

**Bank of England**

# UK Economic Outlook

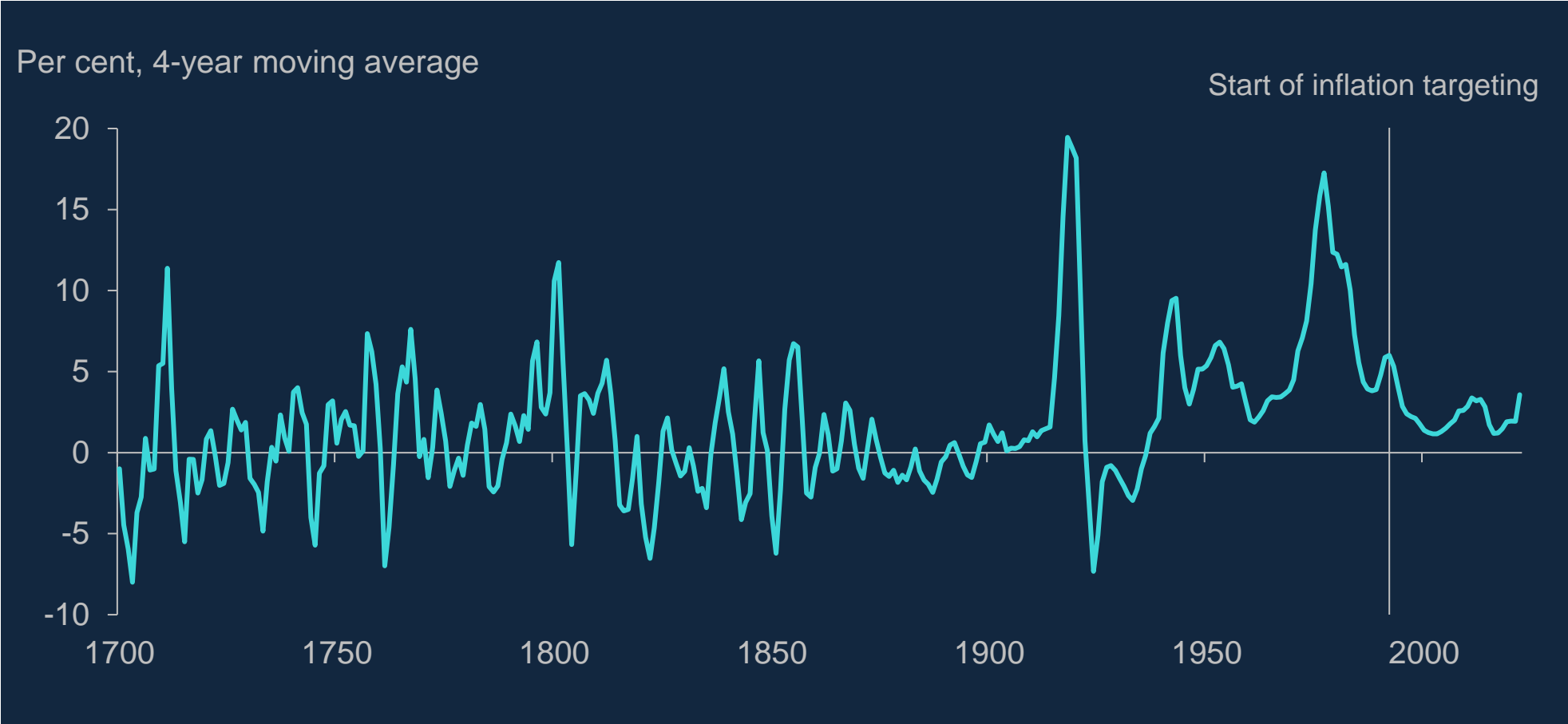
30 June 2023

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**West Midlands Agency**



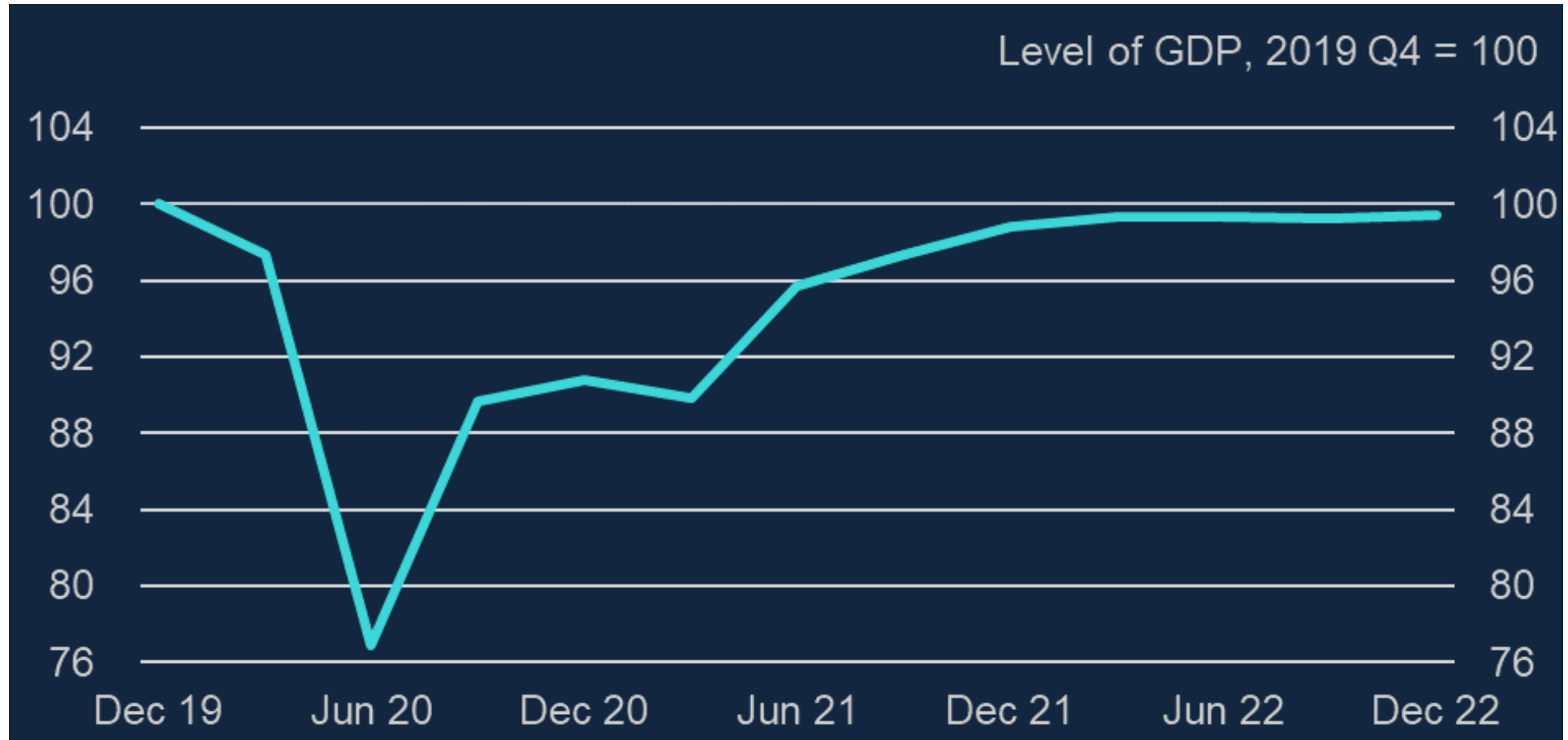
# Inflation targeting worked...



