

Bank of England

Mind the gap(s): Inflation data and prospects

OMFIF

8 February 2024

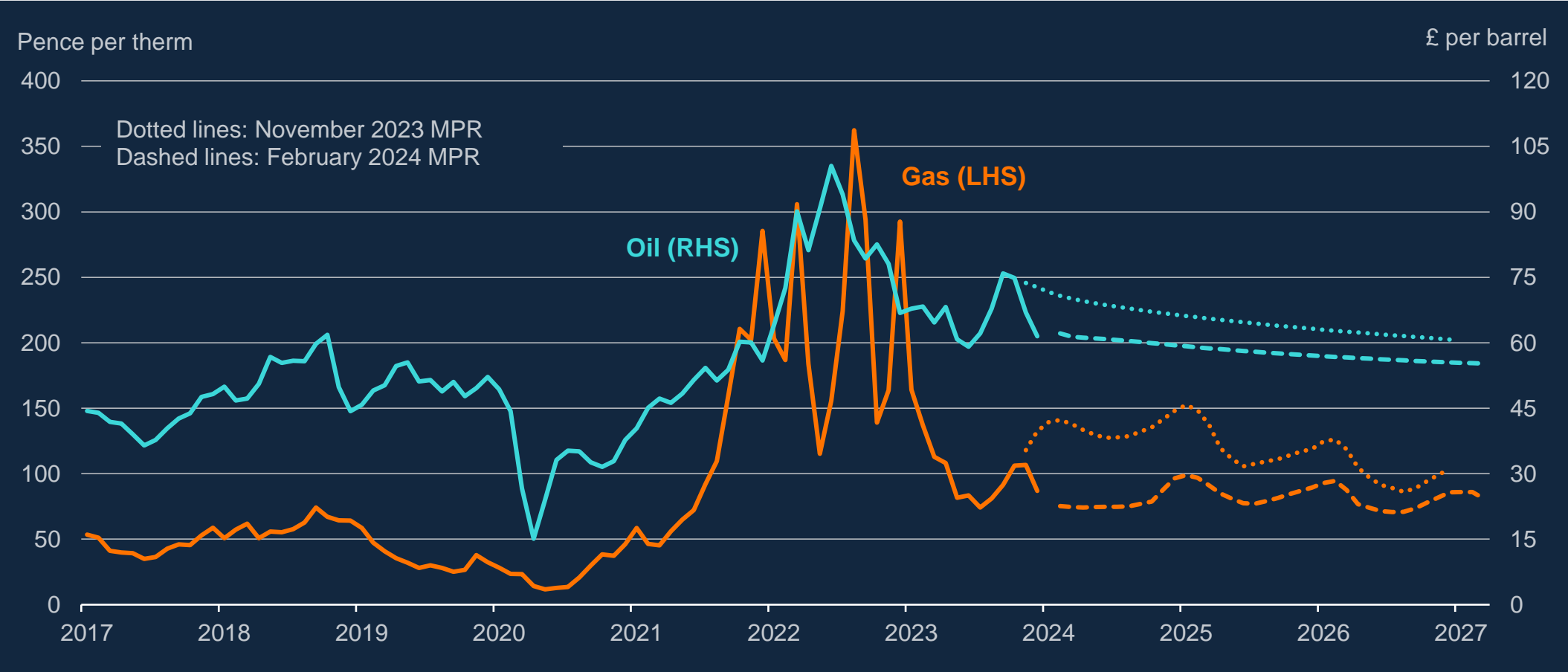
Catherine L. Mann

External member of the Monetary Policy Committee



Energy prices have fallen significantly between MPC forecasts

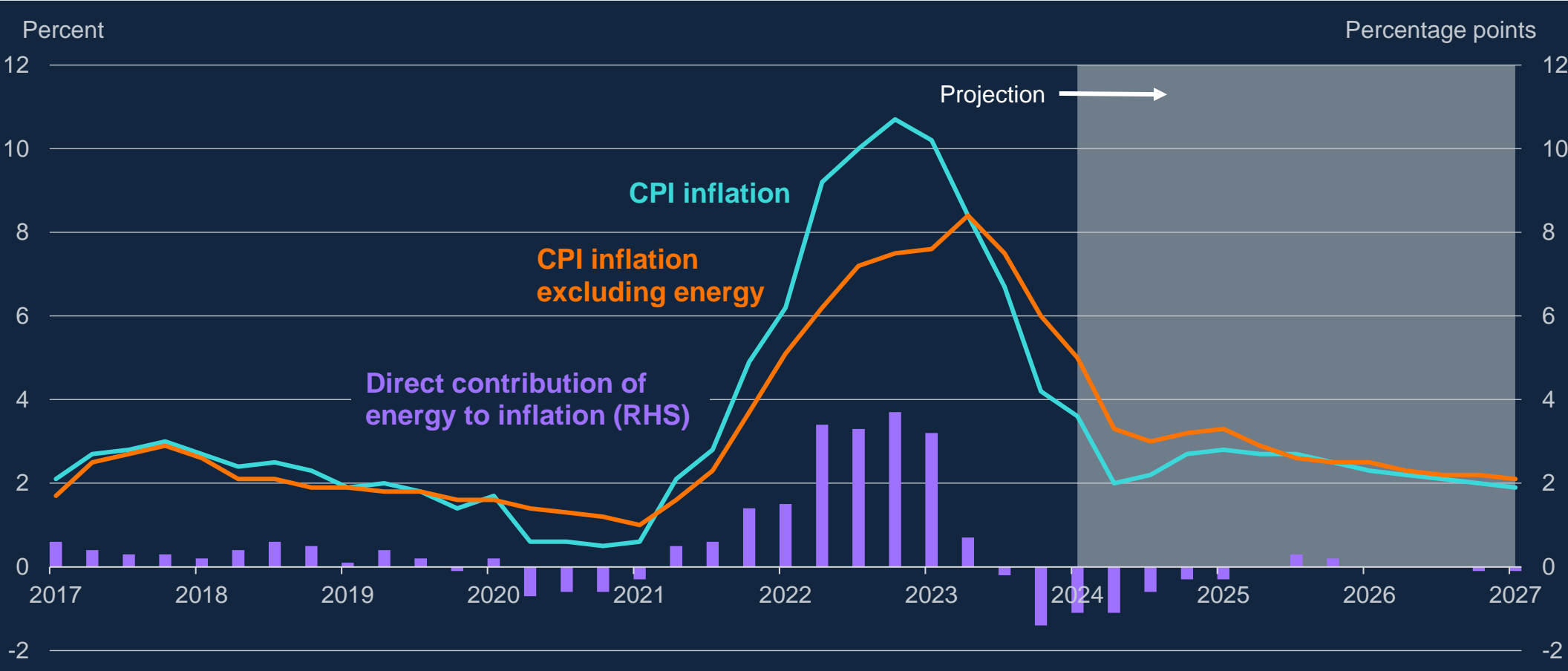
UK wholesale gas and oil spot and futures prices



Source: [February 2024 Monetary Policy Report](#). Notes: Oil prices are Brent crude, converted to sterling. Gas prices are Bloomberg UK NBP Natural Gas Forward Day price. Dashed lines refer to respective futures curves using one-month forward prices based on the 15-day average to 23 January 2024, while dotted lines are based on the 15-day average to 24 October 2023. The final data points refer to futures curves in March 2027.

