Bank of England

Monetary Policy Report

Monetary Policy Committee
April 2026

Monetary policy at the Bank of England

The objectives of monetary policy

The Monetary Policy Committee (MPC) sets monetary policy to keep inflation low and stable, which supports growth and jobs. Subject to maintaining price stability, the MPC is also required to support the Government's economic policy.

The Government has set the MPC a target for the 12-month increase in the Consumer Prices Index of 2%. The 2% inflation target is symmetric and applies at all times. The MPC's **remit** recognises, however, that the actual inflation rate will depart from its target as a result of shocks and disturbances, and that attempts to keep inflation at target in these circumstances may cause undesirable volatility in output.

The Monetary Policy Report

The MPC is committed to clear, transparent communication. The Monetary Policy Report is a key part of that.

We have made some changes to the structure and content of the Report so that it reflects better the wide range of inputs that are informing monetary policy, as explained in this **Quarterly Bulletin article**. The purpose of the document is to set out the analysis that informed policy discussions.

The Report is produced quarterly by Bank staff under the guidance of the members of the MPC. It has been prepared and published by the Bank of England in accordance with section 18 of the Bank of England Act 1998.

The Monetary Policy Committee

- Andrew Bailey, Chair
- Sarah Breeden
- Swati Dhingra
- Megan Greene
- Clare Lombardelli
- Catherine L Mann
- Huw Pill
- Dave Ramsden
- Alan Taylor

PowerPoint™ versions of the Monetary Policy Report charts and Excel spreadsheets of the data underlying most of them are available at **http://www.bankofengland.co.uk/monetary-policy-report/2026/april-2026.** The 'Projections Databank' is an additional Excel spreadsheet containing a wide range of information relating to the central projection, as well as projections for the scenarios.

ISSN 2633-7819

Contents

Monetary Policy Summary

At its meeting ending on 29 April 2026, the Monetary Policy Committee (MPC) voted by a majority of 8–1 to maintain Bank Rate at 3.75%. One member voted to increase Bank Rate by 0.25 percentage points, to 4%.

The conflict in the Middle East means that prospects for global energy prices are highly uncertain. Monetary policy cannot influence energy prices but will be set to ensure that the economic adjustment to them occurs in a way that achieves the 2% inflation target sustainably. The policy stance required to achieve this will depend on the scale and duration of the shock, and how it propagates through the economy.

The April Monetary Policy Report sets out three scenarios that help to illustrate a range of possible outcomes for the UK economy.

CPI inflation has increased to 3.3%, and is likely to be higher later this year as the effects of higher energy prices pass through. There is a risk of material second-round effects in price and wage-setting, which policy would need to lean against. But the labour market continues to loosen, and a weakening economy could contain inflationary pressures. Financial conditions have tightened since the conflict began, which will help to reduce inflation over time.

Taking all the risks to the economic outlook into account, the Committee judges that it is appropriate to maintain Bank Rate at this meeting.

The Committee will continue to monitor closely the situation in the Middle East and how its impact propagates through the economy. The Committee stands ready to act as necessary to ensure that CPI inflation remains on track to meet the 2% target in the medium term.

Monetary Policy Overview

The conflict in the Middle East has changed the outlook for inflation in the UK. The disruption the conflict has caused to energy supplies has led to a sharp rise in global energy prices. The immediate effects are already being felt in the UK, for example in higher fuel prices. CPI inflation increased to 3.3% in March and is likely to be higher later this year as the effects of higher energy prices pass through. That is a very different picture from three months ago, when inflation was expected to fall back to close to the 2% target.

Monetary policy cannot undo the increase in global energy prices. And it takes time for monetary policy to work through the economy, so any action the MPC might take now would not prevent higher inflation in coming months.

What the MPC will do is set monetary policy to make sure that the effects of the shock do not become embedded into broad-based inflationary pressures, so that inflation falls back to the 2% target and stays there (Box G: How should monetary policy respond to an energy price shock?).

The MPC's current approach to setting interest rates, including today's decision, is based on two key judgements.

Key policy judgement 1

Continued weakness in demand and the labour market is likely to lessen the strength of second-round effects from higher global energy prices. But these effects are likely to be stronger, the larger and more persistent is the rise in global energy prices.

Higher global energy prices will continue to push up UK inflation this year. That partly reflects the direct effects from higher global energy prices feeding through into motor fuel and utility prices faced by UK households (Box A: How could conflict in the Middle East affect households?). Inflation will also be boosted by indirect effects as companies at home and abroad pass on increases in their energy costs, and these effects work their way through supply chains (Box F: How are global developments affecting UK non-energy import prices?). These indirect effects are likely to be largest for food prices in the near term.