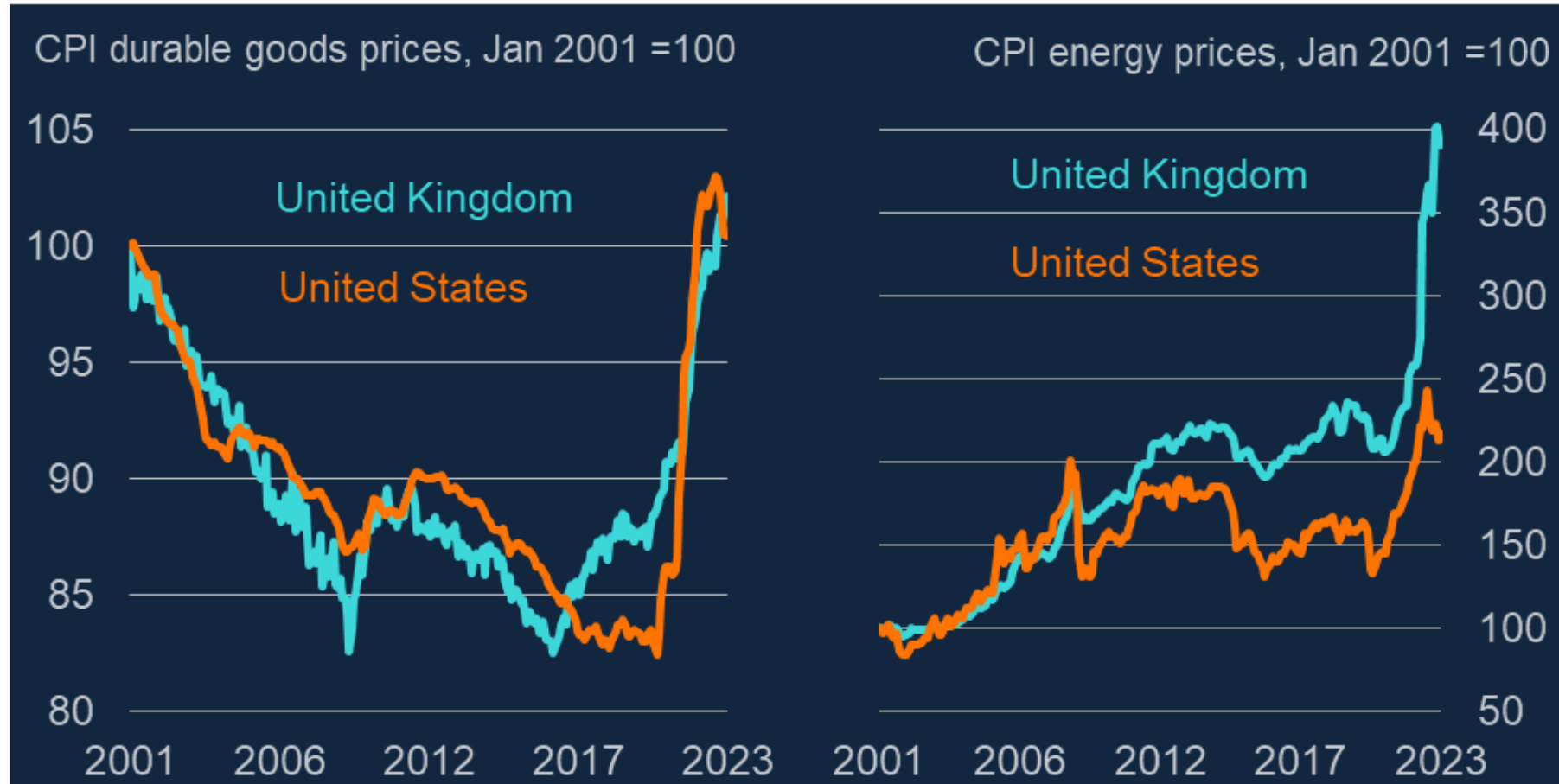
...until recently



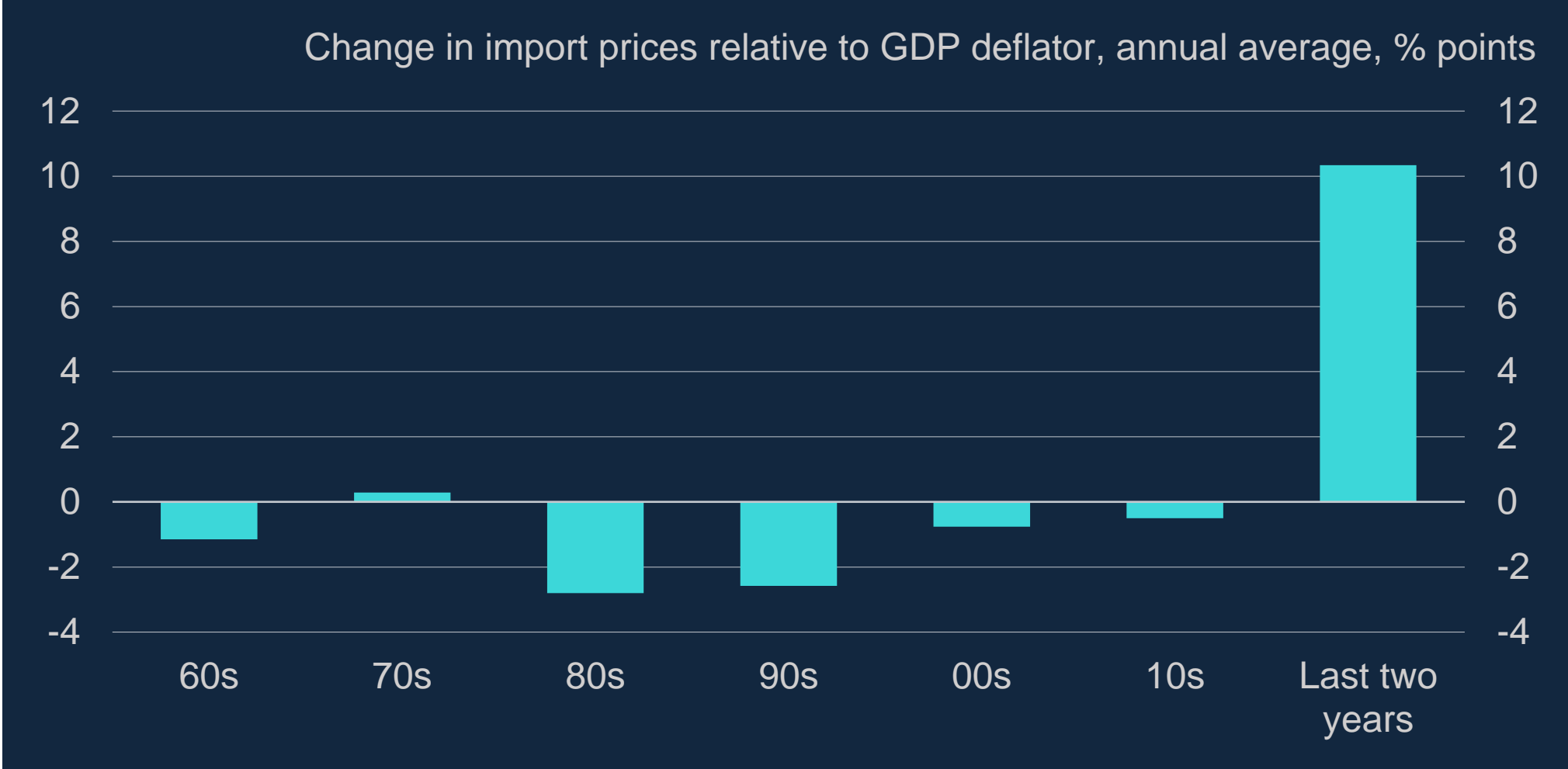
# This inflation is not caused by strong demand and output... UK economy no bigger than before the pandemic



