



Economic Research Report

The following report is written by our in-house analysts to provide you greater insight into upcoming economic events.



PREVIEW: Bank of England February Quarterly Inflation Report due at 1030GMT (0430CST)

- **Likely to show inflation estimates pointing to an under-shoot in the inflation target next year**
- **Growth projections likely to be brought forward to Q1 2012 following stronger PMI and Industrial Production**
- **Key point of focus will be any indication of further QE**

Today Bank of England's Governor Mervyn King will once again grace the stage as he presents the bank's quarterly inflation report, where he will likely pave the way for further assets purchases and undoubtedly face questions on the topic of gilt purchases, and whether this method of kick-starting growth within the UK is the best approach. As a reminder last week saw the BoE Monetary Policy Committee vote to increase the APF by a further GBP 50bln, meeting expectations, but shifting questions to when, how and what the BoE will do when this program finishes in 3 months time.

The rationale behind the BoE's latest APF boost is that inflation is continuing to fall as VAT tax initiated at the beginning of 2011 washes out, and the peak in commodity prices seen towards the end of last year eases. The motive behind this move was solidified yesterday following the release of the latest CPI and RPI numbers out of the UK, coming in at 3.6% and 3.9% year-on-year respectively, continuing the downward trajectory seen since autumn of last year. The CBI noted on Monday that they expect inflation to fall below 3% this spring and to be in-line with the BoE's 2% mandated target by the end of the year. Because of the pick-up in economic activity in the medium-term, the CBI is not expecting any further extensions of QE from the BoE, although it's worth noting this sentiment is not widespread, with analysts at Citigroup noting they expect further instalments to total around GBP 600bln.

Following recent strengthening in data from the UK, including PMI and Industrial Production, it looks likely the BoE will follow the CBI and bring forward their growth projections. The UK is just one more negative quarter away from a technical recession following the negative reading for Q4 2011, which came in at -0.2%. CBI slashed growth forecasts to just 0.9% in 2012 and 2.2% in 2013, although they did predict a rebound from the last quarter to narrowly miss a recession, an outlook likely to be reiterated by King. In one final note, it's expected King will resist calls today to take a more active role in encouraging bank lending, although pressure will be placed on him after commercial banks failed to meet a government target for lending to small businesses.

****Note:** Attached forecasts are from the most recent Quarterly Inflation Report (November 2011)

Sources: *CBI/Bank of England/RTRS*

Numerical Parameters of Inflation Report Probability Distributions
November 2011

CPI inflation projections based on market interest rate expectations and £275 billion asset purchases													
	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2	2014Q3	2014Q4
Mode	4.71	3.43	2.96	2.46	1.72	1.33	1.21	1.22	1.27	1.32	1.35	1.42	1.50
Median	4.71	3.43	2.96	2.46	1.72	1.33	1.21	1.22	1.27	1.32	1.35	1.42	1.50
Mean	4.71	3.43	2.96	2.46	1.72	1.33	1.21	1.22	1.27	1.32	1.35	1.42	1.50
Uncertainty	0.61	0.88	1.11	1.27	1.34	1.37	1.39	1.42	1.48	1.49	1.50	1.52	1.52
Skewness	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Probability that distribution will be above or below particular values													
Pr. {<1.0%}	<5%	<5%	<5%	12%	29%	40%	44%	44%	43%	42%	41%	39%	37%
Pr. {1.0% - 1.5%}	<5%	<5%	6%	10%	14%	14%	14%	14%	13%	13%	13%	13%	13%
Pr. {1.5% - 2.0%}	<5%	<5%	10%	13%	15%	14%	13%	13%	13%	13%	13%	13%	13%
Pr. {2.0% - 2.5%}	<5%	9%	15%	15%	14%	12%	11%	11%	11%	11%	11%	11%	12%
Pr. {2.5% - 3.0%}	<5%	17%	18%	15%	11%	9%	8%	8%	8%	8%	9%	9%	9%
Pr. {>3.0%}	>95%	69%	49%	34%	17%	11%	10%	11%	12%	13%	14%	15%	16%
Pr. {>Mode}	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
Pr. {<Mode}	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%

* Because of the difficulties in precisely quantifying low probability events, probabilities of less than 5% are not shown in this table.

