

# ECONOMIC PULSE

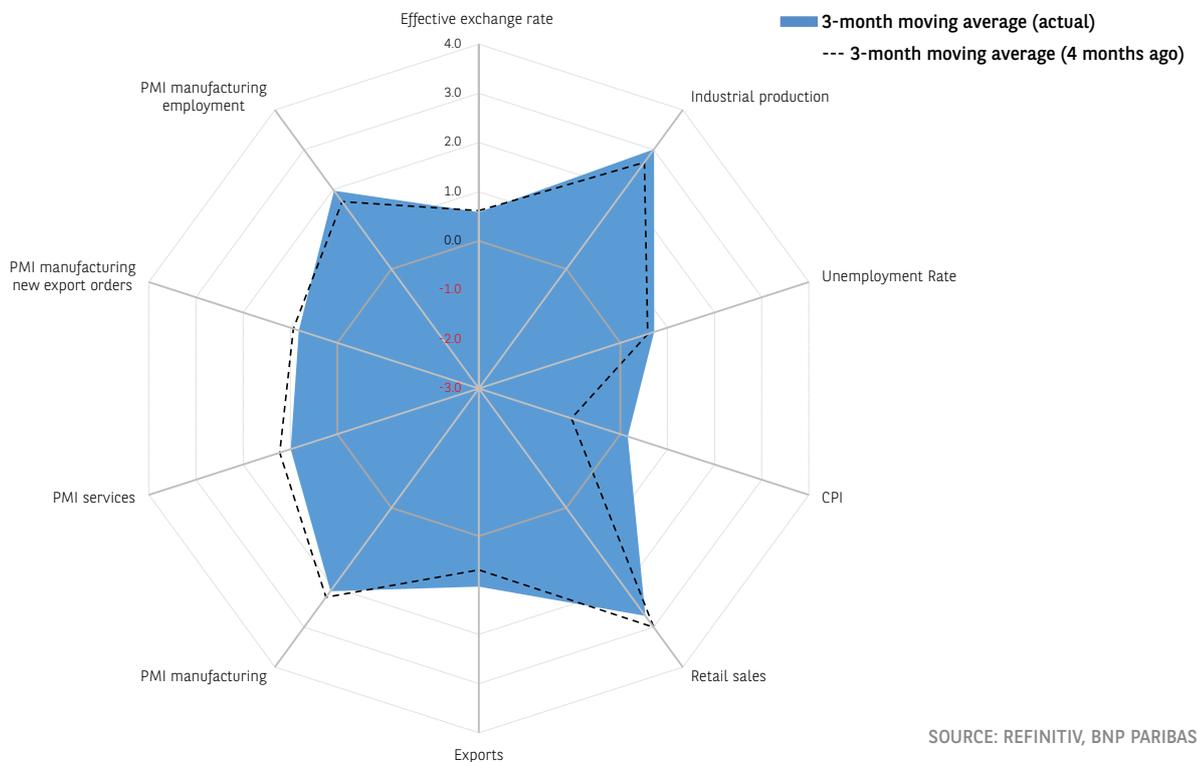
## UNITED KINGDOM: INFLATION SURGES

In the UK, people have swarmed into bars, pubs, restaurants and other recreation venues since “Freedom Day” on 21 July, when the country lifted its last Covid-19 lockdown measures and restrictions. After being curbed for such a long time, consumer demand was so strong that supply could barely keep up. Hotels and restaurants struggled with staff shortages while the number of job openings reached record highs. In August, labour market pressures carried over to prices, which rose sharply. Inflation largely surpassed expectations at 3.2% year-on-year, the highest level since 2012, and well above the Bank of England’s official target of 2%. As a result, BoE Governor Andrew Bailey must officially explain why inflation is above target and whether the situation will last. Everything seems to suggest that the upturn in prices will accelerate. September figures will integrate the increase in the VAT rate (from 5.5% to 12.5%) in the tourism and hotel sectors, while October’s figures will include the regulated rate increases for natural gas and electricity. By year-end 2021, inflation could reach or exceed 4%.

This should normally provide an incentive for the Bank of England to take action. The stabilisation of the central bank’s balance sheet at GBP 895 bn, after virtually doubling during the crisis, would be accompanied by a more precise forward guidance regarding the rise in the base rate, which is currently set at 0.10%. Before monetary policy can be tightened, however, there is one condition that has not been met yet: the full recovery of the economy. Although the GDP is operating at 96% of its pre-pandemic levels, it may becoming harder to close the remaining gap. Starting in September, there will be fewer support measures to boost consumption, such as government subsidies for job retention schemes. By eroding household purchasing power, the surge in inflation could undermine consumption as well.

Jean-Luc Proutat

### 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 +4. 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.