What happens further ahead partly depends on whether higher energy prices affect wage and price-setting behaviour and feed through into broad-based inflationary pressures – often referred to as second-round effects.

Some factors are likely to contain the strength of second-round effects at this time. Demand for labour is subdued. And the unemployment rate has been rising since 2024 and could do so more rapidly if demand were to weaken further (Box D: What do industry-level data imply for the risks to unemployment?). Together, these factors are likely to reduce workers' ability to bargain for higher wages in response to higher inflation, lessening the extent of second-round effects (Box C: How will prevailing economic conditions affect the impact of the energy shock on inflation?).

Similarly, companies' ability to raise prices in response to higher energy costs is likely to be limited by weakness in economic activity (Section 1.2), particularly if the squeeze in households' income from higher energy prices leads to a marked fall in demand (Box E: How resilient will household spending be to the rise in energy prices?).

However, the fact that this shock is happening after several years of above-target inflation could boost the strength of second-round effects. Agency intelligence suggests companies may look to increase some prices given compressed margins. And survey evidence indicates that companies' price-setting is more sensitive than it used to be to increases in headline inflation (Box B: How might firms respond to higher energy prices?). Households' inflation expectations may also be more sensitive to inflation than in the past, particularly as it is likely to be driven by the prices of highly visible items, such as energy and food. Indeed, some measures of household inflation expectations have already risen sharply (Section 1.1).

Overall, the MPC judges that current economic conditions are likely to lessen the strength of second-round effects that monetary policy needs to lean against. But there is uncertainty around this judgement and the MPC will monitor the evidence as it emerges.

The Committee also judges that second-round effects are likely to be stronger, the larger and more persistent is the rise in global energy prices. That is because, in such circumstances, the direct and indirect effects from higher global energy prices would further boost UK inflation, making it more likely that inflation expectations rise and increasing the chances of changes in wage and price-setting behaviour.

Key policy judgement 2

Monetary policy needs to balance the costs of leaning too little against second-round effects and the costs of responding too much. The right balance is likely to change depending on how events unfold.

The monetary policy setting required to ensure that inflation falls back to the 2% target and stays there will depend on the scale and duration of the shock caused by the conflict in the Middle East, and how the shock feeds through the UK economy.

Section 3 sets out three scenarios that help to illustrate how different paths for global energy prices and any second-round effects on domestic price and wage-setting could affect the UK economy.

- In Scenario A, oil and gas prices follow the paths implied by futures curves, and household spending falls by more than would be implied by the historical relationship with real incomes, as households prioritise saving instead. The combination of the relatively short-lived energy shock and weakness in demand is assumed to be enough to prevent any second-round effects in response to the shock.
- In Scenario B, energy prices peak at similar levels but remain higher over the rest of the forecast than in Scenario A. Households' saving behaviour is assumed to evolve in line with historical experience. Second-round effects are assumed to be modest.
- In Scenario C, energy prices rise sharply and remain elevated for a prolonged period. The larger energy shock is assumed to lead to much stronger second-round effects than in Scenario B.

In both Scenarios A and B, assuming monetary policy follows the path implied by market interest rates in the 15 days to 22 April, inflation rises to a little over 3½ at the end of this year before falling back. It ends the scenario period a little below the 2% target in Scenario A and close to 2% in Scenario B. By contrast, the larger energy price shock and stronger second-round effects in Scenario C mean that inflation rises much more sharply, peaking at over 6% at the start of 2027, and falls back by less, ending the scenario around 2½%.

Section 3.3 explores how Bank Rate might need to respond in these scenarios if monetary policy were to follow simple policy rules. Given the inflationary nature of the energy price shock, almost all of these simple rules show a higher path for Bank Rate on average over the three-year period in all scenarios compared to what the same rules indicated for the central projection in the February Report. For Scenario C, they suggest that the path for Bank Rate would need to be materially higher than the market-implied path in the 15 days to 22 April in order to return inflation sustainably to the target in the medium term – albeit at the cost of more slack in the economy.

These simple policy rules assume that everyone knows exactly which scenario is going to unfold. In reality, there is significant uncertainty about how events will play out. That means the MPC must form a judgement about how much to lean against any potential second-round effects. Leaning more strongly would reduce the risk that broad-based inflationary pressures become embedded. But that would come at the cost of weakening the economy.

At this meeting, the MPC judged that it was appropriate to maintain Bank Rate at 3.75%. Current economic conditions are likely to lessen the strength of second-round effects that monetary policy needs to lean against (Key policy judgement 1). There has been some

tightening in financial conditions since the conflict began, which is already acting against second-round effects and will reduce inflation over time.

