

Snap | 21 October 2020

UNITED KINGDOM

## Bank of England stimulus likely despite higher inflation

UK inflation figures continue to be thrown around by policy changes and demand-induced price spikes for a few specific goods and services. But in the medium-term, the pandemic is unlikely to be inflationary, given the growing concerns about the health of the jobs market. We therefore expect further Bank of England stimulus in November



Source: Shutterstock

UK inflation rebounded in September, continuing what has been a fairly volatile few months in the wake of the pandemic. Headline CPI edged up to 0.5%, reflecting the end of the Chancellor's Eat Out to Help Out food discount scheme. The figures will have also to some extent been affected by the decision to lower VAT on certain items at the start of the summer.

But economic policy aside, there is still a question of whether this crisis is likely to prove inflationary or not. In some very specific pockets, the answer appears to be yes - at least temporarily. The Covid-19 lockdown has ushered in a huge change in demand for certain goods - the ONS is highlighting second-hand car prices which are up 9% year-on-year, a by-product of people spending less time in cities perhaps and more time around their local areas. Hairdressers have also upped their prices since lockdown, reflecting a combination of higher initial demand and higher costs (eg protective equipment).

As elevated demand for certain products, and to a lesser extent supply shortages, continue to reverberate around the economy, we are likely to continue to see pockets of inflation such as these. But the broader story from Covid-19 is much less likely to be inflationary.

Unemployment is beginning to rise, and we think we may see the jobless rate read 9-10% over the winter months as the end of the furlough scheme, combined with the renewed prevalence of the virus, force firms to lower staffing numbers.

In that environment, wage growth (which given the importance of services in the UK economy, is a key factor for inflation), is likely to remain constrained as slack in the jobs market emerges.

In addition to the renewed concerns about the Covid-19 impact, as well as the forthcoming end to the post-Brexit transition period, this lack of inflationary pressure is likely to push the Bank of England towards further stimulus in November. We expect policymakers to add an extra £100 billion to its asset purchase programme, allowing purchases to continue to early summer at the current rate. However, it looks unlikely that this will be coupled with a shift into negative rates at this stage.

### Author

#### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority

## **THINK economic and financial analysis**

for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).