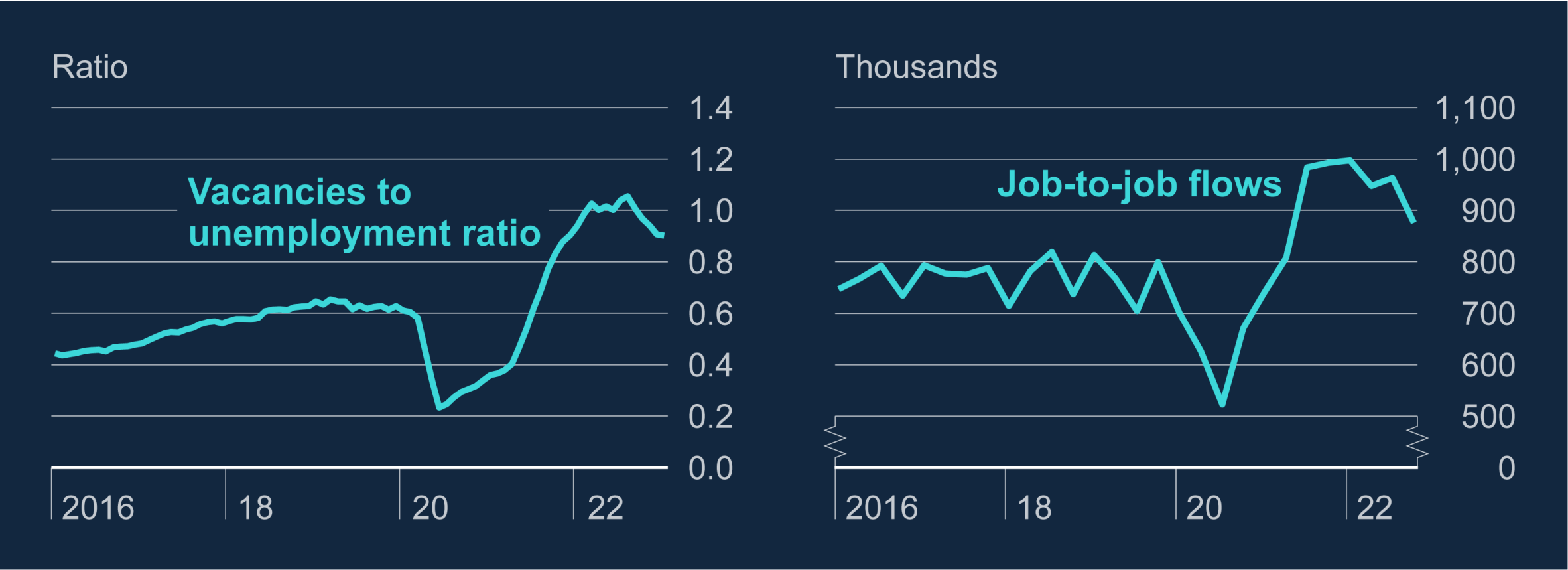
# The pandemic, and then the war, led to very dramatic rises in the cost of imports



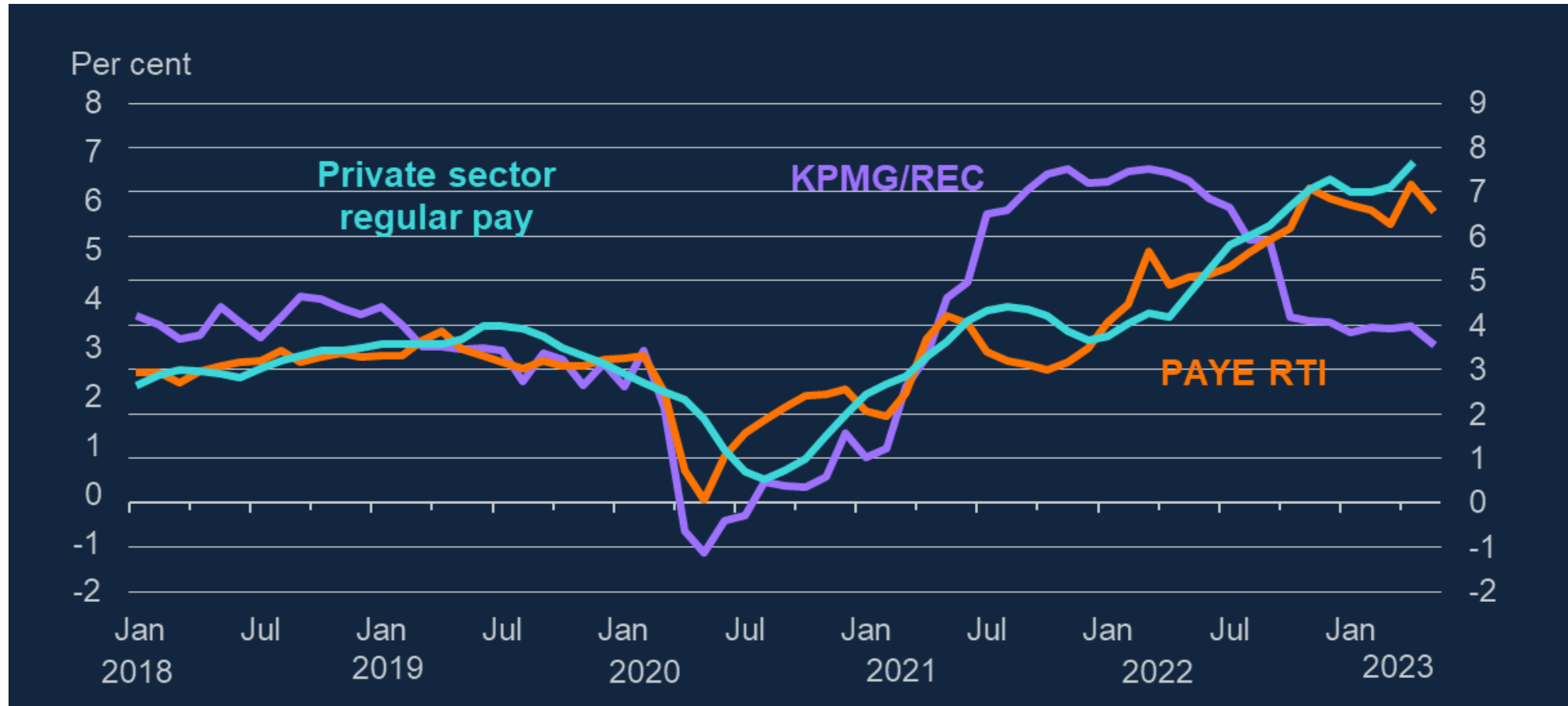
# The price of what we buy from abroad rose very steeply, in 2021 and 2022, compared with the price of what we produce