The Committee will continue to monitor closely the situation in the Middle East and how its impact propagates through the economy. If there are signs that second-round effects are likely to be weaker than currently judged – for example because current economic conditions weigh on them by more – then monetary policy can lean against inflation by less. If there are signs that second-round effects are likely to be stronger than currently judged – for example because current economic conditions weigh on them by less, households and companies are more attentive to rises in inflation after successive supply shocks, or because the shock to energy prices becomes much larger and more persistent – monetary policy will need to lean more strongly against those possible effects.

However events unfold, the Committee stands ready to act as necessary to ensure that CPI inflation remains on track to meet the 2% target in the medium term.

1: Current economic conditions

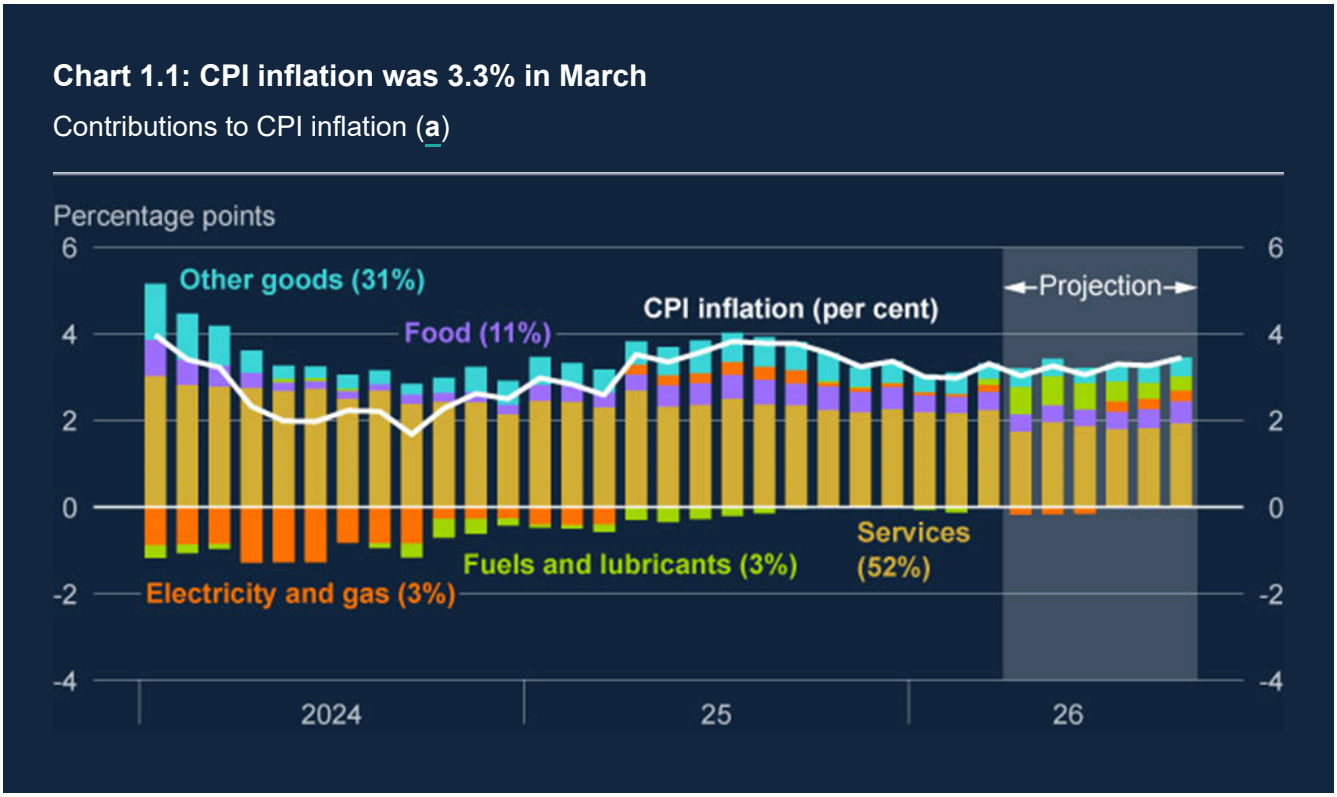
1.1: Inflation

CPI inflation was 3.3% in March (Chart 1.1), 0.3 percentage points higher than expected at the time of the February Report.

The upside news to CPI inflation mainly reflected higher fuel prices, which have risen on account of higher crude oil prices owing to the conflict in the Middle East. Services inflation was also higher than expected, while core goods inflation was lower.

Chart 1.1: CPI inflation was 3.3% in March

Contributions to CPI inflation (a)



Sources: Bloomberg Finance L.P., Department for Energy Security and Net Zero (DESNZ), ONS and Bank calculations.