CPI inflation projections based on interest rates constant at 0.50% and £275 billion asset purchases									
	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4
Mode	4.71	3.43	2.96	2.46	1.72	1.33	1.22	1.23	1.29
Median	4.71	3.43	2.96	2.46	1.72	1.33	1.22	1.23	1.29
Mean	4.71	3.43	2.96	2.46	1.72	1.33	1.22	1.23	1.29
Uncertainty	0.61	0.88	1.11	1.27	1.34	1.37	1.39	1.42	1.48
Skewness	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Probability that distribution will be above or below particular values									
Pr. {<1.0%}	<5%	<5%	<5%	12%	29%	40%	44%	44%	42%
Pr. {1.0% - 1.5%}	<5%	<5%	6%	10%	14%	14%	14%	14%	13%
Pr. {1.5% - 2.0%}	<5%	<5%	10%	13%	15%	14%	13%	13%	13%
Pr. {2.0% - 2.5%}	<5%	9%	15%	15%	14%	12%	11%	11%	11%
Pr. {2.5% - 3.0%}	<5%	17%	18%	15%	11%	9%	8%	8%	8%
Pr. {>3.0%}	>95%	69%	49%	34%	17%	11%	10%	11%	12%
Pr. {>Mode}	50%	50%	50%	50%	50%	50%	50%	50%	50%
Pr. {<Mode}	50%	50%	50%	50%	50%	50%	50%	50%	50%

* Because of the difficulties in precisely quantifying low probability events, probabilities of less than 5% are not shown in this table.

**Note: CPI inflation projections are based on the Bank's estimates of past growth and interest rate constant at 0.50% & GBP 275bln

Numerical Parameters of Inflation Report Probability Distributions
November 2011

GDP growth projections based on Bank estimates of past growth and market interest rate expectations & £275 billion asset purchases													
	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2	2014Q3	2014Q4
Mode	1.32	0.85	0.76	0.70	1.37	2.11	2.76	3.03	3.16	3.23	3.29	3.36	3.39
Median	1.29	0.79	0.67	0.57	1.21	2.00	2.68	2.99	3.16	3.23	3.29	3.36	3.39
Mean	1.28	0.77	0.64	0.54	1.17	1.96	2.66	2.98	3.16	3.23	3.29	3.36	3.39
Uncertainty	1.14	1.29	1.47	1.59	1.63	1.64	1.66	1.69	1.72	1.76	1.80	1.84	1.85
Skewness	-0.04	-0.08	-0.12	-0.16	-0.20	-0.15	-0.10	-0.05	0.00	0.00	0.00	0.00	0.00
Probability that distribution will be above or below particular values													
Pr. {<0%}	13%	27%	33%	36%	24%	12%	6%	<5%	<5%	<5%	<5%	<5%	<5%
Pr. {0% - 1%}	27%	29%	26%	24%	21%	16%	10%	8%	7%	7%	7%	7%	7%
Pr. {1% - 2%}	34%	26%	23%	21%	24%	22%	18%	16%	15%	14%	13%	13%	13%
Pr. {2% - 3%}	20%	13%	13%	12%	18%	23%	23%	22%	21%	21%	20%	19%	19%
Pr. {3% - 4%}	6%	<5%	<5%	<5%	9%	16%	21%	22%	22%	22%	22%	21%	21%
Pr. {>4%}	<5%	<5%	<5%	<5%	<5%	11%	21%	28%	31%	33%	35%	36%	37%
Pr. {>Mode}	49%	48%	47%	47%	46%	47%	48%	49%	50%	50%	50%	50%	50%
Pr. {<Mode}	51%	52%	53%	53%	54%	53%	52%	51%	50%	50%	50%	50%	50%

* Because of the difficulties in precisely quantifying low probability events, probabilities of less than 5% are not shown in this table.

GDP growth projections based on Bank estimates of past growth and interest rates constant at 0.50% & £275 billion asset purchases									
	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4
Mode	1.32	0.85	0.76	0.70	1.37	2.12	2.79	3.08	3.24
Median	1.29	0.79	0.67	0.57	1.21	2.01	2.71	3.04	3.24
Mean	1.28	0.77	0.64	0.54	1.17	1.97	2.69	3.03	3.24
Uncertainty	1.14	1.29	1.47	1.59	1.63	1.64	1.66	1.69	1.72
Skewness	-0.04	-0.08	-0.12	-0.16	-0.20	-0.15	-0.10	-0.05	0.00
Probability that distribution will be above or below particular values									
Pr. {<0%}	13%	27%	33%	36%	24%	12%	6%	<5%	<5%
Pr. {0% - 1%}	27%	29%	26%	24%	21%	16%	10%	8%	7%
Pr. {1% - 2%}	34%	26%	23%	21%	24%	22%	18%	15%	14%
Pr. {2% - 3%}	20%	13%	13%	12%	18%	23%	23%	22%	21%
Pr. {3% - 4%}	6%	<5%	<5%	<5%	9%	16%	21%	23%	23%
Pr. {>4%}	<5%	<5%	<5%	<5%	<5%	11%	22%	29%	33%
Pr. {>Mode}	49%	48%	47%	47%	46%	47%	48%	49%	50%
Pr. {<Mode}	51%	52%	53%	53%	54%	53%	52%	51%	50%

* Because of the difficulties in precisely quantifying the probability of events in the extremes of the distribution, probabilities of less than 5% or more than 95% are not shown in this table.

**Note: GDP projections are based on the Bank's estimates of past growth and interest rate constant at 0.50% & GBP 275bln