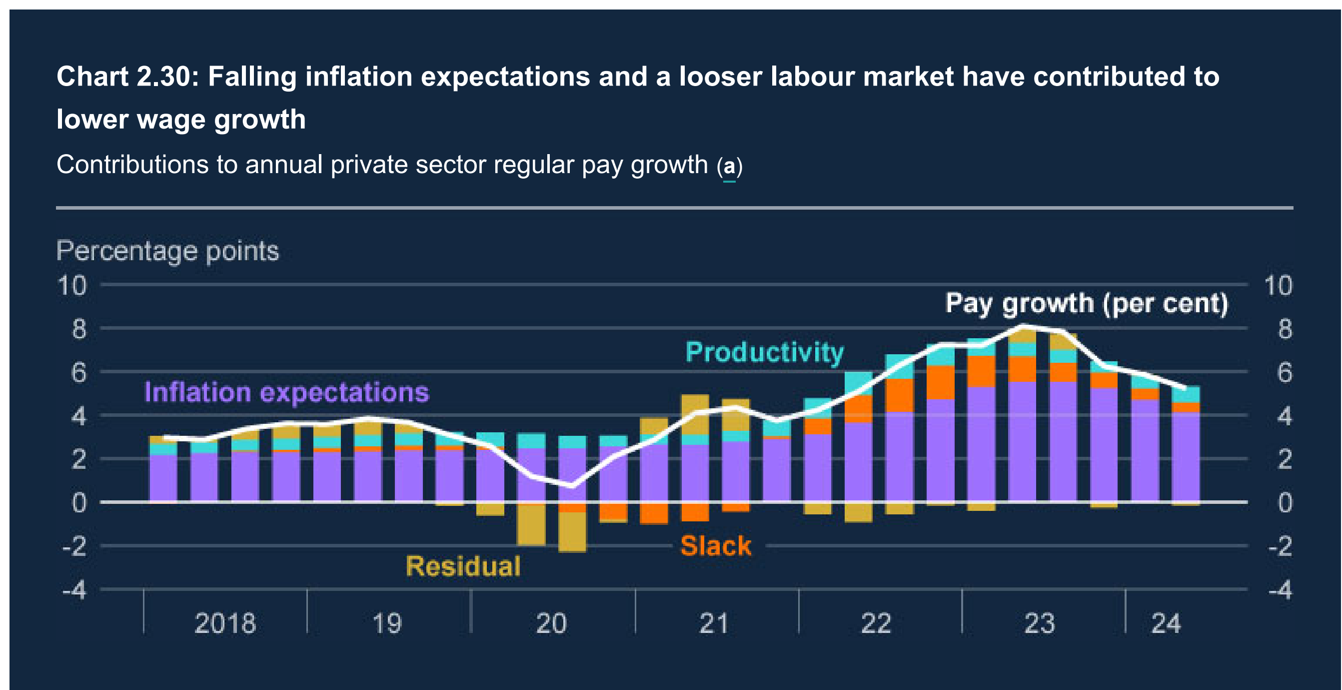
Elevated inflation expectations and labour market tightness have played an important role in recent strength in wage growth.

There are many different models that can be used to quantify the determinants of wage growth, and a high degree of uncertainty around what these imply. In particular, models estimated on pre-Covid data alone have struggled to account for the recent strength in wage growth. It is difficult to disentangle whether the poor explanatory performance of these models stems from the size of the recent inflation shock, or if features of the wage-setting process have also changed.

One such model used by the MPC in recent years, based on **Yellen (2017)**, is shown in Chart 2.30. Relative to previously shown versions of this decomposition, for example Chart 2.22 in the **August Report**, this version has been re-estimated on more recent data and allows for longer lags between inflation expectations and wage growth. This improves the fit over recent years and suggests that wage growth since 2021 can largely be explained by the rise in inflation expectations and tightness in the labour market. Though this represents only one interpretation of recent wage dynamics, results from the model suggest that the ongoing easing in the labour market and normalisation of inflation expectations will moderate wage growth in coming quarters, albeit fairly slowly.

Chart 2.30: Falling inflation expectations and a looser labour market have contributed to lower wage growth

Contributions to annual private sector regular pay growth (a)



Sources: Barclays, Citigroup, ONS, YouGov and Bank calculations.

(a) Wage equation based on **Yellen (2017)**. Pay growth is Bank staff's estimate of underlying pay growth between January 2020 and March 2022 and the ONS measure of private sector regular AWE 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 estimates, informed by the vacancies to unemployment ratio. Productivity growth is based on long-run market sector productivity growth per head. The final data point is 2024 Q2.

The National Living Wage is providing a small boost to annual wage growth…

The National Living Wage (NLW), which increased by nearly 10% in April of this year, appears to be boosting aggregate wages in line with Bank staff's estimates for a total impact of around 0.3 percentage points. HMRC RTI data suggest that – based on the difference in growth between

median pay and that in the lower quartile – a little less than that effect has materialised so far. There remains some uncertainty around the extent of indirect spillover effects further up the pay distribution.

Alongside the Autumn Budget, the Government announced that it had accepted the recommendation of the Low Pay Commission regarding the 2025 NLW uplift. This means that the NLW will increase by 6.7% from April 2025, to maintain the NLW at two thirds of median earnings (Box B). This is slightly higher than the rate anticipated by the majority of contacts in the Bank's Agents' network of 5%–6%, but significantly lower than last year's increase. It is expected to provide a small boost to aggregate annual wage growth.

…and public sector pay settlements, when enacted, are also expected to raise whole economy pay growth.

Increases in public sector pay, announced in July, are expected to provide a small boost to economy-wide pay growth in coming quarters. Over the summer the Government accepted the recommendations of several public sector pay review bodies including those for the NHS, teachers, police, and the armed forces. The public sector represents around one fifth of total UK employment and the announced increases are expected to raise whole economy average weekly earnings by around 0.5 percentage points once these pay deals are fully implemented. The timing of implementation remains uncertain and will depend on the pay processes within individual public sector bodies. Given the historical relationship between public and private sector pay, the effect on private sector regular AWE appears likely to be limited.

The increase in employer NICs announced at Autumn Budget 2024 is expected to have a small downward effect on wages over the MPC's forecast horizon, but there is uncertainty over the size and timing of this effect (Section 1).

Annual private sector pay growth is projected to rise slightly in the final quarter of this year…

In the MPC's November projections, annual private sector pay growth is projected to rise slightly in the final quarter of this year, as the effect of relatively weak pay growth in October 2023 enters the annual comparison. Measured at a higher frequency, three-month on three-month annualised private sector wage growth is projected to slow to 3.6% in Q4.

…but to fall back subsequently as lower inflation expectations and a looser labour market feed through to lower pay settlements.