(a) Figures in parentheses are CPI basket weights in 2026, which may not sum to 100% due to rounding. Data are shown to March 2026. Component-level Bank staff projections are shown from April to September 2026. The food component is defined as food and non-alcoholic beverages. Fuels and lubricants estimates use weekly DESNZ petrol and diesel price data which cover the first half of April 2026 and are then projected based on the sterling oil futures curve. Electricity and gas also includes liquid fuels.

At the time of the February Report, CPI inflation had been projected to fall by over 1 percentage point to 2.0% by 2026 Q3 (Chart 1.2). The April near-term projection is 1.4 percentage points higher such that CPI inflation is now expected to be 3.3% in Q3. CPI

inflation is expected to rise somewhat further in 2026 Q4 (Section 3).

The majority of the news over the next six months is due to a larger direct contribution from higher energy costs (Chart 1.3, green and orange bars). Higher energy costs will also feed through indirectly to CPI inflation as firms pass higher costs through their supply chains (Chart 1.3, purple bars).

Chart 1.2: Near-term CPI inflation is expected to be higher than in the February Report

Annual CPI inflation (a)

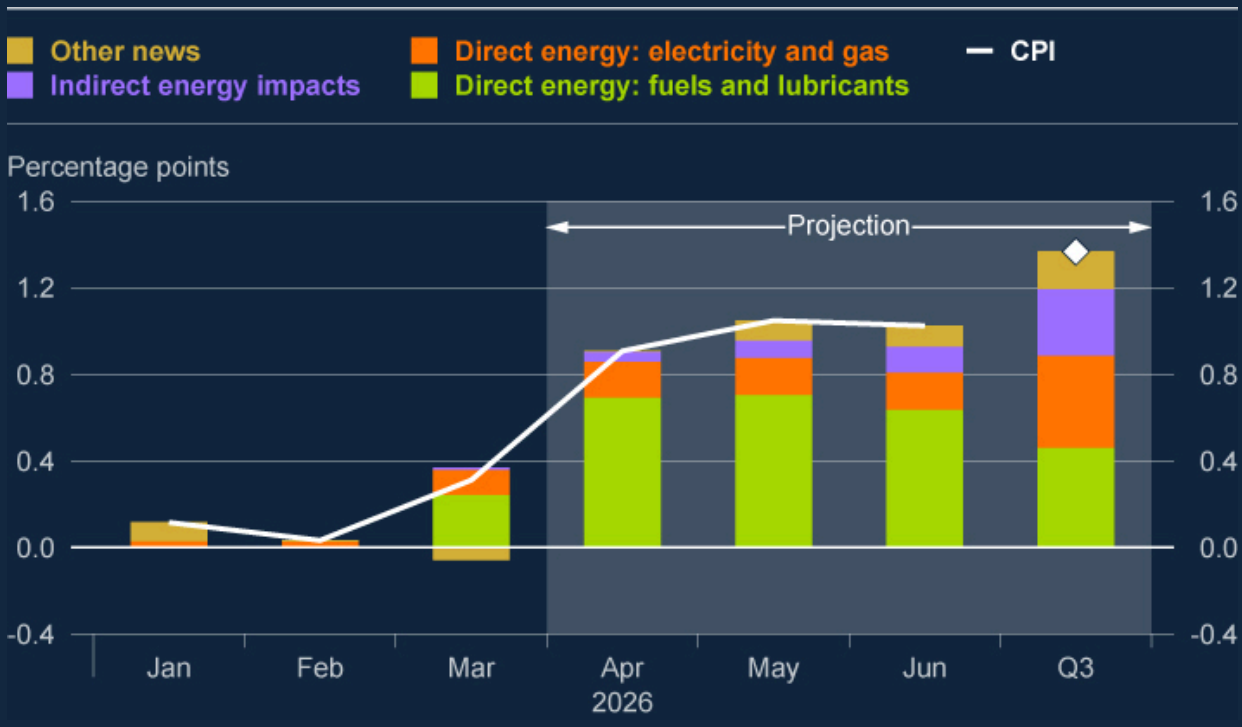
Sources: ONS and Bank calculations.

(a) Bank staff's short-term inflation forecast only extends for six months. For that reason, the orange diamond represents the February 2026 central projection for 2026 Q3.

The April near-term CPI projection is consistent with Scenarios A and B outlined in Section 3. The projection would be higher under Scenario C, in which wholesale oil and gas prices are assumed to be substantially higher in the near term.

