

ECONOMIC PULSE

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UNITED KINGDOM: THE BANK OF ENGLAND FACES RISING INFLATION

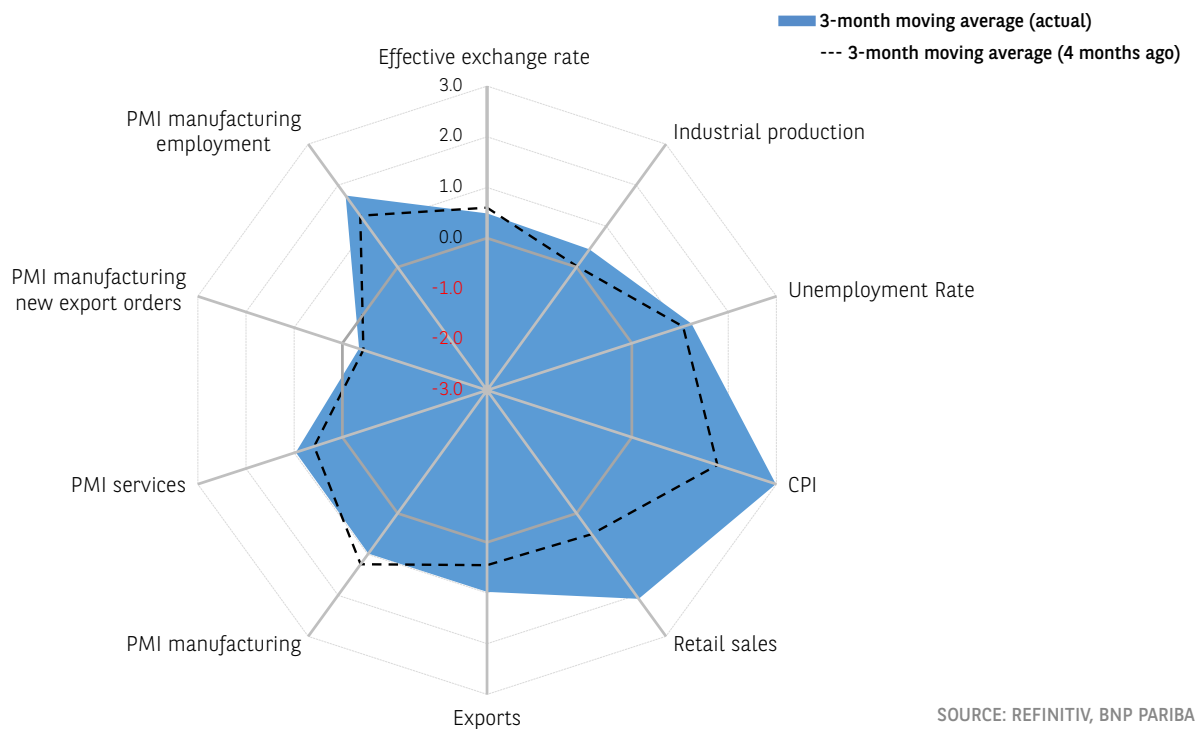
Economic growth strengthened over the first two months of 2022, but is likely to slow in the near future due to inflationary pressures. Industrial production rose 3.6% year-on-year (y/y) in February, suggesting that economic activity picked up in Q1 2022 (provided that this rise continued into March) relative to Q4 2021. In services, the business climate has improved continuously since Q3 2021, taking the PMI to 62.6 in February 2022. Meanwhile, retail sales rose 15% y/y in February, confirming the recovery that began in late 2021. However, the scale of this improvement is due largely to a comparison effect. The introduction of a third lockdown in Q1 2021 resulted in a substantial contraction in retail sales. Similarly, although exports remained solid (up 9.8% y/y in February), their growth has been automatically enhanced by a similar comparison effect. By contrast, consumer confidence has deteriorated more markedly, taking it to a 16-month low according to the GfK survey. Consumers are facing a loss of purchasing power due to inflation, which will be exacerbated by fiscal pressure.

The labour market remains robust, with a further small fall in the unemployment rate which dropped by 0.1 of a point on its December 2021 level, to 3.8% in January 2022. This trend reduces the inflationary shock for purchasing power and consumer spending. Price trends are also having an effect on wages, although this in turn pushes up inflation. Inflation has risen continuously since July 2021, taking it to 7% with further increases expected in the months ahead.

Against this background, the Bank of England's Monetary Policy Committee is stepping up its anti-inflationary measures, at a time when the conflict in Ukraine is increasing uncertainties. The Bank has thus raised its policy rate from 0.1% to 0.25% (December 2022), then to 0.5% (February 2022) and most recently to 0.75% (March 2022). It suggests that continued inflationary pressure over the short to medium term will justify continued "modest" tightening of monetary policy.

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UNITED KINGDOM: QUARTERLY CHANGES



The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -3 and +3. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.



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