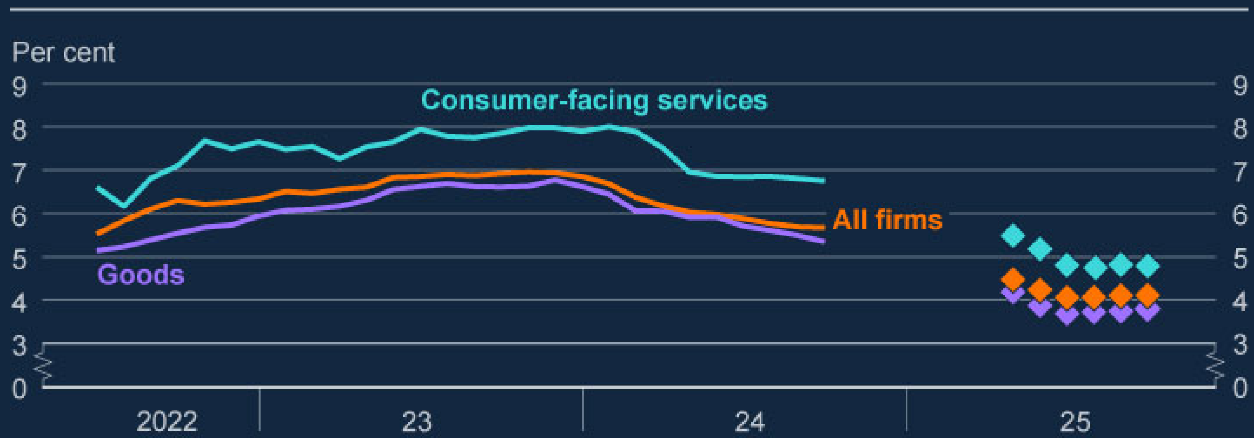
Annual private sector wage growth in the MPC's baseline projection is expected to slow to just over 3.2% by the end of 2025, as past falls in inflation expectations and the easing in the labour market feed through to lower wage growth.

There are risks around the outlook for wage growth in both directions (Box A). While contacts of the Bank's Agents expect pay awards in 2025 to return to around 2%–4%, from 6%–6.5% in 2023 (Box F), firms' year-ahead expectations for wage growth reported in the DMP Survey have stabilised at a higher level of around 4% (Chart 2.31). Within that, those in the consumer-facing services sector expect wage growth in the region of 4¾%, while those producing goods expect pay growth closer to

3¾%. Responses to the REC survey, by contrast, point to private sector pay growth closer to 2% by late 2025. Recent measures announced at Autumn Budget 2024 – including the rise in employer NICs – may also affect wage growth (Section 1.2).

Chart 2.31: DMP Survey respondents expect wage growth to decline, but those expectations appear to have stabilised at elevated levels

Realised annual wage growth and 12-month ahead expectations (a)



Sources: DMP Survey and Bank calculations.

(a) The final data point for realised wage growth is October 2024. The diamonds show expectations for wage growth one year ahead.

Box D: The shifting effects of global export prices on UK inflation

The openness of the UK economy means that CPI inflation is sensitive to changes in imported costs. Imported costs will be influenced by both movements in foreign export prices and in the sterling exchange rate. From late 2021, the sharp increase in foreign export prices – driven mainly by supply chain disruption, the Russian invasion of Ukraine and strong US consumer demand for goods – caused UK import prices to rise, pushing CPI inflation well above the MPC's 2% target.

The expected path for UK import prices is an important component of the MPC's CPI inflation projection. This box explains how the MPC forms a judgement about future UK import prices – based on the outlook for global export prices and the sterling exchange rate – and how that judgement has evolved in recent years.

Global export prices and the sterling exchange rate determine the level of UK import prices.

In forming a projection for global export prices, Bank staff assess near and medium-term price pressures in global markets and across the UK's main trading partners. The assumed paths for foreign countries' average export prices are then converted into sterling based on the sterling effective exchange rate index (ERI) conditioning path set out in Section 1.1. This box focuses on non-energy export and import prices, but global energy prices will also affect the MPC's projection for CPI inflation.

In normal times, only around 60% of any projected change in sterling foreign export prices is assumed to pass through to UK import prices. That is consistent with findings in the academic literature for a range of advanced economies (**Campa and Goldberg (2005)**, **Gopinath and Burstein (2014)** and **Hjortsoe and Lewis (2020)**). Incomplete pass-through may reflect local distribution costs (**Corsetti and Dedola (2005)**), as well as exporters choosing to absorb cost increases into their margins to maintain market share relative to domestic competitors (**Krugman (1986)** and **Dornbusch (1987)**). The impact of any change in the sterling exchange rate may also be weakened if some exporters set their prices in sterling rather than in their own currency (**Devereux and Engel (2002)**).

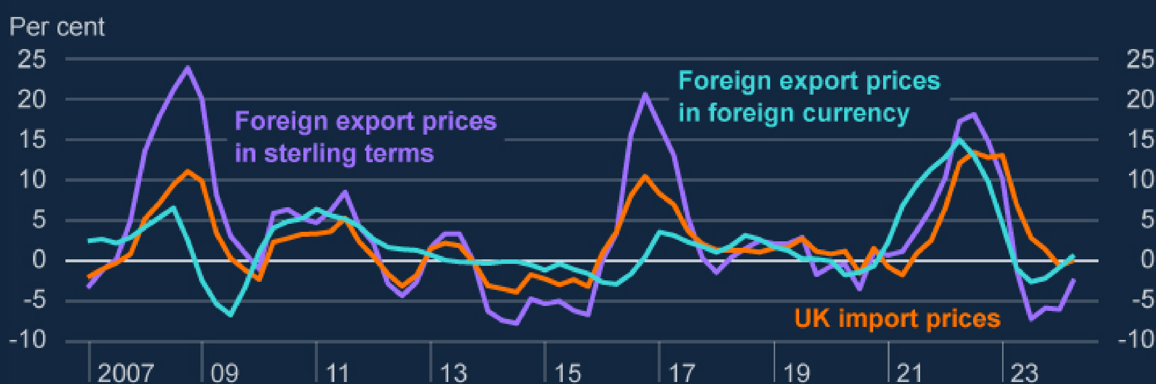
Subsequent pass-through of import prices to UK consumer prices is assumed to be full, but to happen gradually over the course of three to four years. That reflects the fact that importers and retailers typically avoid changing prices too frequently, meaning that changes in import prices in either direction will tend to be passed on only once they have been sustained for some time.

In recent years, UK import price inflation has been stronger, and pass-through to consumer prices faster, than expected on the basis of foreign export prices and exchange rate developments.

In 2022 and 2023, UK import price inflation was significantly higher than expected based on Bank staff's standard assumption for pass-through from global export prices outlined above. Previous large increases in sterling foreign export prices (the purple line in Chart A) around the 2008 global financial crisis and the 2016 Brexit referendum were only partially passed through to UK import prices (the orange line). In contrast, UK import prices moved more closely in line with sterling foreign export prices in the years following the Covid pandemic. Since the start of this year, however, pass-through from sterling foreign export prices to UK import prices has again been closer to historical norms.

Chart A: In contrast to previous episodes, UK import prices moved broadly in line with sterling foreign export prices after the pandemic

Four-quarter foreign export price inflation and UK import price inflation excluding fuel (a)



Sources: Bank of England, Eurostat, LSEG Workspace, ONS and Bank calculations.

(a) Foreign export prices in foreign currency are based on goods and services exports of 51 countries weighted according to their shares in UK imports. The sample does not include any major oil exporters. Foreign export prices in sterling terms are derived by dividing the series of export prices in foreign currency by the sterling effective exchange rate.