# Against a backdrop of a tight labour market...



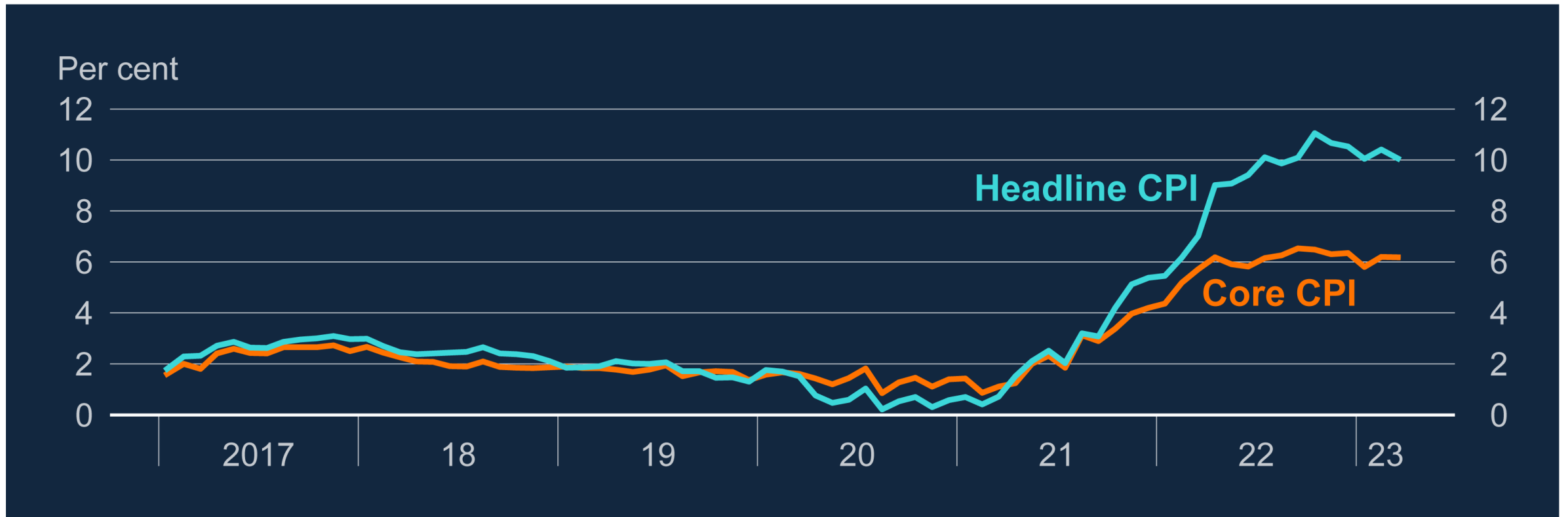
...we have seen very marked “second-round effects” of high import prices/real income squeeze on growth of wages...