Inflation is more persistent when excluding the effects of energy

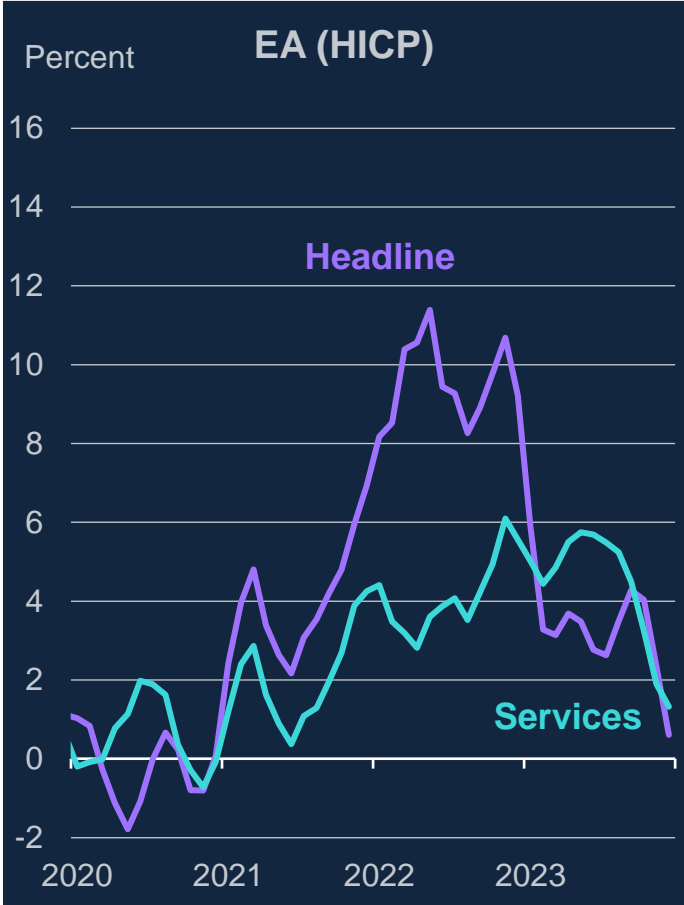
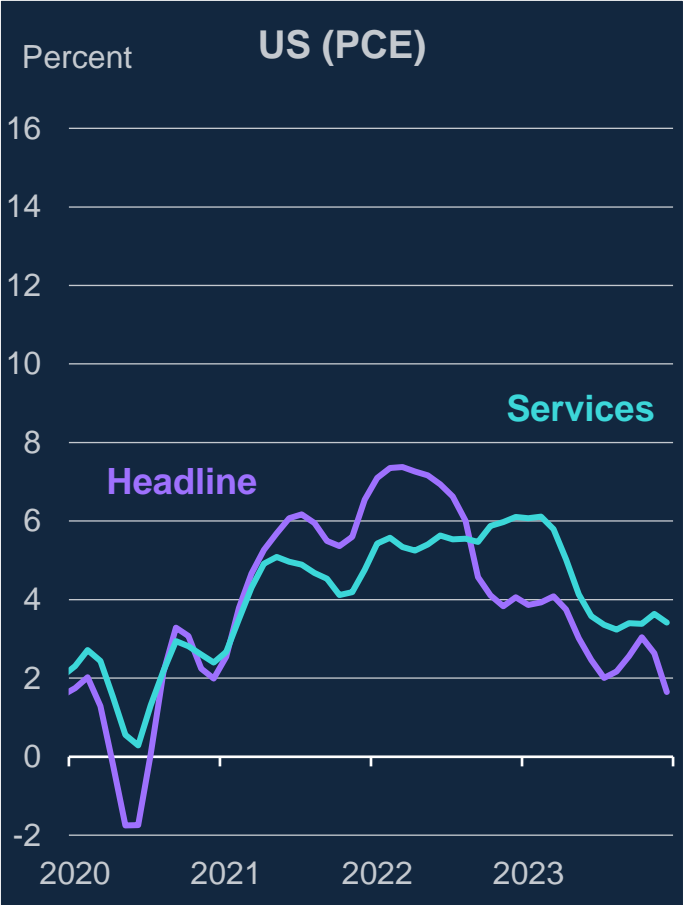
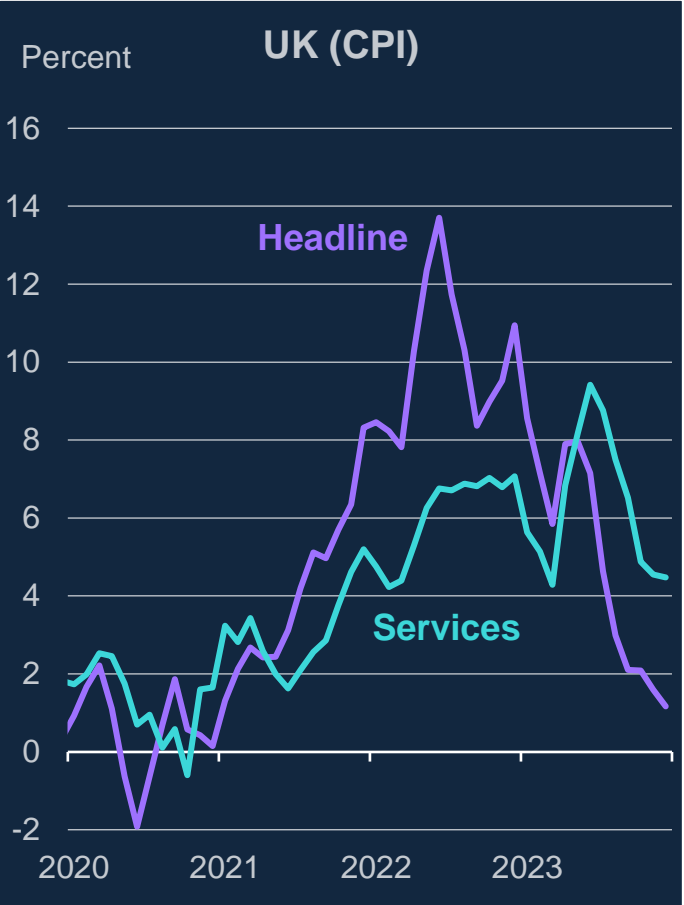
CPI inflation and contributions from energy



Source: [February 2024 Monetary Policy Report](#). Notes: Energy prices include fuels and lubricants, electricity, gas and other fuels.