Pass-through from import prices to consumer prices was also unusually fast in 2022 and 2023 (**May 2024 Report**), but is judged to have returned to its historical norm of slow but ultimately complete pass-through more recently.

Stronger and faster pass-through of sterling foreign export prices to UK import and consumer prices reflects the size and nature of recent shocks.

The increase in foreign export prices (the aqua line in Chart A) in 2022 was the largest in over 30 years. And while sterling's 6% depreciation in that year was smaller than the depreciations in 2008 and 2016, it still pushed up materially on sterling foreign export prices (the purple line). Exporters, and subsequently importers, may have passed through these price increases unusually quickly and fully to UK import prices and consumer prices to avoid large reductions in their margins. **Coughlin and Pollard (2004)** and **Lewis (2016)** find evidence of such non-

linearities in pass-through: while import prices tend to be sticky when changes in export prices and exchange rates are modest, they can change quickly and strongly in response to large shocks.

The global nature of the inflationary shocks following the pandemic may have further strengthened pass-through to UK import prices. **Forbes et al (2018)** provide evidence that the strength of pass-through to import prices can depend on the source of the shock to the exchange rate. In past episodes of a sterling depreciation driven by domestic demand weakness in the UK, some firms may have avoided raising the prices of their UK-bound exports to maintain market share in the context of lower inflationary pressures experienced by UK-based competitors. This would have resulted in lower pass-through to import prices. In contrast, the sharp increase in global inflation in 2022 and 2023 put pressure on firms around the world to raise prices to maintain their margins. Strength in domestic demand conditions at the time may have also meant that companies had greater-than-usual pricing power to pass on cost increases.

The central role of the US dollar in international trade (**Gopinath (2015)**) may also have contributed to higher UK import prices in this episode. That is because the trade weights on which the sterling effective ERI is based are likely to underestimate the extent to which UK imports are invoiced in dollars. While the ERI depreciated by 6% in 2022, the value of sterling fell by 11% against the dollar. The fact that many UK imports from countries other than the US are invoiced in US dollars rather than in the exporter's domestic currency is therefore likely to have contributed to a larger increase in UK import prices in 2022 and 2023 (**Hjortsoe and Lewis (2020)** and **Garofalo et al (2024)**).

Compositional patterns can also help explain stronger and faster pass-through of sterling foreign export prices. While global shocks put upward pressure on a wide range of goods prices in 2022 and 2023, some categories such as food experienced particularly high inflation. Since pass-through tends to be faster for perishable than for durable goods, this heterogeneity may partly account for faster transmission to import and consumer prices. Differences between what the UK imports and what other countries export across the world may also have played some role. Owing to data limitations, Bank staff project export prices for the UK's main trading partners based on those countries' global, rather than specifically UK-bound, exports. Euro-area exports to the UK, for example, contain a larger share of food exports than those to other countries. Given high food inflation in recent years, the index of foreign export prices may have underestimated the true increase in price pressures faced by UK importers.

There is limited evidence that Brexit has contributed to higher import prices since 2022.

EU exporters may have passed higher trade costs related to Brexit on to their UK-bound export prices, contributing to higher UK import prices. Bank staff analysis based on HMRC customs data for trade in goods suggests that this may account for some of the unexpected strength in UK import prices in 2022. However, the effect is difficult to disentangle from the shock to European energy costs, which also drove goods prices sharply higher. Moreover,

non-EU import prices have also been materially stronger than expected. That said, the UK's withdrawal from the European single market will have placed additional administrative and other trade costs on UK importers. These costs do not contribute directly to measured UK import prices, but they are nevertheless likely to have contributed to wider inflationary pressures in the UK (**Bakker et al (2023)**).

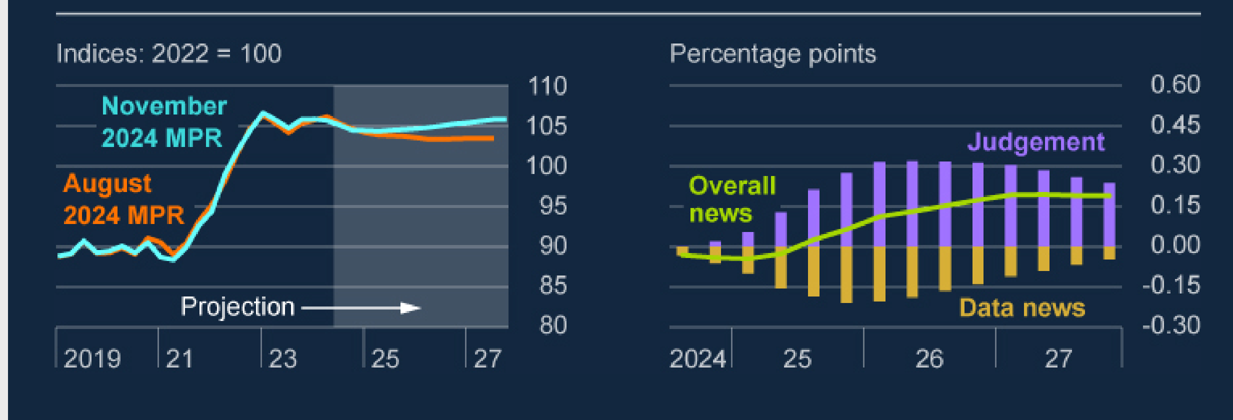
The level of UK import prices is no longer expected to fall back in 2025 and 2026; this raises the MPC's projection for CPI inflation throughout the forecast.

Over the past 18 months, the MPC has made successive judgements to its CPI projections to reflect the faster-than-expected pass-through from sterling foreign export prices to UK import and consumer prices. In the **August 2023 Report**, the MPC made a judgement to allow most of the unexplained strength in import prices to persist over the forecast horizon, with the remaining strength expected to dissipate gradually. And as part of the May 2024 forecast round, the MPC judged that the subsequent pass-through from import to consumer prices had occurred more quickly than expected (**May 2024 Report**).

Since the MPC's August 2023 judgement, import prices have in fact been broadly stable. Given that, and because the potential drivers of higher import prices outlined above are not expected to reverse, the MPC now judges that none of the unexpected strength in import prices will unwind (left panel of Chart B). This judgement raises import prices over the forecast period, and in turn pushes up the MPC's projection for CPI inflation (purple bars on the right panel of Chart B). Partly offsetting that, the projection for global export prices is slightly lower than at the time of the August 2024 Report, and sterling has appreciated (Section 2.1 and gold bars on the right panel of Chart B). Taken together, these effects are expected to raise UK CPI inflation by 0.2 percentage points relative to the August Report at the MPC's three-year forecast horizon.

Chart B: UK import prices are now expected to rise modestly over the forecast horizon, pushing up somewhat on UK CPI inflation

UK import prices excluding fuel (left panel) (a) and change in the contribution from import prices to UK CPI inflation since the August Report (right panel) (b)



Sources: ONS and Bank calculations.

(a) The left panel shows UK import prices excluding fuel at the time of the August 2024 and November 2024 Monetary Policy Reports. Changes in the data up to 2024 Q2 are due to data revisions. The chart shows projections from 2024 Q3 to 2027 Q4.