Chart 1.3: A larger direct contribution from higher energy prices is the main driver of the higher near-term inflation outlook

News to CPI inflation relative to the February 2026 projection (a)



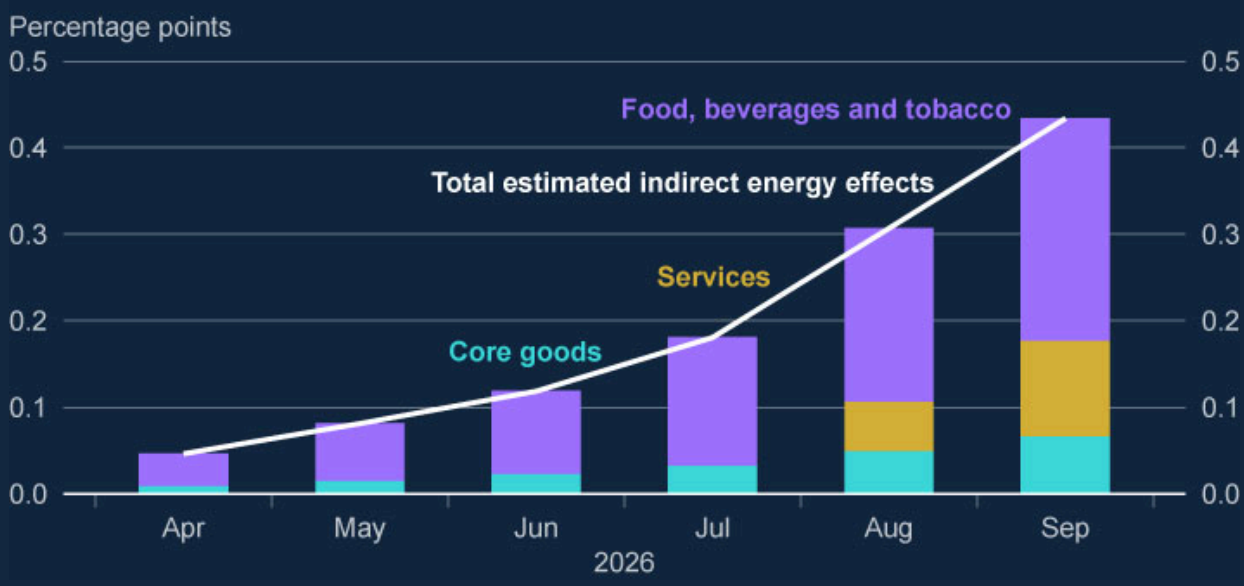
Sources: ONS and Bank calculations.

(a) Bank staff's short-term inflation forecast only extends for six months. For that reason, the Q3 'Other news' bar represents the difference between the April Report short-term forecast shown in Chart 1.1 and the February Report 2026 Q3 projection. The 'fuels and lubricants' and 'electricity and gas' bars capture direct CPI news from energy prices since the previous Report, while the 'Indirect energy impacts' are based on a range of model estimates, Agency intelligence and survey evidence. Electricity and gas also includes liquid fuels.

The indirect effects of higher energy prices are expected to build gradually, raising CPI inflation by around ⅓ of a percentage point in Q3 (Chart 1.4). Based on a range of models that incorporate energy costs in domestic and imported supply chains, as well as intelligence from the Bank's Agents and survey evidence, Bank staff estimate that the pass-through of indirect effects will be quickest in the near term for food prices (purple bars). Core goods (aqua bars) and services prices (gold bars) are also expected to increase due to higher energy costs.

Chart 1.4: The indirect effects of higher energy prices are expected to build gradually in the near term

Estimated contribution of the indirect effects of energy prices to annual CPI inflation (a)



Sources: ONS and Bank calculations.

(a) This chart splits the purple bars in Chart 1.3 into estimated contributions from CPI subcomponents. These estimates are based on a range of model-based estimates, intelligence from the Bank's Agents and survey evidence. The purple bars represent the estimated contribution from food and non-alcoholic beverages, alcohol and tobacco. This differs from Chart 1.1, where alcohol and tobacco fall instead within the 'Other goods' bars.

Energy prices have risen sharply but remain below 2022 peaks.

The conflict in the Middle East has led to a sharp rise in oil and gas prices, reflecting disruption to current and expected future energy supply (Section 1.3 and Section 3). The Brent crude front-month oil price peaked at $119 per barrel on 31 March. The front-month oil futures price was $100 a barrel on average in the 15 UK working days to 22 April, up from $64 in the period leading up to the February Report (Chart 1.5, left panel). The UK wholesale gas futures curve has also risen, by around 37% on average over the same period (Chart 1.5, right panel). Oil front-month prices are slightly below the peak observed following Russia's invasion of Ukraine, while gas futures prices are substantially lower (Chart 1.5). That difference may partly reflect a greater share of global oil supply having been disrupted in the current conflict relative to in 2022.