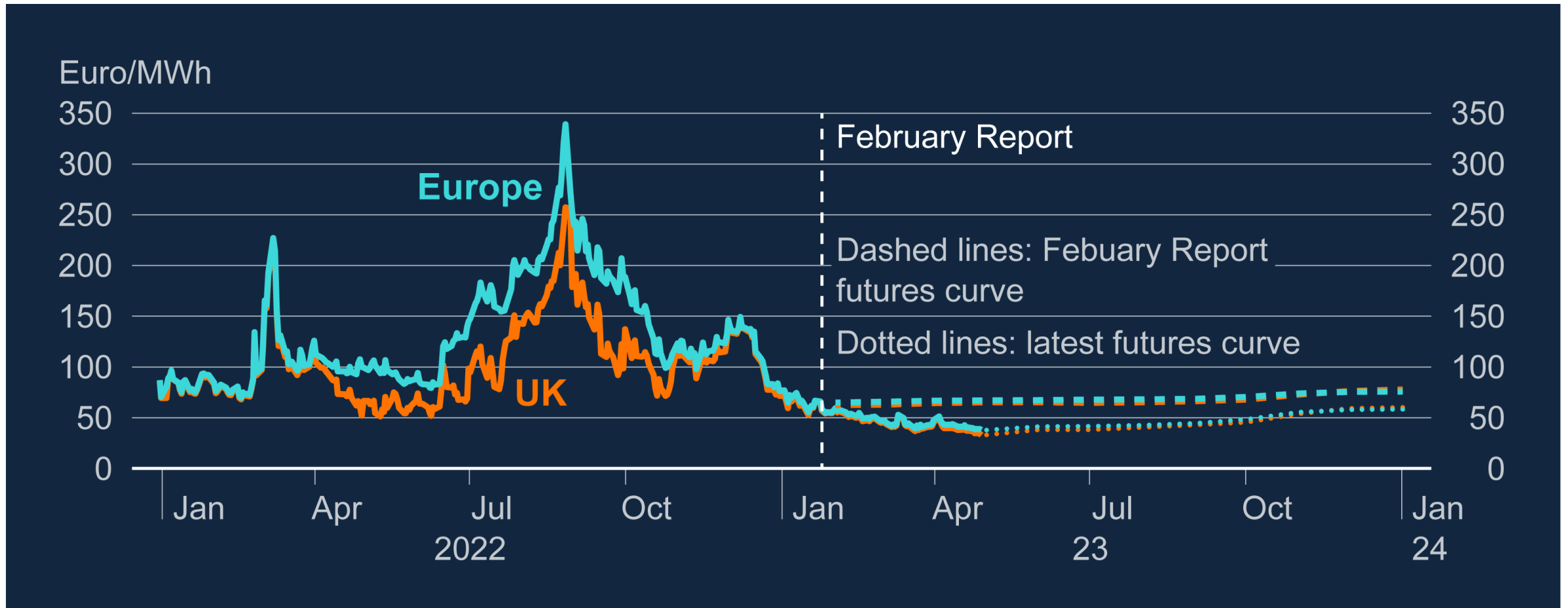


## ...and domestic prices (like those of services) as well

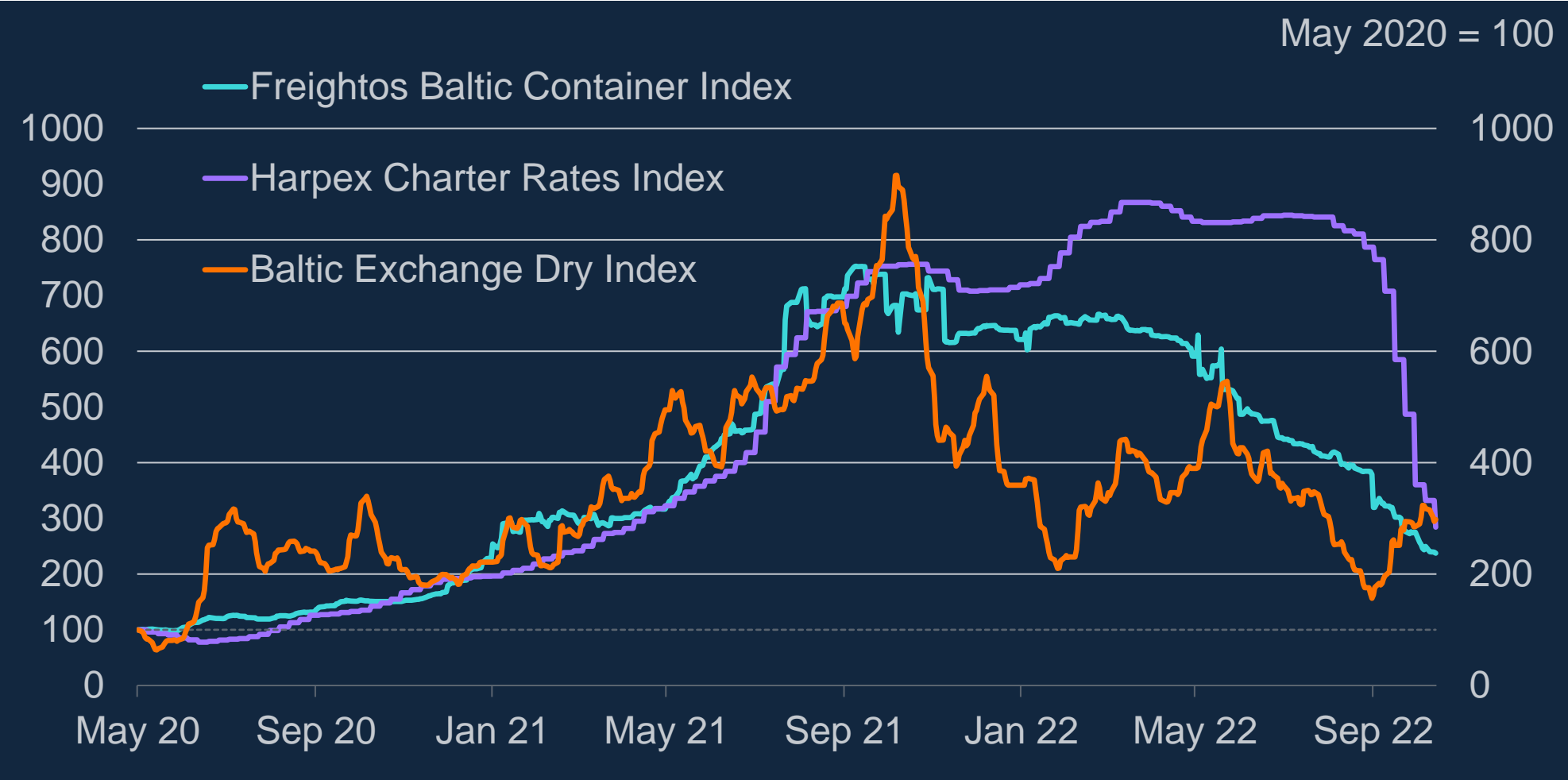