A large gap between services and headline inflation has emerged in the UK

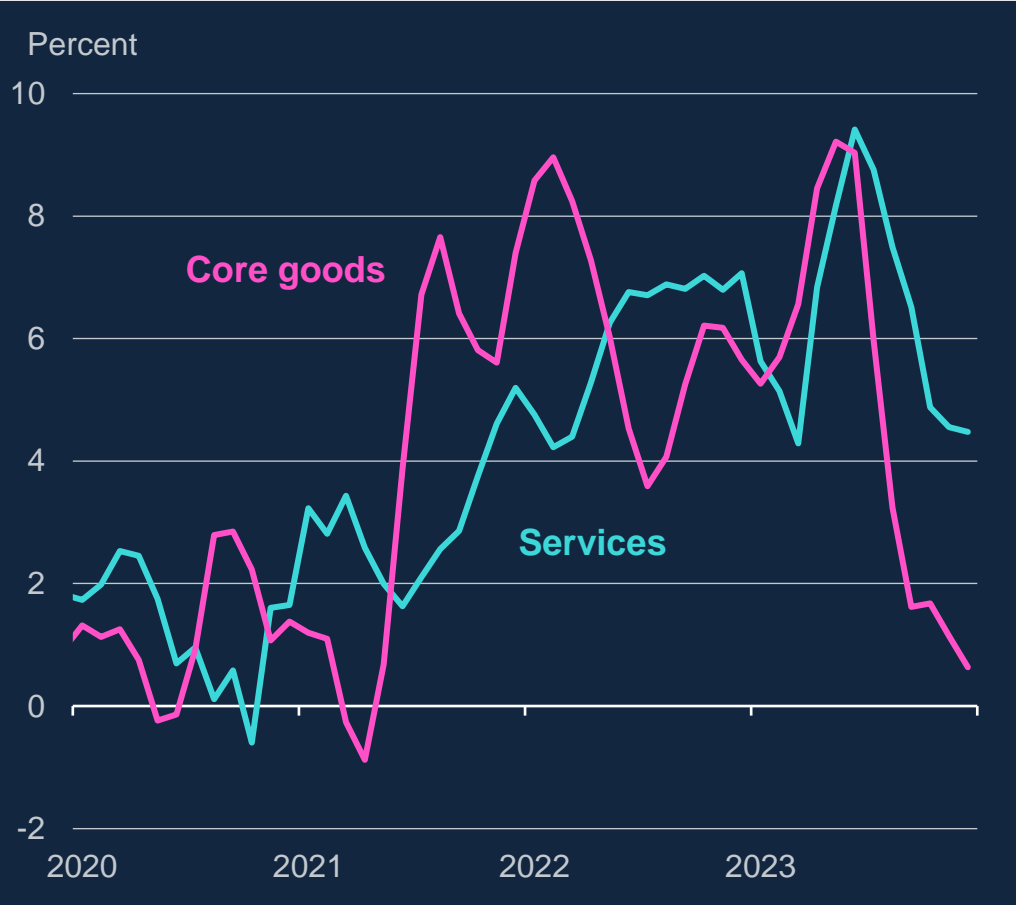
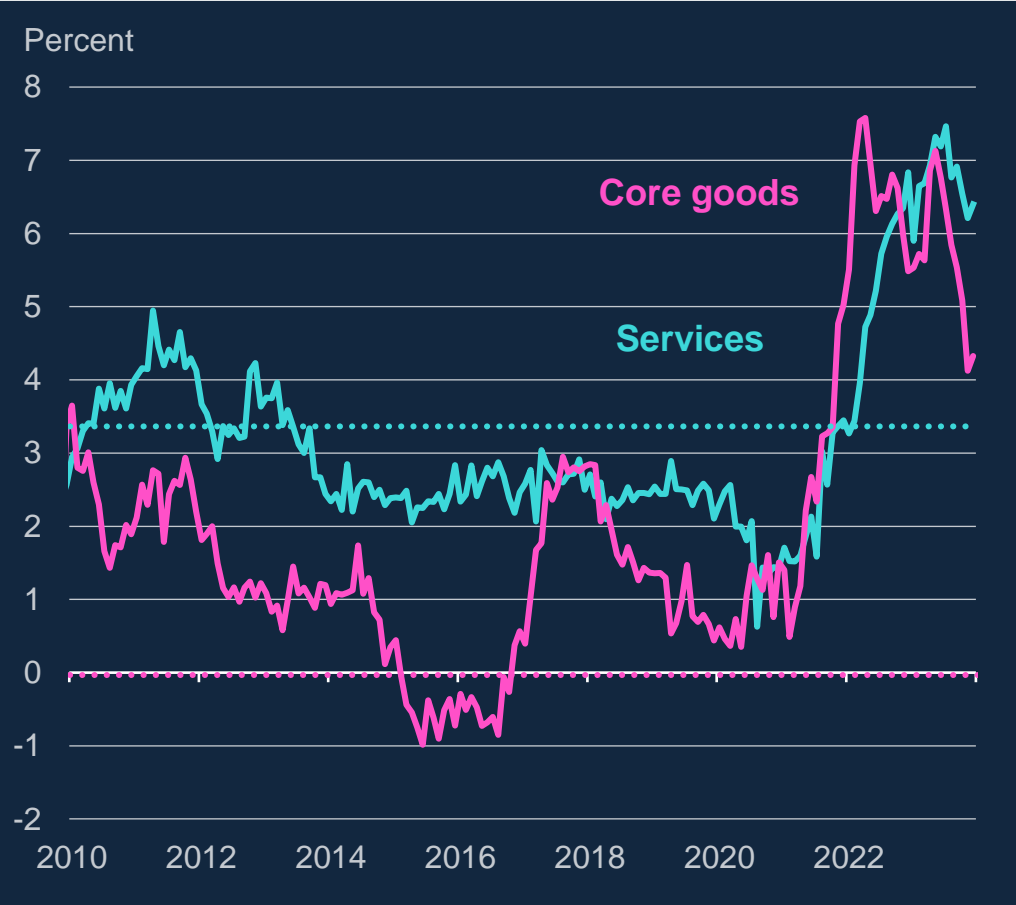
3-month on 3-month average annualized percentage changes in price indices