(b) The right panel shows news to the contribution from UK non-fuel import prices to UK CPI inflation since the August 2024 Report. The purple bars show the effect of the import price judgement taken in the November 2024 forecast. The gold bars show the effect of data news on foreign export prices and the sterling exchange rate between the August 2024 and November 2024 Report.

In the face of large future shocks to global prices, non-linearities in the pass-through to UK inflation will be considered.

Movements in global export prices and the exchange rate since the August forecast have been modest and are projected to pass through to import prices and ultimately consumer prices in line with the standard assumptions set out earlier in this box. However, adjustments to these standard assumptions are likely to continue to be necessary when there are large movements in sterling or in world export prices in the future, or in the presence of large and heterogeneous shocks to the prices of different goods.

Box E: Developments in household savings

Household consumption is the largest component of aggregate demand. Households make a joint decision about how much to consume and how much to save based on their income and other factors. The household saving ratio – where saving is defined as the difference in any one period between household disposable income and consumption – has risen over the past two years. This is a natural result of higher interest rates encouraging households to save more and consume less. Lower interest rates are expected to weigh on household saving in coming years, but there are large uncertainties around that outlook. Assessing how soon the savings rate might return to a lower level is crucial for forming a view about the outlook for consumption and spending in the economy as a whole.

The saving ratio has risen since 2022 to well above its pre-pandemic level.

During the pandemic, restrictions on spending led some households to accumulate savings at a faster-than-usual rate, leading to a spike in the aggregate household saving ratio. The saving ratio fell back in 2021 as restrictions were removed, but it has since risen again to above its pre-pandemic level and picked up further in the latest data.

This recent rise in the saving ratio has been greater than expected (see Annex 2 in the **August 2024 Report**). And while revisions in Blue Book 2024 mean that the saving ratio has been revised down, by 1.6 percentage points on average between 2021 Q1 and 2024 Q1 (Chart A), it remains above the 2016–19 average of a little over 5%. The household saving ratio is now estimated to have been 9.8% in 2024 Q2, down from a peak of 27.3% during the pandemic. Importantly, the trajectory of the saving ratio is broadly unchanged after the recent revisions: it has risen by over 5 percentage points since the trough in 2022.

The headline saving ratio is estimated based on a broad measure of household income, which includes changes in the value of pension entitlements. An adjusted saving ratio, which strips out changes in pension entitlements from income, is a little further above its pre-pandemic average (orange line in Chart A). Alternative definitions of the saving ratio, based on narrower definitions of income that are closer to what households observe, show similar dynamics.

Chart A: Despite downward revisions in the latest data, the aggregate household saving ratio is higher than pre-pandemic

Household saving ratio (a)

Sources: ONS and Bank calculations.

(a) Saving as a percentage of household and non-profit institutions serving households post-tax income. The adjusted saving ratio excludes changes in pension entitlements from income. Final data points are 2024 Q2.

Developments in the saving ratio since the pandemic have partly reflected households smoothing through changes in their real incomes.

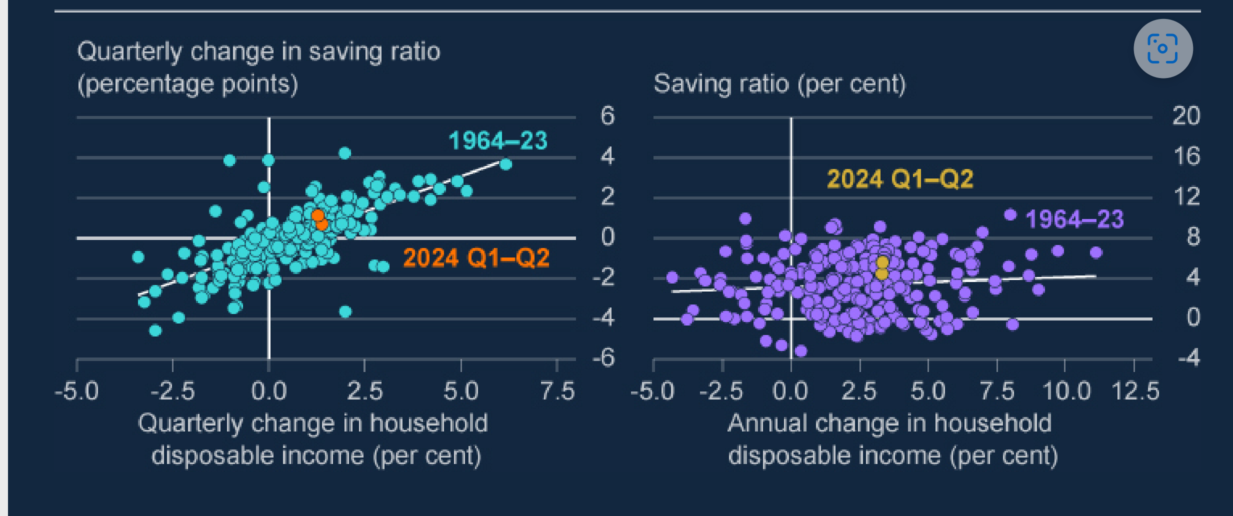
When incomes rise or fall, households tend not to adjust their spending by as much as the change in their incomes in the short term. This is known as 'consumption smoothing'. It means that households on average save less when their incomes fall, and save more when their incomes rise, so as to maintain a relatively constant standard of living over time. This mechanism is illustrated in the left panel of Chart B, which shows a positive relationship between quarterly changes in household disposable incomes and the household saving ratio. Over the longer term, however, other factors such as demographics and household wealth will determine the level of the saving ratio (**Callen and Thimann (1997)**). For that reason, there is little observable relationship between longer-run income growth and the level of the saving ratio (right panel of Chart B).

The fall back in the saving ratio in 2022, and subsequent rise in 2023–24, are consistent with households having smoothed through changes in their real incomes over that period. In 2022, the saving ratio fell as higher energy and other goods price inflation caused real incomes to fall (Chart 2.15). The reopening of the economy after the pandemic will also have led to higher consumption, contributing to that fall in the saving ratio.

More recently, household real incomes have increased as inflation has fallen back. In line with the observed historical relationship between short-term income changes and spending, stronger real income growth has resulted in a higher saving ratio.

Chart B: Short-run increases in household incomes are associated with increases in the saving ratio, but these effects tend not to persist over a longer horizon

Quarterly change in the adjusted household saving ratio and quarterly real household disposable income growth (left panel) and adjusted household saving ratio and four-quarter real household disposable income growth (right panel) (a)



Sources: ONS and Bank calculations.

(a) Data exclude outliers during the pandemic (from 2020 Q2 to 2021 Q2 inclusive). The adjusted saving ratio excludes changes in pension entitlements from income. Data are from 1964 Q1 to 2024 Q2.

Higher interest rates have also contributed to the rise in the household saving ratio by increasing the returns to saving and raising mortgage costs…

The rise in interest rates since 2021 has fed through to the interest rates households pay and receive on loans and savings products. In turn, these will have affected households' saving decisions in several ways (see **Burr and Willems (2024)** for a more detailed explanation of the channels of monetary policy).

An important way in which higher interest rates increase households' incentives to save is known as the 'intertemporal substitution' effect. Higher interest rates raise the return on saving, thereby encouraging households to trade-off consumption today for higher consumption in the future. 7% of households responding to the September 2024 Bank of England/NMG survey reported both that they had saved more than usual over the past 12 months and that higher interest on savings was a key driver of their decision to save more, with this share rising to 11% for those in the highest income quintile.