Headline and core annual CPI inflation



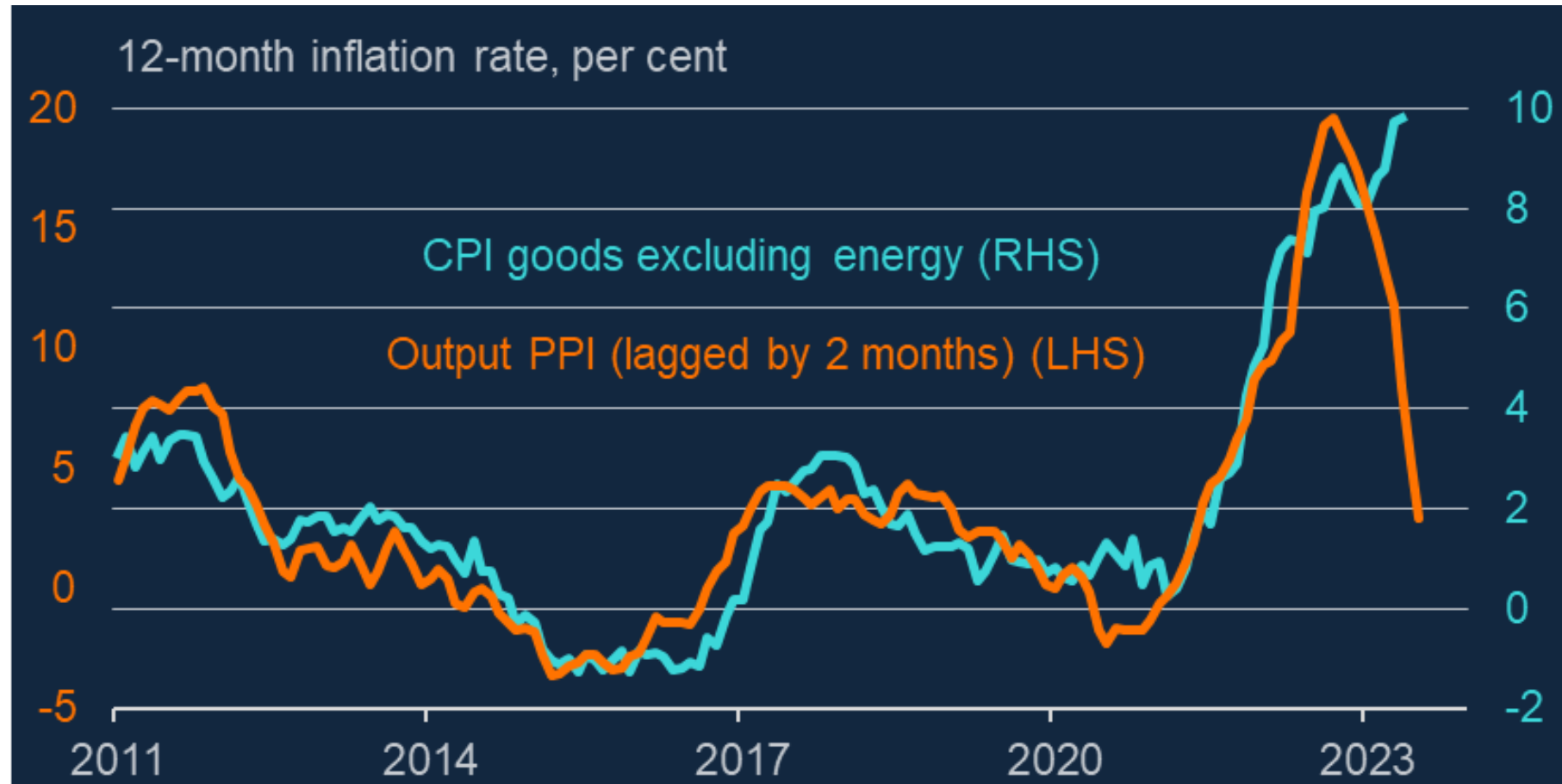
**Some good news: at a wholesale level, prices of tradable goods – notably energy – have fallen quite