

Bank of England

Inflation is a 'wicked problem'

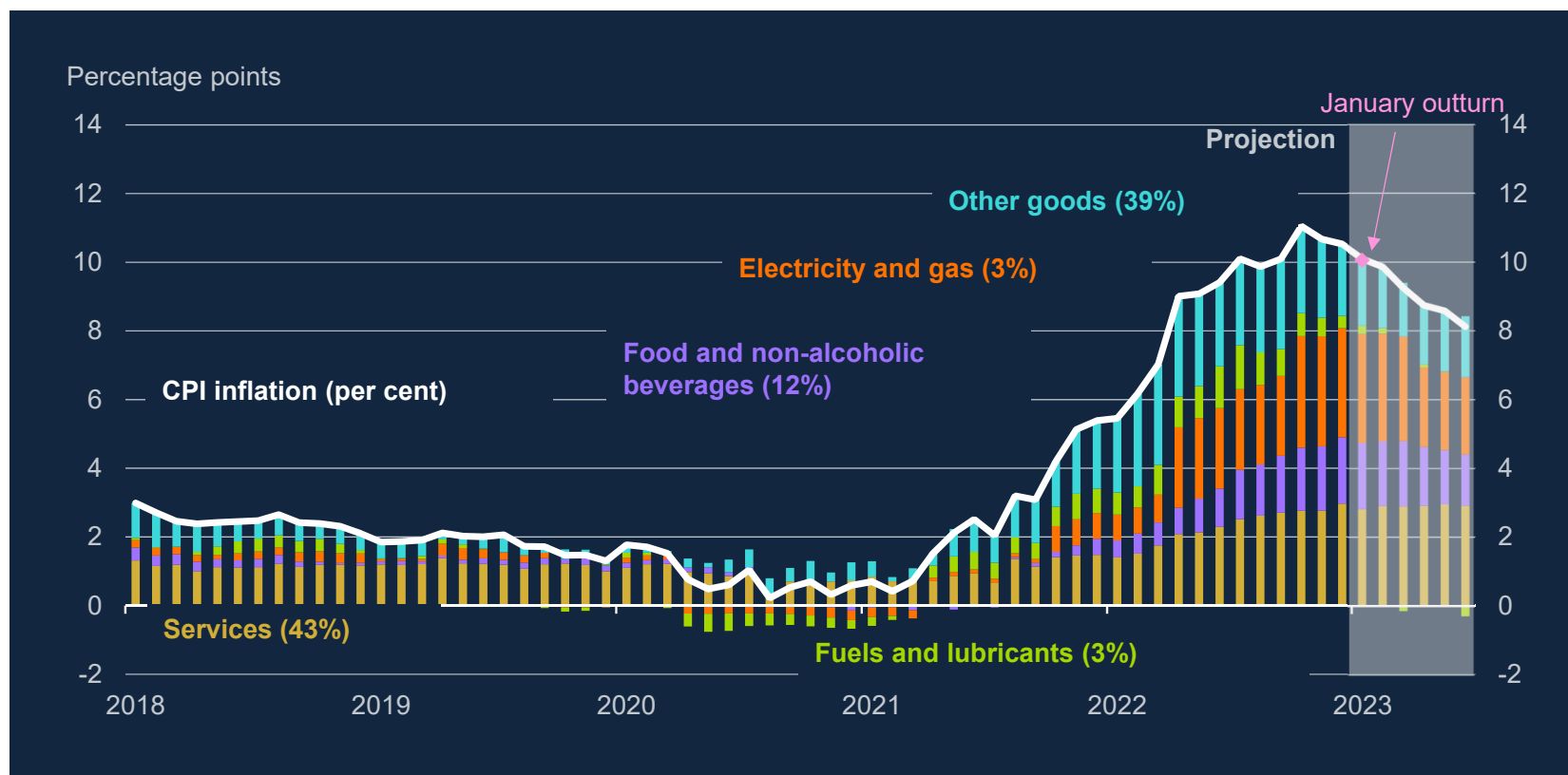
Warwick Think Tank, Warwick University

Huw Pill

Thursday 16 February 2023



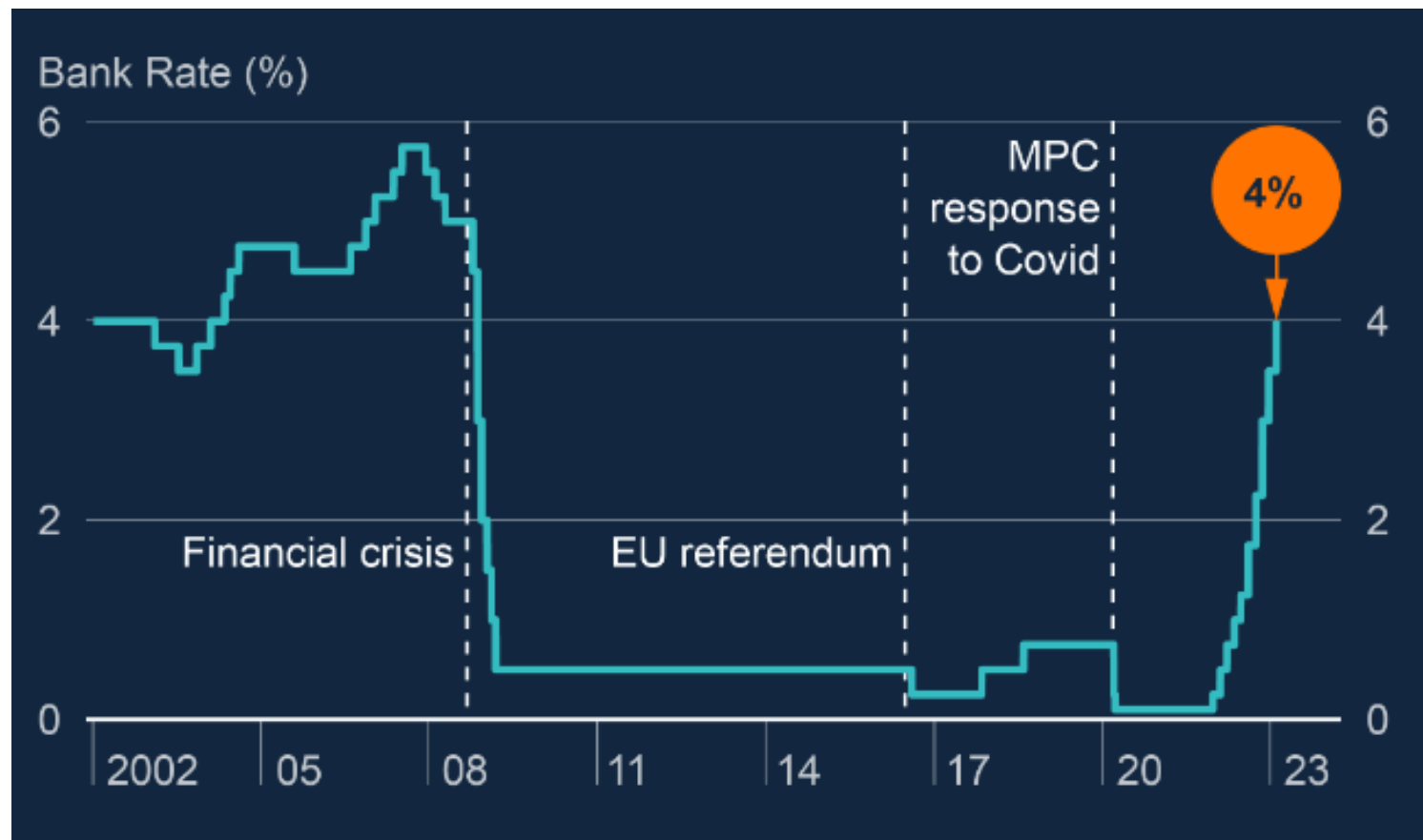
Higher energy and goods prices have pushed inflation higher



Sources: Bloomberg Finance L.P., Department for Business, Energy and Industrial Strategy, ONS and Bank calculations.