Source: Office for National Statistics, Bureau of Economic Analysis, Eurostat and Bank calculations
Latest data: December 2023.

Services and core goods inflation are decelerating, but services inflation remains far from historical averages

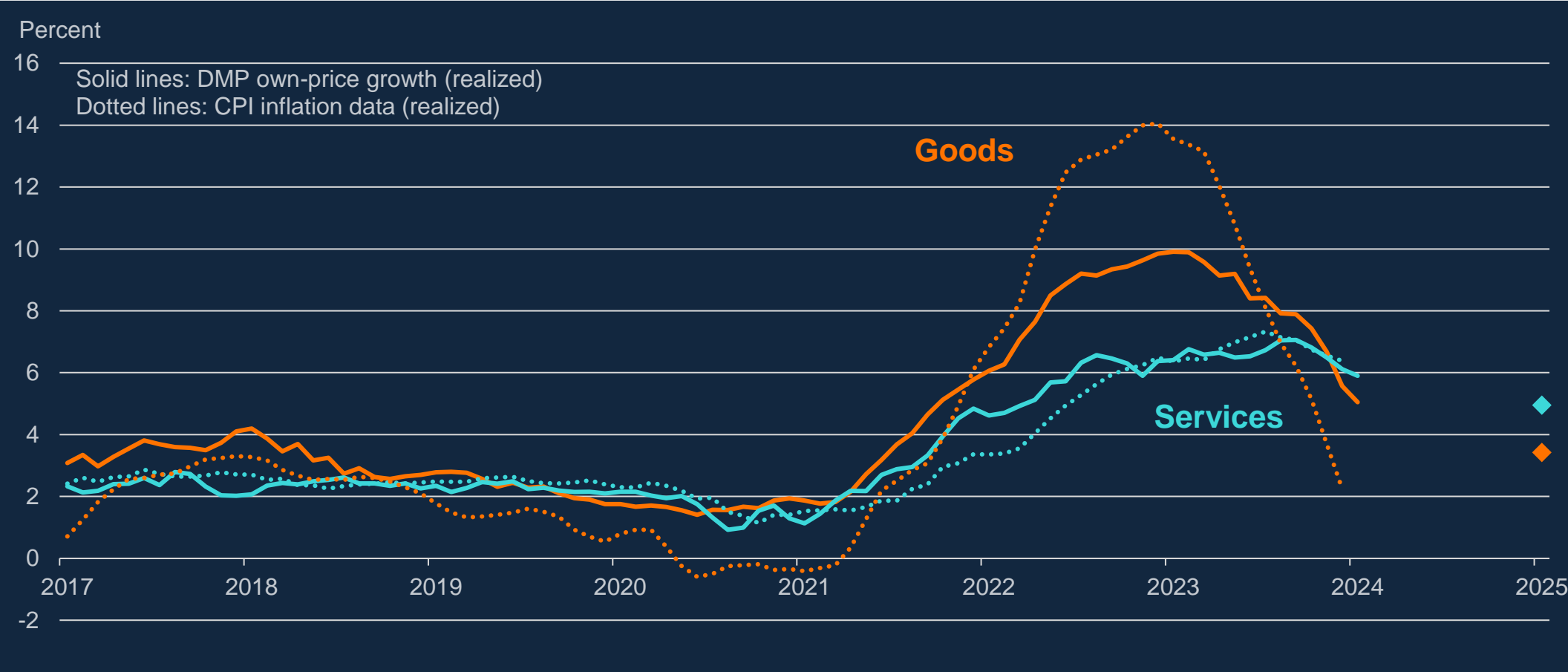
Year-on-year (LHS) and 3-month-on-3-month average annualized (RHS) percentage changes