a bit in recent months**



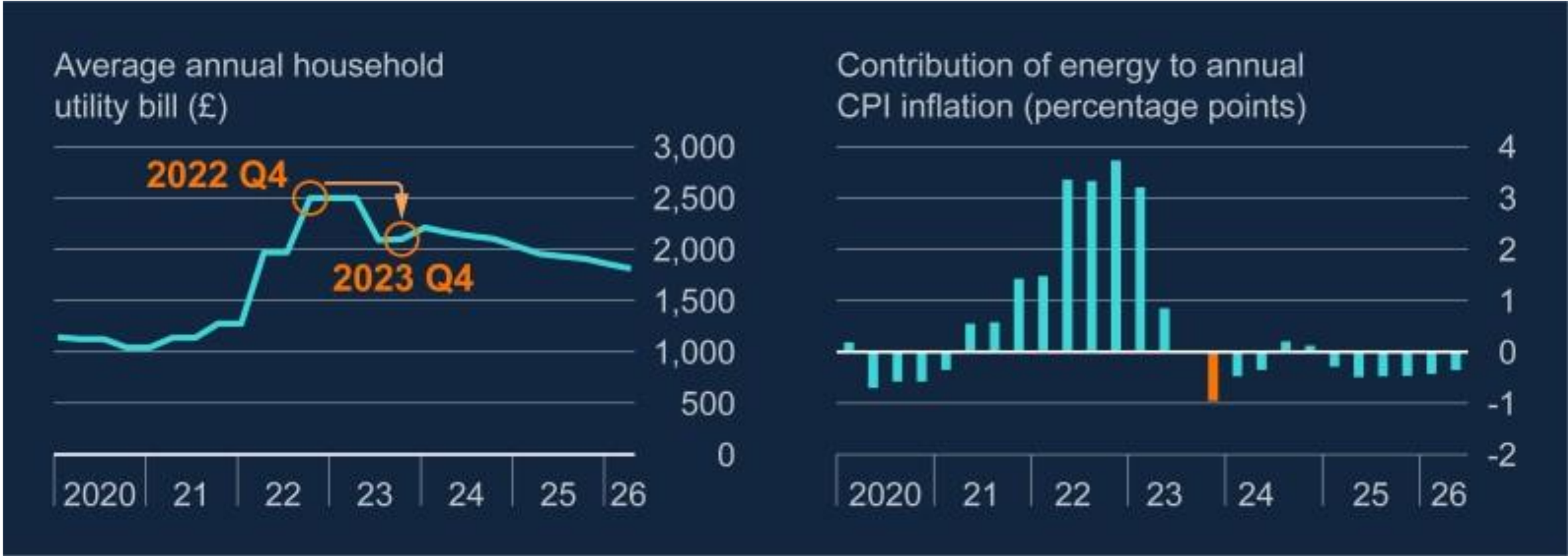
# Shipping costs, which rose dramatically after the pandemic, have fallen back significantly