The disruption has also led to a sharp rise in the price of diesel relative to the Brent crude oil price, inflating the difference between the two prices known as the crack spread. Crack spreads fluctuate over time, but they are typically stable enough that movements in Brent oil prices provide a good signal for UK petrol and diesel prices. However, because a large share of global supplies of diesel is refined in the Middle East, the spread has increased significantly, pushing up diesel prices by more than petrol prices.

Higher oil prices have fed through to higher petrol and diesel pump prices and are expected to push up CPI inflation further in 2026 Q2 (Chart 1.3, green bars). Higher wholesale gas futures prices will mostly affect household utility bills from July, following the expected increase in the Ofgem price cap (Box A).

Chart 1.5: Oil and gas prices have risen notably but remain below 2022 peaks

Wholesale oil and gas prices (a)

Sources: Bloomberg Finance L.P. and Bank calculations.

(a) Oil prices are Brent crude, in dollars per barrel. Gas prices are Bloomberg UK NBP Natural Gas Forward Day price. Dark dashed lines refer to respective futures curves using one-month forward prices based on the 15 working day average to 22 April 2026, the dotted lines are based on the 15 working day average to 26 January 2026 and the light dashed lines are based on the 7 working day average to 25 October 2022. The final data points shown are forward prices for June 2029.

The outlook for consumer food price inflation is much higher than in the February Report, while the outlook for core consumer goods inflation is little changed.

Energy is a key input into the production of food and core goods items, so the energy price shock is expected to raise costs for goods produced both domestically and abroad. UK-weighted world export price inflation (excluding oil) is set to rise as higher energy prices feed through to the cost of production abroad (Box F). ONS estimates suggest that imports account for a little under 40% of the consumer costs of food and core goods items, part of which reflects imported inputs such as energy and fertiliser.

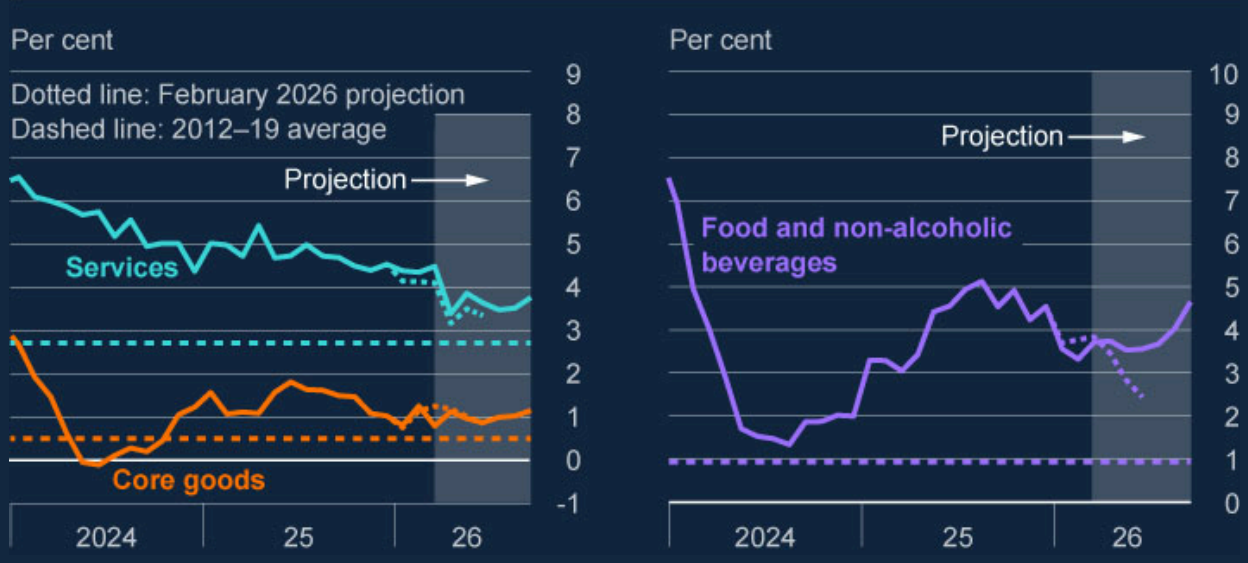
Consumer food price inflation is expected to rise to 4.6% by September 2026 as higher energy costs for imported and domestic production feed through (Chart 1.6, right panel). Increases in other costs such as fertilisers are expected to raise food prices further out (Box A). Contacts of the Bank's Agents report that food price inflation could rise to around 6%–7% by the end of the year, although the timing and magnitude of that rise are uncertain (**Agents' summary of business conditions – April 2026** (ASBC)).