Source: Office for National Statistics, Bureau of Economic Analysis, Eurostat and Bank calculations.
Latest data: December 2023.

Firms in goods and services sectors expect inflation to fall

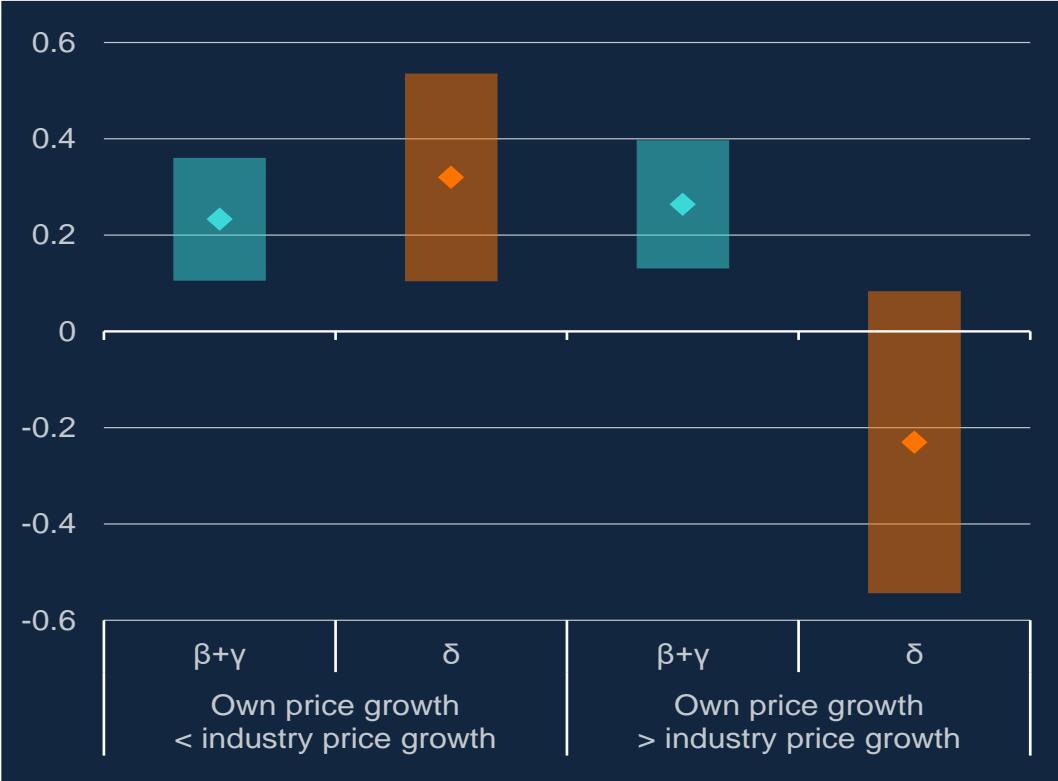
Firms' own-price growth in goods and services sectors and CPI inflation (3-month moving average)



Source: [Decision Maker Panel](#). Notes: The series are based on the questions about approximate % change in your average price '12 months ago to now' and '12 months from now'. For the forward-looking question, respondents were then asked to assign a probability to each scenario. A point estimate is constructed by combining the five scenarios with the probabilities attached to them. The diamonds represent a 3-month average of 1-year ahead own-price expectations.