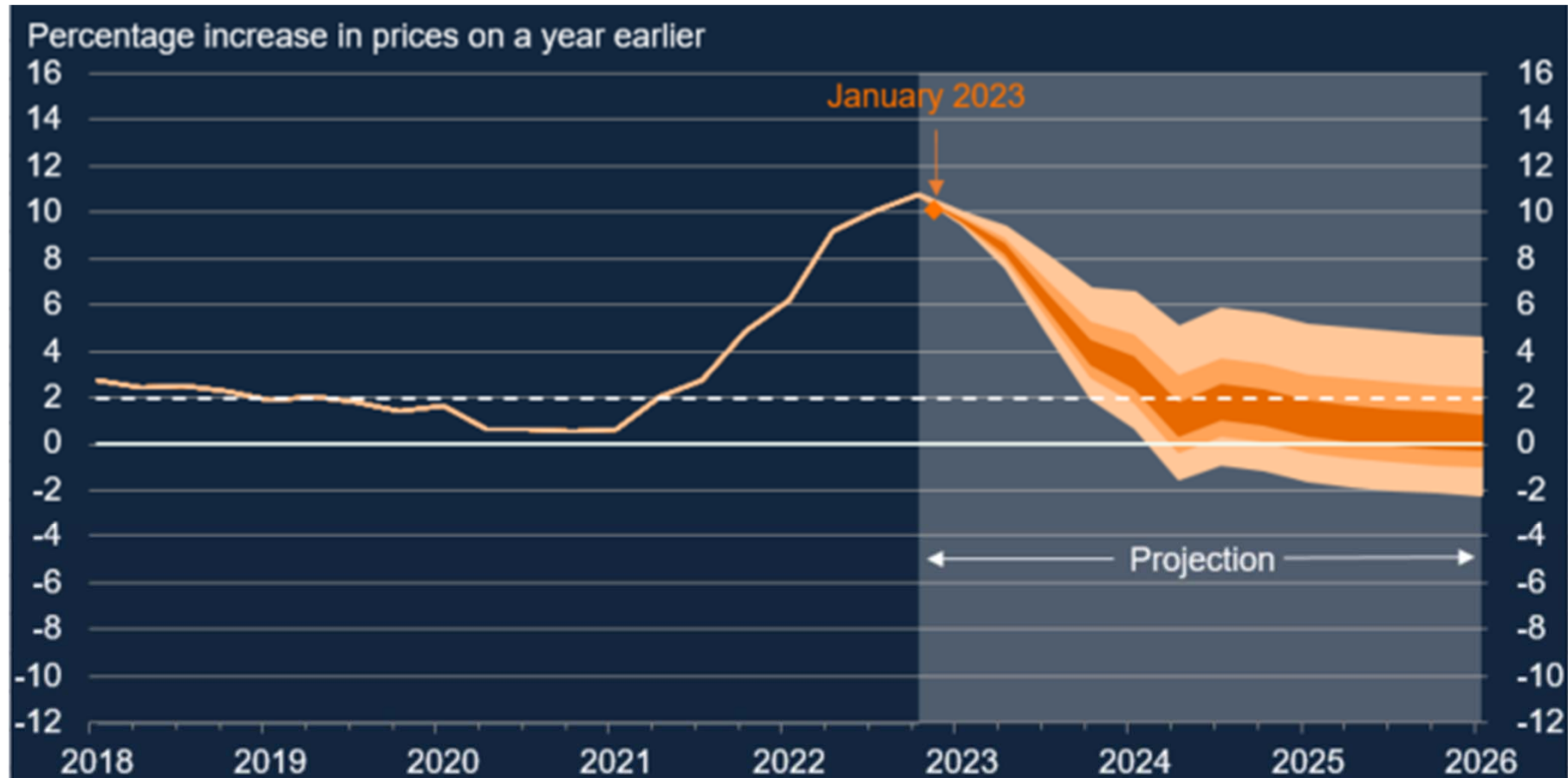
¹ Figures in parentheses are CPI basket weights in 2022. Data to January 2023. Bank staff projections from January to June 2023. Fuels and lubricants estimates use Department for Business, Energy and Industrial Strategy petrol price data for January 2023 and then are based on the sterling oil futures curve. Other goods is the difference between CPI inflation and the other contributions identified in the chart.

