

## 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



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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)

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