Firms' price setting is asymmetric depending on their competitors' price setting behaviour

Effects of firms' own price expectations on realized prices

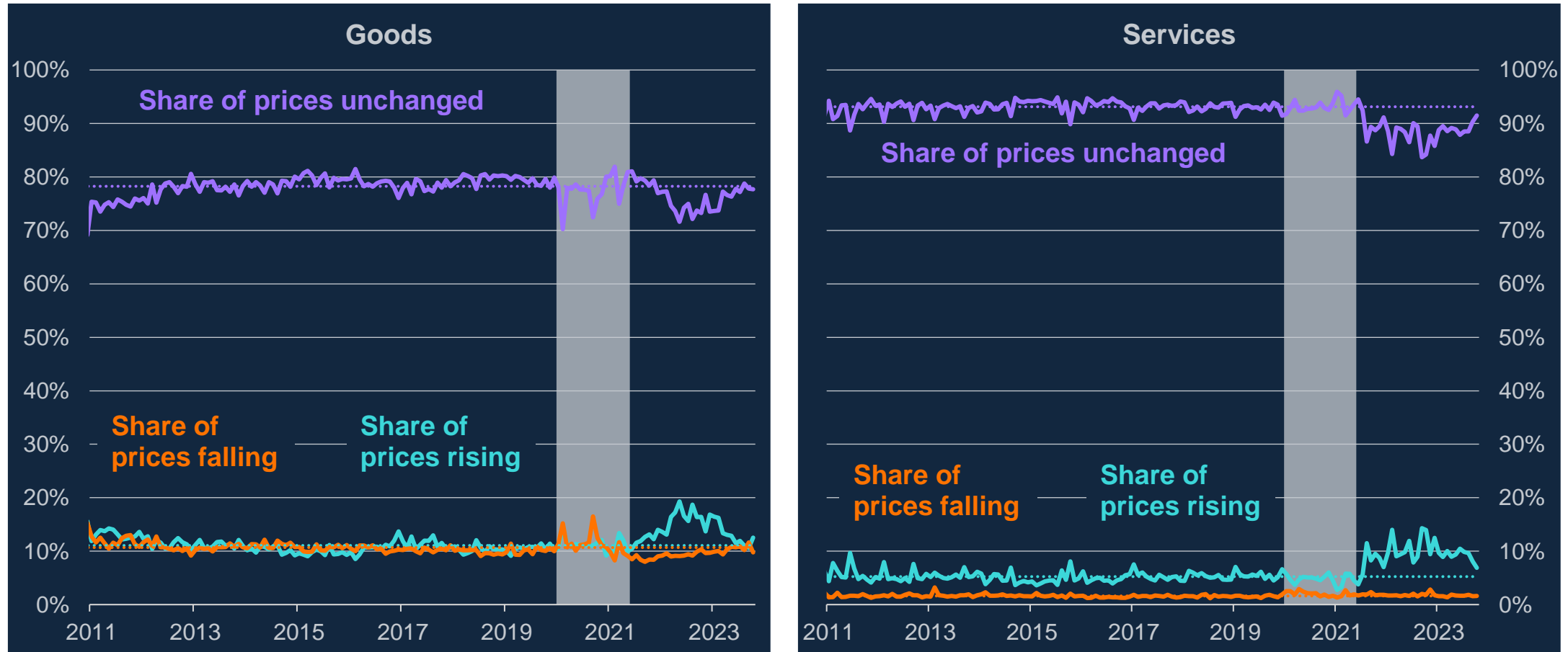


Source: Griffa and Potjagailo (mimeo)

Notes: Authors use firm-level survey data from the Confederation of British Industry. Regressions estimate the link between firms' own-price inflation and their expectations of own and competitors' price inflation as in Boneva et al. (2020), lagged reported price growth ("backward lookingness"), and average wage costs (proxy for marginal costs), controlling for time-industry and firm fixed effects. Teal diamonds represent regression coefficients of own-price inflation expectations, orange diamonds represent coefficients of a dummy parameter specifying a case where the firm's expectation about change in its competitors' prices is greater or smaller than the firm's expectations about its own price change. Shaded areas represent the 95% confidence interval. The regression is estimated over a sample period 2009Q1-2022Q2.