MPC raised interest rates by almost 400bps in the last year



Source: Bank of England

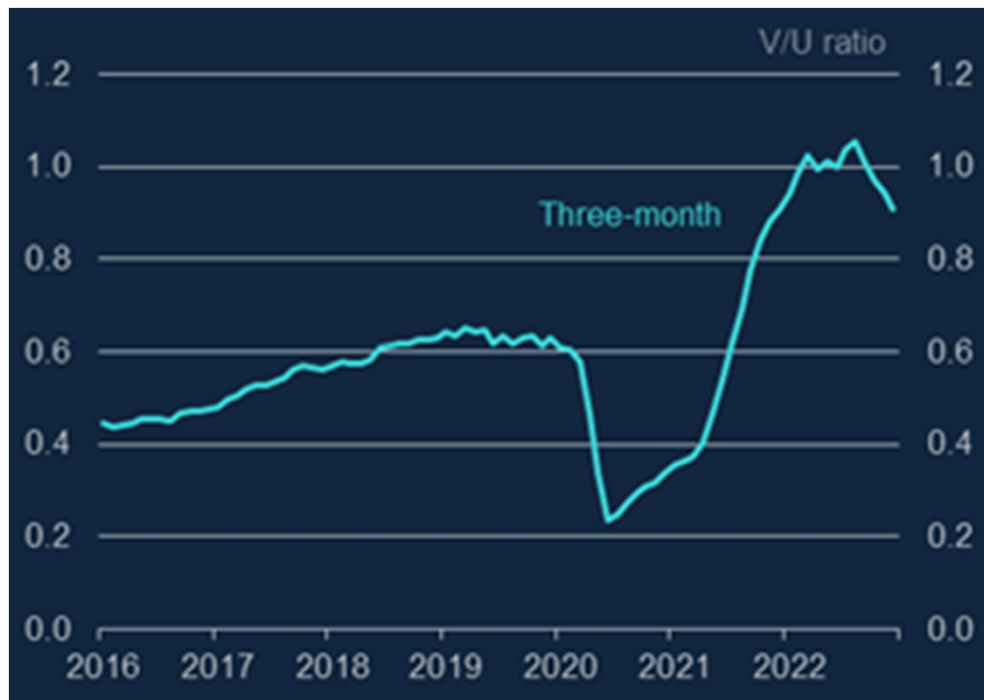
CPI inflation projection based on market interest rates



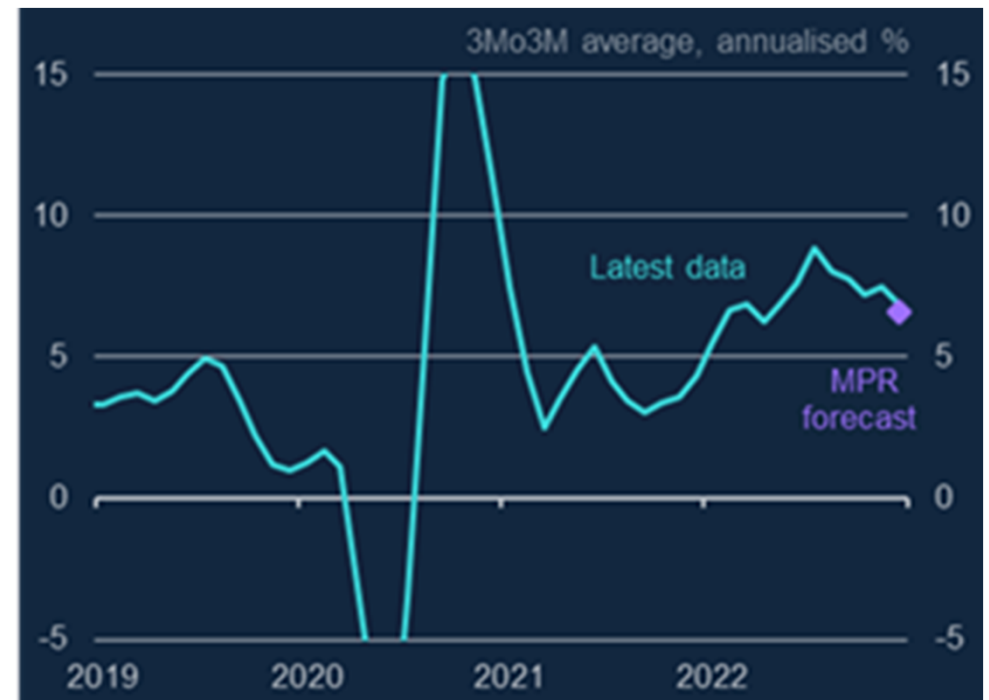
Sources: ONS and Bank calculations.