Other channels of the monetary transmission mechanism have also contributed to higher saving. Although only 3% of all households responding to the Bank of England/NMG survey reported that future housing cost increases were a main factor in their decisions to save more than usual over the past 12 months, these represent a sixth of those households who reported saving more over that period. Survey-based estimates suggest that households that are

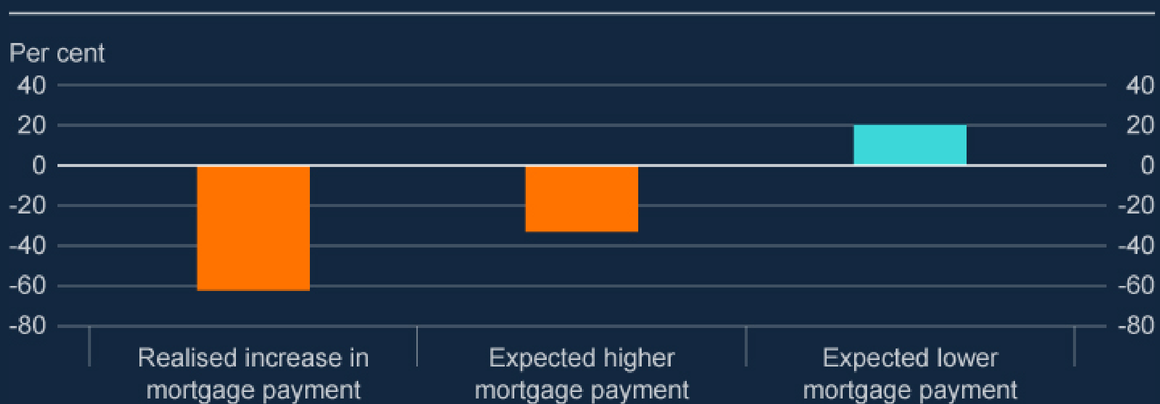
expecting a future increase in mortgage costs, as a result of moving to a higher interest rate after the end of their fixed-rate period, have on average reduced consumption by around 30% of the anticipated rise in mortgage costs (Chart C). Similar estimates suggest that households who have already seen increases in mortgage repayments (Section 2.2) have cut back consumption by more, to around 60% of the increase in payments.

The most recent increase in household saving due to higher interest payments will have been partly offset at the aggregate level, since some mortgagors that have already refinanced at higher rates are anticipating lower future mortgage costs now that interest rates have begun to fall (Chart C).

As described in Box C of the **August 2024 Report**, the effects of higher interest rates appear to have come through more quickly than on average over the past, including on consumption. As such, the impact of higher interest rates on the pickup in the saving ratio observed to date may have been somewhat greater than would have been expected based on past relationships.

Chart C: Mortgagor households expecting higher mortgage interest payments are saving in anticipation of future payment increases

Estimated average change in consumption as a share of changes in mortgage payments (a)



Sources: Bank/NMG survey and Bank calculations.

(a) Changes in consumption are calculated by using respondents' reported change or expected change in monthly spending relative to their experienced or expected change in monthly mortgage repayments.

…and by weighing on household net lending growth.

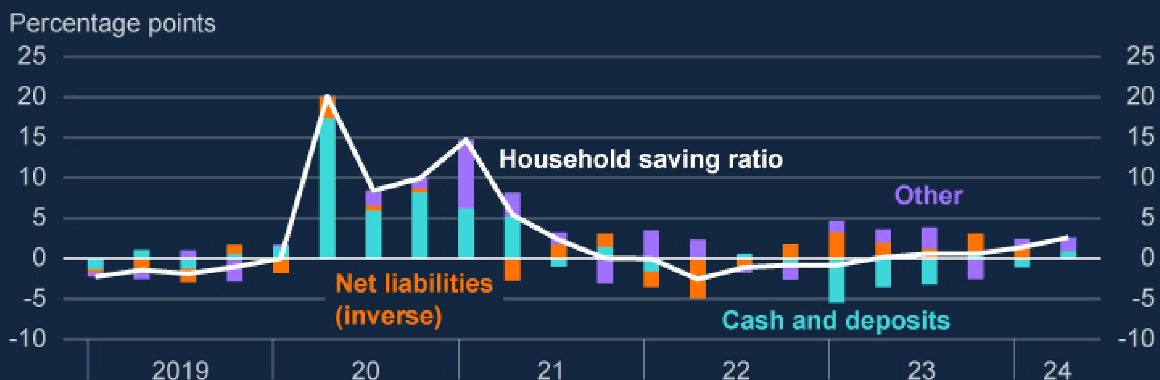
Household net lending growth has been weaker over the past two years than at any time since 2011, consistent with weakness in housing market activity in 2022 and 2023 (Section 2.2). Subdued net lending growth has been driven in part by higher interest rates, which have incentivised households to pay down existing debt and discouraged additional lending.

Lower net lending growth can, in an accounting sense, explain part of the pickup in the household saving ratio since 2022. Lower net lending growth means that households will consume less as a share of income if part of that income is used to pay down debt, or if lending that no longer takes place would have been used to finance consumption. The impact of lower net lending growth on the household saving ratio is illustrated by the growing positive contribution from net liabilities shown in the orange bars in Chart D.

Lower net lending growth also means that growth in household currency and deposit holdings, the assets that people typically consider as savings, has been weak since 2023 (aqua bars in Chart D). That is in contrast to the rapid rise in deposit and currency holdings which accompanied the spike in the saving ratio during the pandemic. Overall, household holdings of money have returned to a level consistent with the pre-pandemic trend, and growth rates have normalised (Section 2.2).

Chart D: Slower net lending growth accounts for part of the rise in the household saving ratio in 2023 and 2024

Contributions to the household saving ratio, relative to 2012–19 average (a)



Sources: ONS and Bank calculations.

(a) Net liabilities covers households' net acquisitions of: debt securities; loans; claims of pension funds on pension managers; and other accounts receivable/payable – loans makes up the majority of household net liabilities and so movements in net lending are reflected in the broader series. Other includes net acquisition of non-produced or non-financial assets, other assets (for example equity and investment funds), the statistical discrepancy in net lending measures between the non-financial and financial accounts and seasonal factors in the components of gross saving. Data cover households and non-profit institutions serving households. Final data points are for 2024 Q2.

Evidence of households having saved for precautionary reasons is mixed.

The pandemic and the subsequent increase in the cost of living, as well as other factors such as Brexit and global political instability, may have raised uncertainty about the economic outlook. Results from the Bank of England/NMG survey show that households' worries about economy-wide unemployment have been slightly higher since the pandemic: in September

2024, 54% of respondents expected unemployment to rise over the next year compared with an average of 44% between 2016 and 2019. But concerns over unemployment remain well below their peak during the pandemic.

There is mixed evidence to suggest that greater economic uncertainty has caused households to save more for precautionary reasons, however. Less than 2% of respondents to the September 2024 Bank of England/NMG survey reported that the risk of a household member losing their job was a factor in saving more than usual over the preceding 12 months. But discretionary spending on durable goods, particularly cars, has been notably weak since the pandemic, and has fallen in real terms during the recent period of high inflation. As discussed in **Greene (2024)**, that could be consistent with households having had a greater demand for precautionary saving. But it could also reflect high interest costs having discouraged consumption, especially given that such items are often financed through borrowing.