The share of services prices rising remains above average

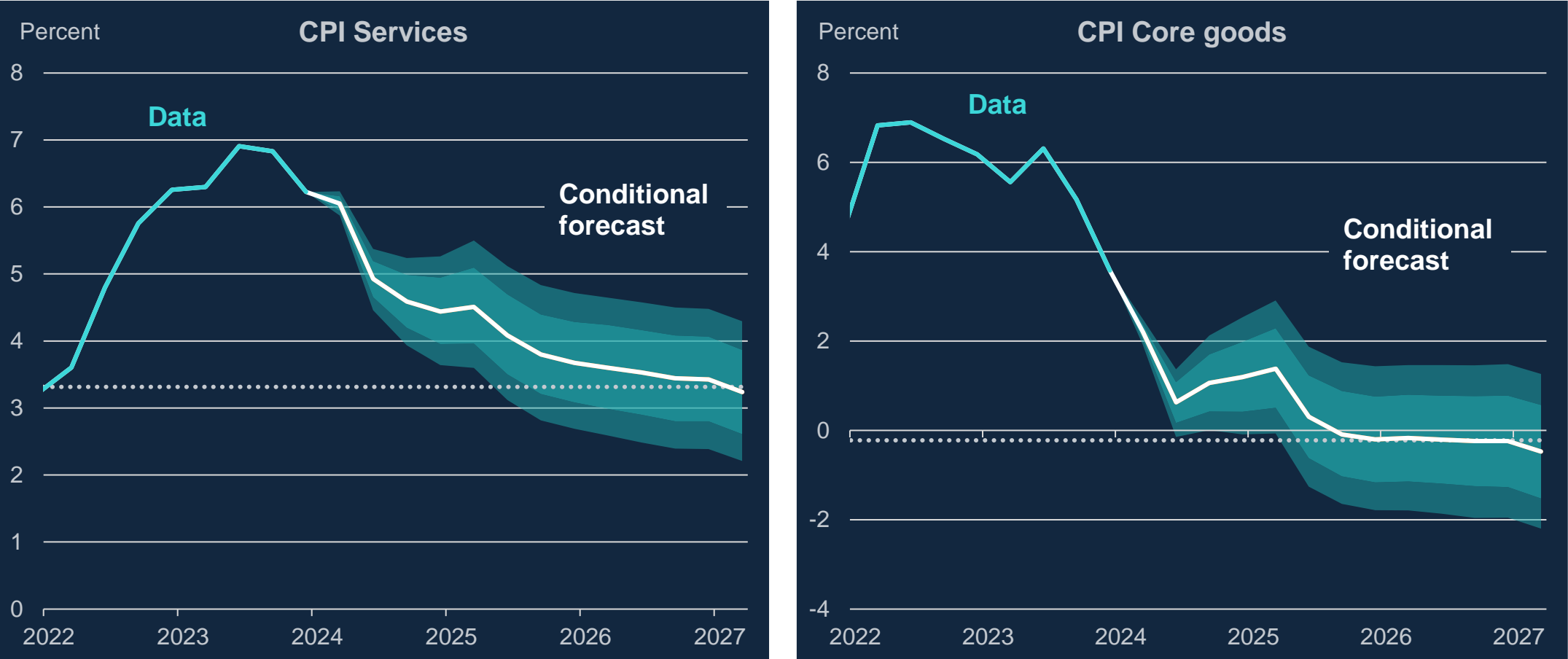
Decomposition of price movements month-on-month



Source: [Brandt, Burr and Gado \(2024\)](#). Notes: The share of prices rising and falling reflect month-on-month changes. Shares are seasonally adjusted using the R package [seasonal](#). The effects of UK VAT changes have been smoothed. The grey shaded area covers the time between March 2020 and July 2021 when the economy (and data collection) was most affected by the Covid pandemic. Dotted lines show the 2011–19 averages. Latest observation: December 2023.

Forecast-consistent paths for services CPI inflation look optimistic

Forecasts for CPI services and core goods inflation



Source: Bank calculations

Notes: The left-hand panel shows annual inflation in CPI services, while that on the right shows the same for CPI core goods. The blue swathes depict 68% and 90% credible sets around MPC-consistent projections. The BVAR model is estimated on quarterly data from 1997 to 2019. Horizontal grey dotted lines show sample means and may not correspond to long-term trends in the future.