There are tentative signs of easing in the labour market

Vacancy rate over unemployment rate has eased

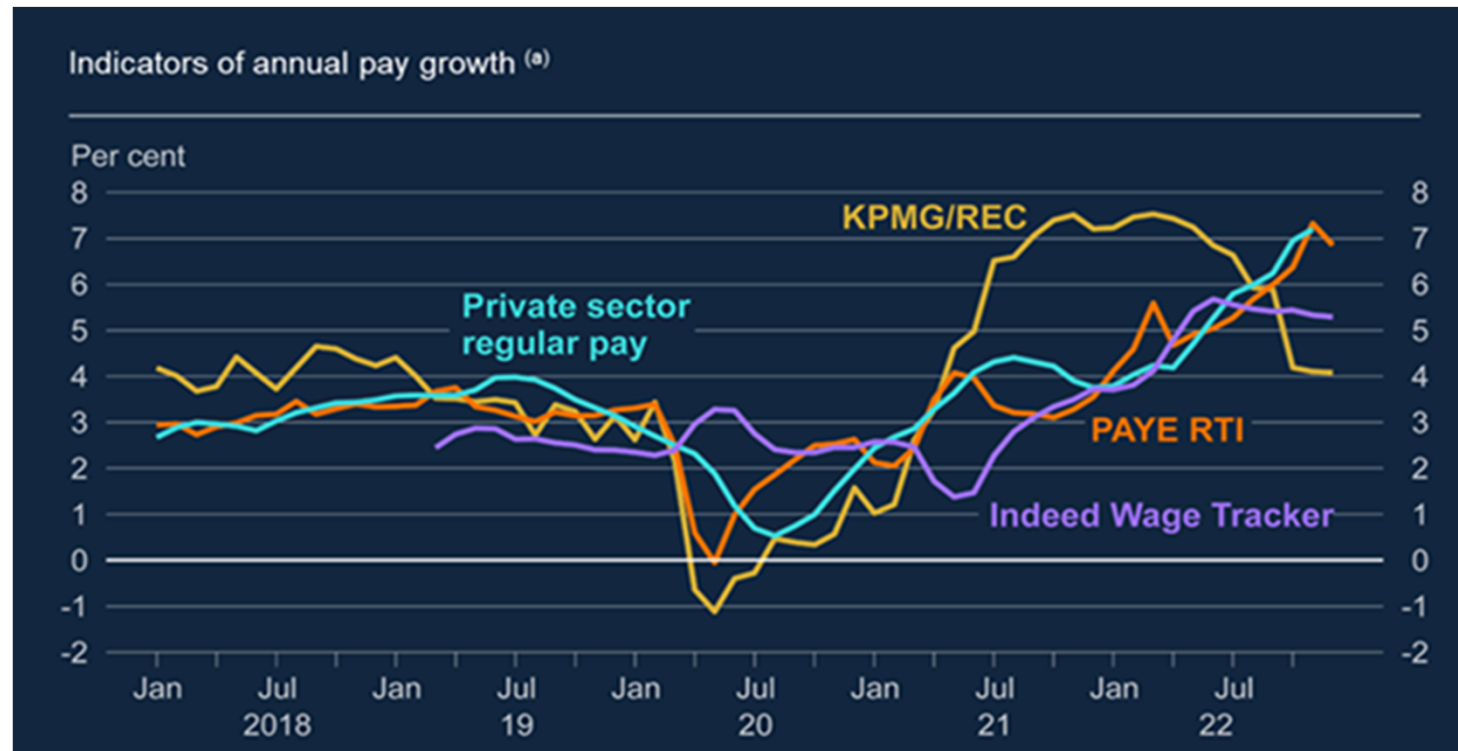


Annualised private sector pay growth has edged lower



Sources: HMRC, ONS and Bank calculations.