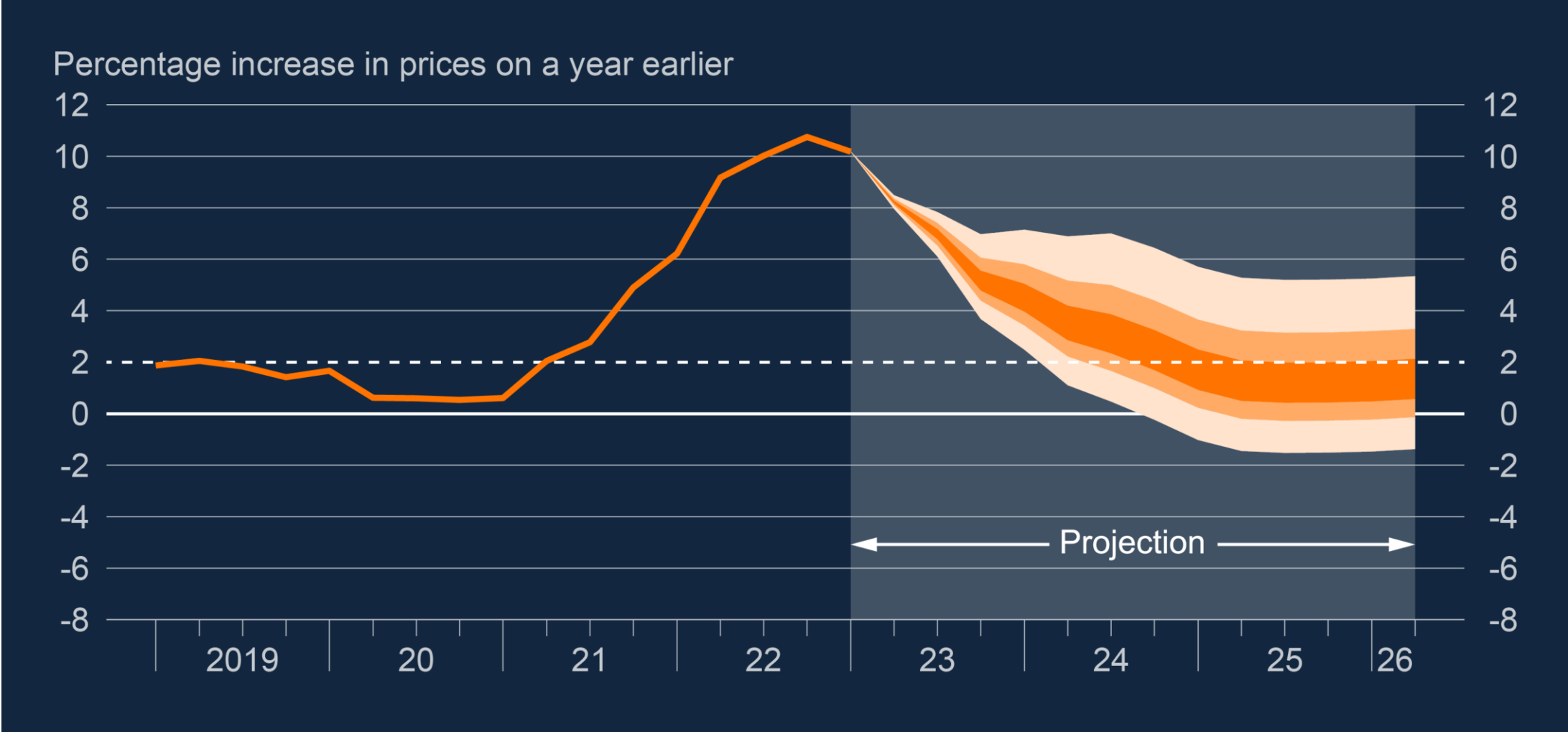
The wholesale prices of manufactured goods have fallen...  
..this has not yet been passed through to retail goods prices



# Headline CPI inflation likely to fall in coming months



# May CPI inflation projection<sup>(a)</sup>



(a) based on market interest rate expectations, other policy measures as announced

# Summary

- Upside news in recent data
- A tight labour market and resilient demand
- We expect inflation to fall quickly this year
- But upside risks of persistent inflation remain
- We have raised interest rates to make sure inflation falls and stays low