Conditional on the market-implied path of Bank Rate, the saving ratio is projected to fall back modestly over the next three years as lower interest rates pass through to household saving and borrowing rates.

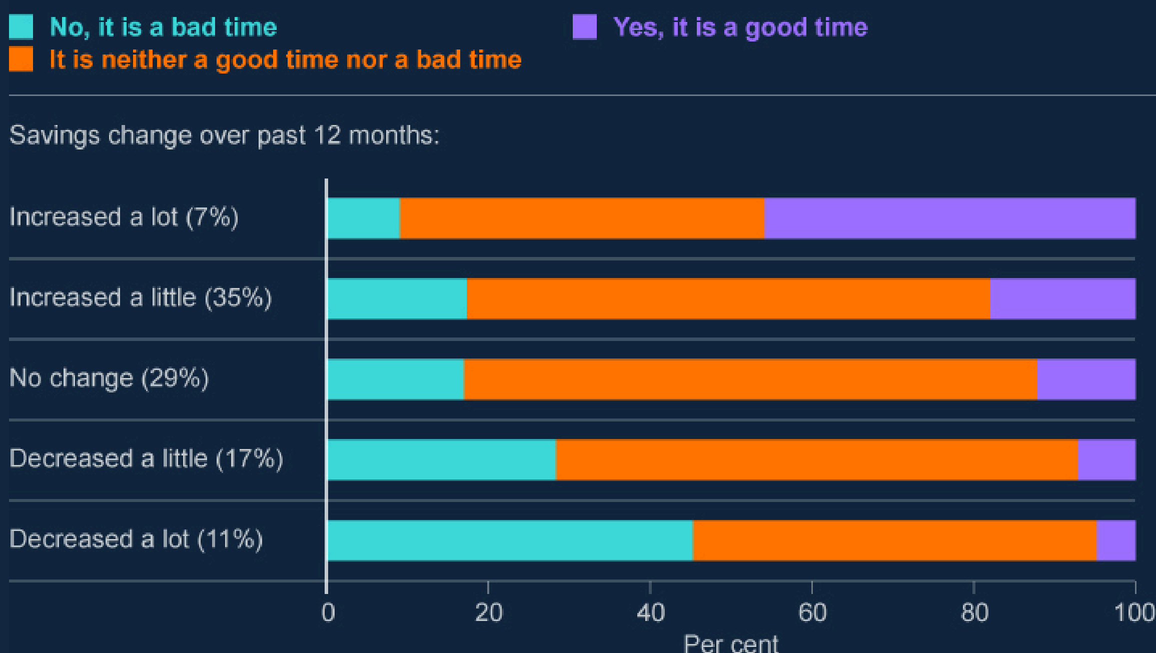
The outlook for the household saving ratio is a key factor in the MPC's assessment of the near-term path of the economy. As outlined in Section 2.3, consumption growth is projected to be positive, albeit subdued, over the coming quarters. The outlook for consumption depends, in part, on the path of the saving ratio, which is expected to fall slightly over the next three years, from 9.8% in 2024 Q2 to 8.4% in 2027 Q4. Part of the projected fall in the saving ratio reflects the impact of lower interest rates, which will reduce incentives to save and make it cheaper to borrow. Past rate rises are also expected to weigh on the economy by less in coming quarters, which should also contribute to a lower saving ratio (Box C in the **August 2024 Report**). The impact of interest rates on the economy is uncertain, but the recent pickup in housing market activity – reflecting the impact of lower rates – is expected to feed through to higher secured lending, which in turn is expected to boost consumption and reduce the household saving ratio. The projected decline in the saving ratio also reflects an expected slowdown in household real income growth in coming quarters.

There are risks to the household saving ratio in both directions.

The saving ratio may remain elevated in coming years if its recent rise has been driven – to a greater extent than expected – by a precautionary motive. Relatedly, it could also remain high if precautionary saving becomes a bigger driver of household saving decisions than it has been in the past. As discussed above, households have faced a sequence of economic shocks over recent years, which have highlighted the potential volatility in household incomes even while unemployment has remained relatively stable. This may have increased households' average demand for precautionary saving, so that they are better able to smooth through future income shocks. Consistent with that, the GfK consumer confidence index for major purchases remains low, despite picking up since its trough at the end of 2022. Similarly, with the exception of the 7% of households that report having increased saving a lot, only a small proportion of respondents to the September 2024 Bank of England/NMG survey report that it is a good time to make a major purchase (Chart E).

Chart E: Few households report that it is a good time to make a major purchase

Household views on whether it is a good time to make a major purchase, by change in savings (a)



Sources: Bank/NMG survey and Bank calculations.

(a) The weighted share of respondents reporting changes in savings are shown in brackets on the vertical axis labels. Results are based on responses to questions: 'Generally speaking, do you think now is a good time for people to make major purchases (such as a car, household appliances, home improvements, electronic equipment, or similar)?' and 'How has [the total amount saved up in savings] changed compared with twelve months ago?'. 'Don't know' responses are excluded from the sample.

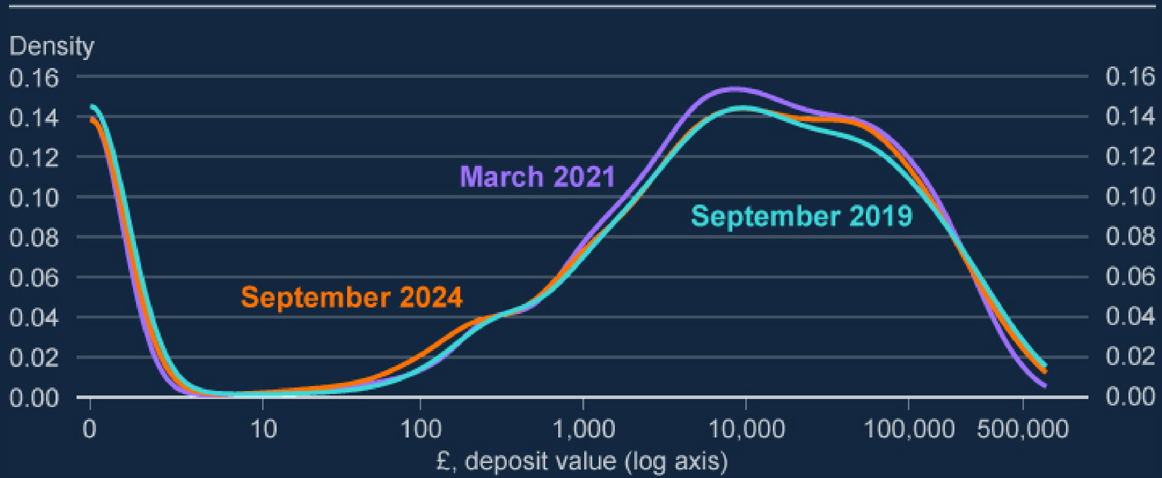
The saving ratio could also fall faster than projected. Reduced form estimates by Bank staff of households' demand for saving, based on the unemployment rate, the household net financial wealth to income ratio and credit spreads, suggest that the aggregate saving ratio is a little above what can be explained by past behaviour. Taken at face value, that could suggest that the saving ratio could fall back, although the gap between the aggregate saving ratio and this model's estimates is not unusually large.