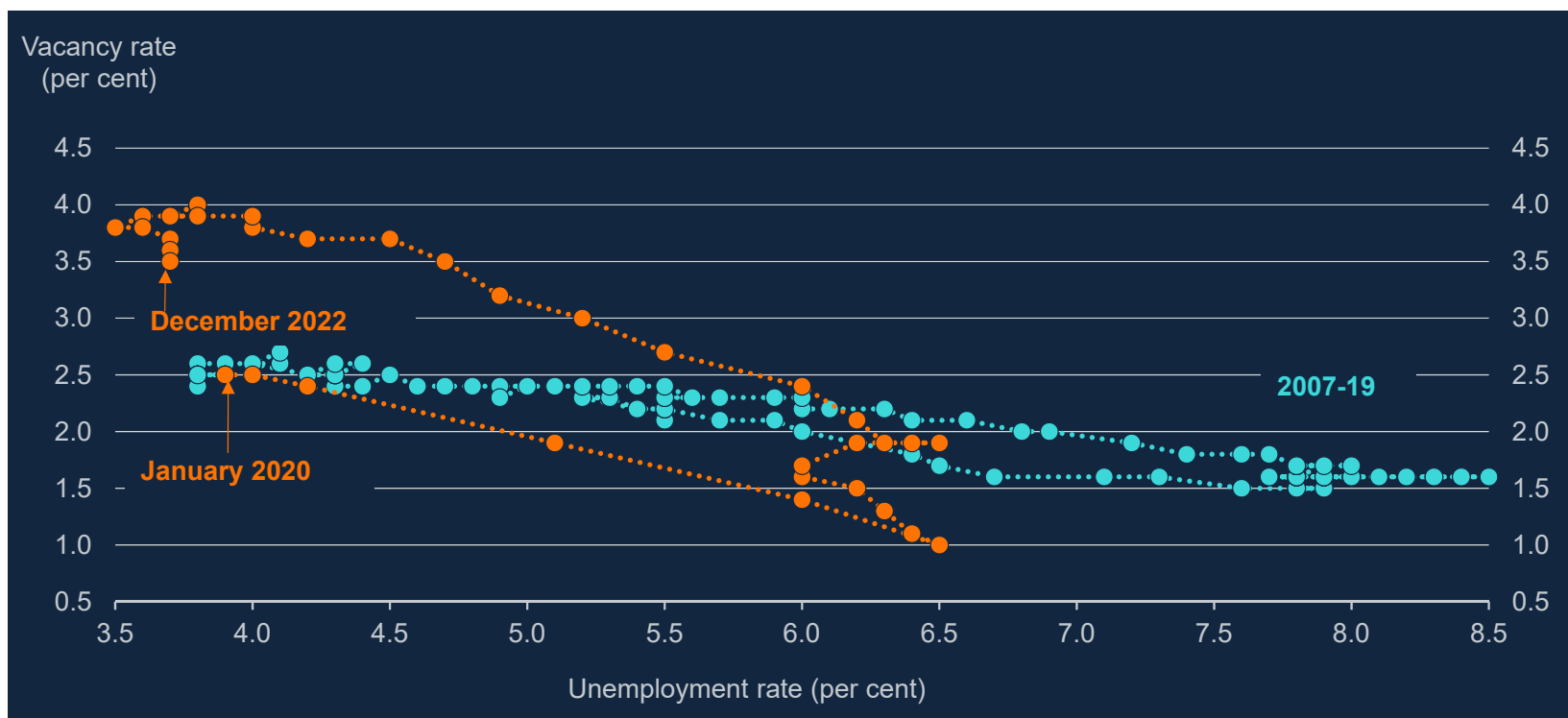
Some indicators of pay growth have levelled off or fallen



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

(a) Private sector regular pay growth is Bank staff's estimate of underlying pay growth between January 2020 and September 2022 and ONS private sector regular pay growth otherwise. KPMG/REC shows permanent staff salaries. Pay as You Earn (PAYE) Real Time Information (RTI) shows median of pay growth. KPMG/REC is mean-variance adjusted to ONS private sector regular pay growth over March 2001–19. Latest data points are December 2022 for PAYE RTI, the Indeed Wage Tracker and the KPMG/REC index and the three months to November 2022 for private sector regular pay.

Labour market is tighter than unemployment rate would suggest



Sources: HMRC, ONS and Bank calculations.

(a) Three-month moving averages. Latest data are for the three months to December 2022. Vacancy rate is the number of vacancies divided by total employment. The unemployment figures have been increased to reflect an MPC judgement that 10% of those furloughed between March 2020 and September 2021 were actively searching for work



Q&A