In contrast to the projected strength in consumer food price inflation, core consumer goods inflation is expected to average 1% over the next six months, broadly as expected at the time of the February Report (Chart 1.6, left panel). That reflects downside news in March as well as the fact that indirect pass-through of higher energy costs to core goods is expected to be much slower than for food. Consistent with that, Agents' contacts note that they are not currently seeing significant increases in imported goods prices.

Survey data suggest a possible upside risk to the consumer food and core goods inflation projections shown in Chart 1.6, although the signal from these data is uncertain. The S&P Global UK PMI manufacturing input price index has risen sharply in the past few months and was at its highest level since June 2022 in the April flash release. But since PMI surveys ask firms whether prices have increased or decreased, rather than about the magnitude of any change, the sharp rise may capture the fact that the recent increase in energy prices affects a very wide group of firms, rather than implying a large magnitude of price rises.

Chart 1.6: Inflation rates for food prices, and to a lesser extent services prices, are projected to be higher than anticipated at the time of the February Report

Annual inflation rates for components of CPI (a)



Sources: ONS and Bank calculations.

(a) The core goods component is defined as goods excluding food and non-alcoholic beverages (FNAB), alcohol, tobacco and energy. Data are to March 2026. Bank staff projections are from April to September 2026. Dashed lines represent the 2012–19 averages, which are 2.7%, 0.9% and 0.5% for services, FNAB and core goods respectively.

Measures of underlying consumer services inflation remain elevated.

Measures of underlying consumer services inflation have remained above rates consistent with the 2% CPI target. In the three months to March, monthly annualised underlying services inflation measures were around 4% to 5%, above the roughly 2¾% to 3% range that is estimated to be consistent with 2% headline inflation. Part of the recent strength appears to reflect past rises in restaurant and cafe inflation, which tends to have a high weight in these measures, and may reflect previous rises in food price inflation.

Higher non-labour input costs are expected to slow the services disinflation process.

Consumer services inflation is expected to fall from 4.5% in March to 3.8% by September (Chart 1.6, left panel). That reflects the impact of continued easing in wage growth and a large fall in April owing to base effects, as unusually large rises in water bills and vehicle excise duty in 2025 fall out of the annual comparison. Beyond April, the extent of disinflation is expected to be much less than previously expected. This is due to stronger non-labour input costs due to the Middle East conflict. Inflation in catering services, for example, which is food

and energy intensive, is expected to be somewhat higher than expected in the February Report. And airfares and package holidays prices are expected to rise significantly due to higher jet fuel costs. Higher prices for airfares and package holidays are likely to be observed gradually in the CPI, however, as the ONS generally collects these prices one, three and six months in advance. In addition, some airlines tend to buy fuel in advance.

Inflation expectations

Measures of inflation expectations have risen following the increase in energy prices, especially for households.

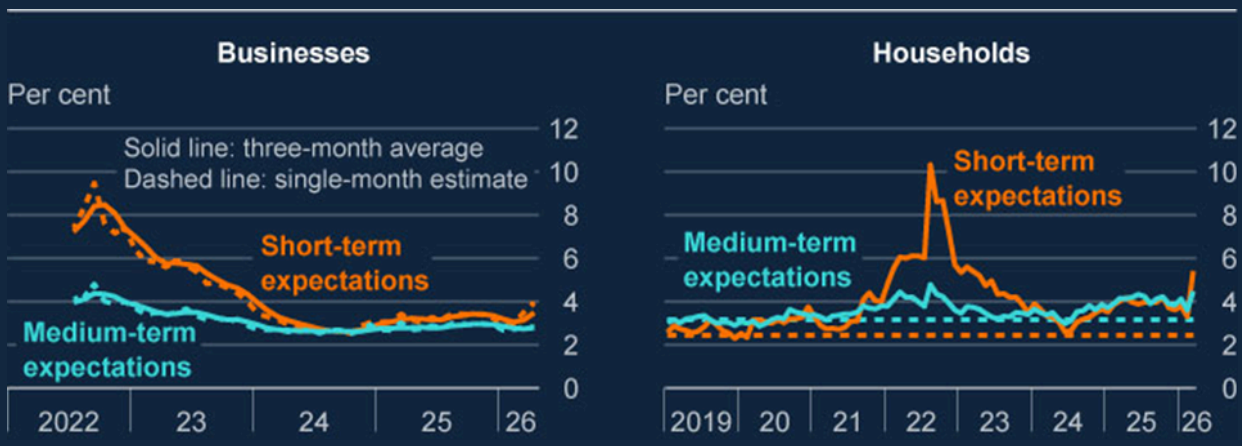
Since the start of the Middle East conflict, short-term inflation compensation measures in financial markets have risen notably, while medium-term inflation expectations, such as the five-year, five-year forward inflation swap rate, are only slightly higher. The median respondent to the latest Markets Participants Survey (MaPS) expected higher CPI inflation one year ahead, at 2.8% compared with 2.2% in the February survey, but expected inflation to be 2% at the three-year horizon.