The saving ratio could also fall faster if the build-up in the stock of savings during the pandemic were now available to fund additional spending by households. But there is little evidence to suggest that households will be able to reduce saving more quickly than expected by drawing down existing stocks of deposits. In aggregate, the total stock of household deposits is around its long-term trend relative to incomes (Chart 2.8). And there is little evidence to suggest that there has been a notable build-up in deposits – adjusted for inflation – in any particular part of the distribution: the estimated real deposit distribution shifted up between September 2019 and March 2021 but has since largely retraced to its 2019 level as

inflation has eroded the real value of deposits and households have smoothed their consumption through the period of high inflation (Chart F). Together that suggests that there is unlikely to be substantial 'excess' savings on which households can draw.

Chart F: The latest estimate of the distribution of the real value of household deposits reported in the Bank of England/NMG survey has not changed substantially compared with 2019

Distribution of real bank deposit holdings (a)



Sources: Bank/NMG survey, ONS and Bank calculations.

(a) Nominal bank deposit values are deflated using the consumption deflator. Values are shown in 2024 Q2 prices. The distribution is smoothed using a kernel density estimate.

Box F: Agents' update on business conditions

This box presents information from Agents' contacts considered by the MPC at its November meeting and summarises intelligence gathered in the six weeks to early October.

Agents noted an overall softening in their contacts' annual output growth and a dip in near-term sentiment over this period as they and their customers awaited the outcome of the Autumn Budget. Contacts had expected a recovery in consumer spending to have already begun, but now consider it more likely to arrive in early 2025.

Agents' intelligence suggests wage settlements are expected to be lower next year. Consumer goods inflation is expected to remain low, although consumer services inflation is easing only gradually, with a more substantial fall in services inflation not likely until next year. This is little changed to the labour market and cost and price dynamics described in the **Agents Summary of Business Conditions – 2024 Q3**.

> **Consumer spending remains subdued across goods and services with flat volumes compared to a year ago, despite contacts' expectations spending would have started to pick up by now.**

Consumer goods retailers continue to report broadly flat sales volumes compared to this time last year. They are still observing cost-of-living pressures manifesting, for example, in payday spikes in supermarkets' sales. Contacts still expect higher real incomes and lower interest rates to bring a pickup in consumer spending volumes, although they are less optimistic than they were that the pickup will come this year.

Demand for consumer services is also similar to the same period last year, with the weather having been a key dampening influence over the summer and into the autumn. Pubs and restaurants report the same or slightly lower volumes than a year ago. The experience of hotels and other accommodation providers is more mixed. Demand continues to be price sensitive with later bookings and higher cancellations more typical. There is little expectation among contacts of an increase in demand before 2025.

> **Investment intentions remain somewhat positive but have softened a little relative to the middle of the year, as firms await the outcome of the Autumn Budget and owing to uncertainty about the strength in demand.**

Contacts are tending to concentrate on replacement of machinery and vehicles, and upgrading IT systems, as part of regular replacement cycles, rather than investing in additional machinery to expand capacity. However, some are investing more in automation and robotics in the process of upgrading their production facilities, which they hope will bring efficiencies. But others are not increasing capital expenditure due to uncertainty about their order pipeline, their financial position, and until they know the outcome of the Autumn Budget. Financing investment tends to be out of retained cash more than usual, indicating a reluctance to borrow.

IT investment, which has been elevated in recent years, is reverting to more regular spending patterns on software upgrades and development. While some contacts mention artificial intelligence, many are cautious and are awaiting the experience of early adopters.

Annual growth in services exports values remains steady at around 6% with increasing volumes and prices contributing roughly equally. This is expected to continue.

The financial services sector continues to see strong export growth. Exports of professional services continue to grow, notably to the Middle East. Some contacts cite Brexit and the lack of tax-free shopping as reasons for softening inward tourism.

Export volumes of manufactured goods remain flat compared to the same period last year but are expected to pick up modestly in 2025. The US continues to be the UK's fastest growing market while demand from the European Union remains subdued. The defence and medical sectors continue to see growth in their exports. Demand for exports in the automotive and construction sectors is weak as is that for consumer goods, particularly at the luxury end of the market. Shipping delays persist, owing to Red Sea issues, but contacts have now largely adapted to them.

Business service contacts' turnover growth eased slightly further compared to the same time last year. Annual volume growth, already very modest, weakened slightly and higher-than-normal price inflation continued to ease.

Professional services contacts continue to see steady revenue growth, comprising solid, but easing, fee growth and a pickup in activity from financial planning, advisory work and corporate transactions. This has been partly accounted for by potential tax and employment changes in the Autumn Budget. Subdued public spending is holding back the gradually improving output seen in marketing, corporate events, hospitality and travel. Services into the construction sector and recruitment agencies continue to report volumes being down on the same period last year.

Contacts expect a modest pickup in output growth into 2025 H1 based on an expected further easing in Bank Rate stimulating transactional, advisory, construction and property activity. However, they also expect subdued public sector spending to continue to weigh on demand.

Manufacturers' volumes fell further to be only a little above what they were in the same period last year.

Overall output growth dipped slightly owing to a pause in orders as firms await the outcome of the Autumn Budget, though there is some variation by sector. Suppliers to the defence, aviation and semiconductor sectors are seeing strong demand, and food and drink output remained marginally up on the same period last year. Output in the vehicles, construction machinery and materials sectors was down on a year ago, as was agricultural production, the latter owing to challenging weather.

Contacts remain optimistic that enquiries will translate into a modest rise in orders towards the end of the year. Manufacturers of consumer goods and construction products expect the upturn to come later, and not before 2025.

Construction contacts' output continued to fall compared to this time last year.

Confidence picked up post-election but has softened more recently as firms await the outcome of the Autumn Budget. Growth is expected to return in 2025 due to anticipated Bank Rate cuts. Private housebuilding remains down on a year ago. Development of new buy-to-rent and student accommodation continues but volumes of new social housing remain down from last year. There is ongoing growth in repair, maintenance and improvements owing to office refurbishments and Housing Associations increasing maintenance.

Commercial development continues to fall modestly. Many public sector projects continue to be delayed or cancelled because of funding cuts and until the outcome of the Autumn Budget is known. Contacts continue to cite planning delays, a lack of utility connections, high build costs and some labour and contractor shortages as constraints on output growth.

Estate agents are slightly more positive about the housing market going into next year.

Despite a temporary slowing in activity ahead of the Autumn Budget, most feel that the fundamentals will support growth into next year. Mortgage rates are falling, enquiries have picked up and there are more signs of modest house price growth in the low single digits.

Rental price inflation has slowed further with some instances of small decreases in rent. The market has reached the upper limit of affordability for prospective renters and, in some areas, supply has picked up after regulatory changes. Private rental supply remains constrained in Scotland as landlords look ahead to upcoming regulations.

The recovery in credit demand seen in recent rounds has paused while contacts await the outcome of the Autumn Budget.

Demand remains lower than normal due to subdued investment and some firms postponing borrowing until interest rates fall further. Supply of credit remains unchanged with conditions normal for most large firms but remaining tighter than normal for small firms.

Cash flow remains tight in many sectors related to low profit margins. Trade credit is tightening, especially for small and medium-sized enterprises, and trade-credit insurance is difficult to obtain. But lenders report low levels of bad debt and are said to be flexible, especially toward larger borrowers. Insolvencies remain concentrated in the smallest firms and are expected to remain elevated until at least 2025 Q1.

Employment intentions are similar to at the time of the August Report and are consistent with modest employment growth.

A slight majority of firms plan to increase headcount, although the planned increases are modest. Those planning to reduce headcount are tending to do so through natural attrition, with only a very small number planning redundancies.

Recruitment difficulties continue to ease. In aggregate, they are back to their level in 2018 but remain elevated in certain sectors. Job churn is lower, in part reflecting lower appetite among higher-skilled staff to move and there remain pockets of skills shortages, such as engineers, chefs and finance professionals, within some geographic areas.

Intelligence continues to suggest pay settlements for 2024 will average 5.5%, compared with 6% in 2023. Contacts are budgeting for lower settlements in 2025.

Settlements peaked in April and remain highest for consumer-facing sectors heavily exposed to the National Living Wage (NLW). Settlements agreed or expected for July to December, which are mostly for firms not affected by the NLW, continue to average 3.5%–4%. These firms cite looser labour market conditions owing to weaker demand and lower current and expected inflation as the key drivers for lower settlements this year than last. Others continue to highlight the upward pressure posed by the NLW, including on pay differentials, which they are looking to actively manage. Firms have not yet decided on pay awards for 2025, but they are budgeting for pay settlements to fall back to 2%–4% with a potential upside risk from a larger-than-expected increase in the NLW. The Agents' annual wage settlements survey launching in November will give a clearer idea by the time of the February Report.

Contacts who thought higher wages and prices could persist for longer than expected cited structural changes due to Covid and Brexit lowering the labour supply and resulting in continued wage bargaining power for their staff and due to the impact of climate change and geopolitical developments. Those contacts who thought wage and prices pressures were dissipating quickly tended to be goods providers who considered that they were gaining wage bargaining power and losing pricing power.

Consumer goods inflation is expected to remain low with a substantial fall in services inflation not likely until next year.

Goods inflation has fallen to very low levels, with a more benign picture for non-labour costs and softer demand for some sectors. Raw material costs are slightly lower than a year earlier and imported finished goods costs have stabilised. Consumer goods inflation is very low, with food price inflation in low single digits.

Business and consumer services inflation continues to fall more slowly, reflecting the higher exposure to staff costs which are easing only gradually. In aggregate, profit margins remain squeezed. Many contacts have not been able to pass on the increases in their costs fully, partly due to fears of pricing themselves out of markets. There is also now greater resistance from customers to price increases than in the past couple of years.

Goods inflation is expected to remain low with upside risks from potential Red Sea disruption and downside risks from the strength of sterling and low global demand. However, a more pronounced easing in consumer services inflation is not expected until next year with contacts citing the 2025 increase in the NLW as a key determinant.

Annex: Other forecasters' expectations

This annex reports the results of the Bank's most recent survey of external forecasters. Responses were submitted in the two weeks to 29 October and are summarised in Chart A. These are compared with the MPC's projections, which are conditioned on a range of assumptions (Section 1.1) that may differ from those made by external forecasters.

GDP over the four quarters to 2025 Q4 was expected to rise by 1.4%, with four-quarter growth increasing to 1.5% in 2026 Q4 and 1.6% in 2027 Q4, on average (left panel of Chart A). The average external forecast was below the MPC's projection for 2025 Q4 of 1.7%, above the MPC's projection for 2026 Q4 of 1.1%, and slightly above the projection for 2027 Q4 of 1.4%.

The unemployment rate was, on average, expected to be 4.2% in 2025 Q4, slightly above the MPC's projection of 4.1% (middle panel of Chart A). External forecasters expected the unemployment rate to fall slightly to 4.1% in 2026 Q4 and remain the same in 2027 Q4. By comparison, the MPC's projection increases to 4.3% in 2026 Q4 and to 4.4% in 2027 Q4.

CPI inflation was expected to be 2.1% in 2025 Q4, substantially below the MPC's projection of 2.7% (right panel of Chart A). The average forecasts for 2026 Q4 and 2027 Q4 were also at 2.1% and 2.1%, respectively. By contrast, the MPC's projections are 2.2% and 1.8% in 2026 Q4 and 2027 Q4 respectively.

Chart A: At the three-year horizon, external forecasters expected four-quarter GDP growth to be 1.6%, the unemployment rate to be 4.1%, and CPI inflation to be 2.1%

Projections for GDP, the unemployment rate and CPI inflation

Range of forecasters' projections
MPC's projection
Average of forecasters' projections

Glossary and other information

Glossary of selected data and instruments

AWE – average weekly earnings.

CPI – consumer prices index.

CPI inflation – inflation measured by the consumer prices index.

DMP – Decision Maker Panel.

ERI – exchange rate index.

GDP – gross domestic product.

HICP – harmonised index of consumer prices.

LFS – Labour Force Survey.

M4 – UK non-bank, non-building society private sector's holdings of sterling notes and coin, and their sterling deposits (including certificates of deposit, holdings of commercial paper and other short-term instruments and claims arising from repos) held at UK banks and building societies.

OIS – overnight index swap.

PCE – personal consumption expenditure.

PMI – purchasing managers' index.

PPI – producer price index.

REC – Recruitment and Employment Confederation.

RPI – retail prices index.

Abbreviations

BCC – British Chambers of Commerce.

BICS – Business Insights and Conditions Survey.

CIPS – Chartered Institute of Purchasing and Supply.

ECB – European Central Bank.

EU – European Union.

GfK – Gesellschaft für Konsumforschung, Great Britain Ltd.

HMRC – His Majesty's Revenue and Customs.

ILO – International Labour Organization.

IMF – International Monetary Fund.

LPC – Low Pay Commission.

LTV – loan to value.

MIDAS – mixed-data sampling.

MPC – Monetary Policy Committee.

MTIC – missing trader intra-community.

NHS – National Health Service.

NICs – National Insurance contributions.

NLW – National Living Wage.

OBR – Office for Budget Responsibility.

Ofgem – Office of Gas and Electricity Markets.

ONS – Office for National Statistics.

PAYE – Pay As You Earn.

PPP – purchasing power parity.

PNFC – private non-financial corporation.

PSNB – public sector net borrowing.

PSNFL – public sector net financial liabilities.

REC – Recruitment and Employment Confederation.

RTI – Real-Time Information.

S&P – Standard & Poor's.

SME – small and medium-sized enterprise.

VAT – Value Added Tax.

WEO – IMF World Economic Outlook.

Symbols and conventions

Except where otherwise stated, the source of the data used in charts and tables is the Bank of England or the Office for National Statistics (ONS) and all data, apart from financial markets data and results from the Decision Maker Panel (DMP) Survey, are seasonally adjusted.

n.a. = not available.

Because of rounding, the sum of the separate items may sometimes differ from the total shown.

On the horizontal axes of graphs, larger ticks denote the first observation within the relevant period, eg data for the first quarter of the year.