Business inflation and own price expectations have also risen. One-year ahead CPI expectations of firms responding to the **DMP survey** increased to 3.5% in the three months to April, 0.4 percentage points higher than in the three months to February. The more volatile single month measure rose by 1 percentage point to 4.0% (Chart 1.7, left panel). Firms' own price expectations for the year ahead rose by a similar amount (Box B), but three-year ahead CPI inflation expectations were little changed. Inflation expectations of firms responding to the 2026 Q1 Deloitte CFO survey also rose by 0.6 percentage points, to 3.6% in Q1, while two-year ahead expectations rose only slightly to 2.7%, up from 2.5%.

Household inflation expectations tend to move closely with observed rises in salient prices such as food and energy (**August 2025 Monetary Policy Report** and Box C). But the recent rise in the Citi/YouGov one-year ahead measure to 5.4% in March, up from 3.3% in February (Chart 1.7, right panel) was larger than would be typically implied by these relationships. The 5–10 year ahead measure tends to be less sensitive to salient prices but this also rose by 0.9 percentage points between February and March to 4.5%. Both of these measures fell back a little in the April Citi/YouGov data but remain elevated. Short-term inflation expectations in the Bank/NMG survey also rose following the onset of the conflict, but by less than in the Citi/YouGov survey.

Chart 1.7: Households' inflation expectations have risen markedly, but business expectations have risen by less

Survey-based measures of business (a) and household inflation expectations (b)



Sources: Citigroup, DMP survey, YouGov and Bank calculations.

(a) Data shown are from the DMP survey. The solid lines are three-month averages and the dashed lines are single month responses. The data are in response to the question: 'What do you think the annual CPI inflation rate will be in the UK, one year from now and three years from now?'. The latest data points are for April 2026, conducted between April 2–17. The DMP survey data have a short back-run, so no historical averages are shown.
(b) Data shown are from the Citi/YouGov survey and are based on responses to the questions: 'How do you expect consumer prices of goods and services will develop in the next 12 months?', and 'And what do you think will happen to the prices of goods and services, on average, over the longer term – say five to ten years?'. Dashed lines represent the series averages over 2010–19. The latest data points are for March 2026, conducted between 20–23 March. The chart does not show the April 2026 Citi/YouGov data, which was released after the data cut-off for incorporation in the charts.

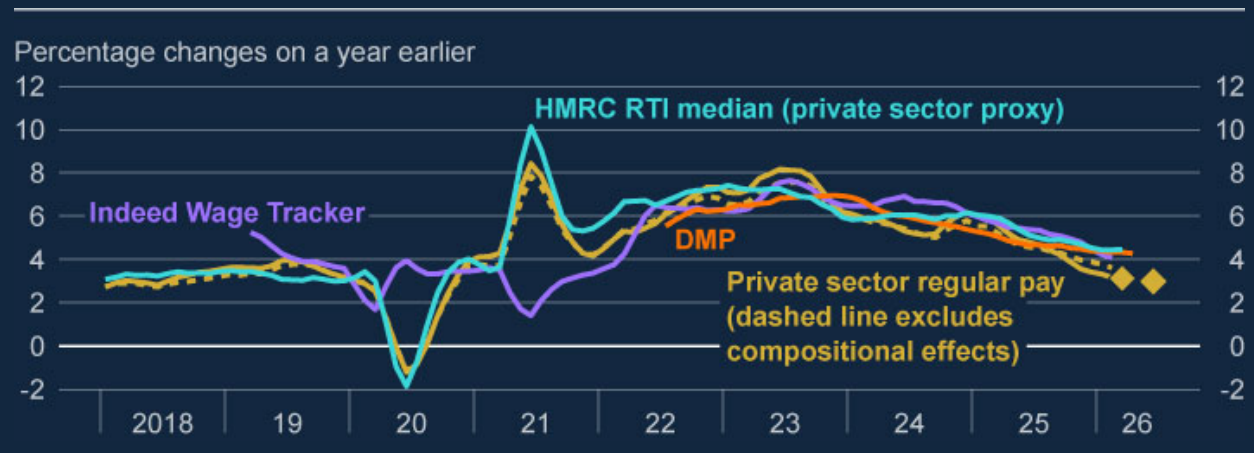
Wage growth has continued to slow.

Annual private sector regular AWE growth was 3.2% in the three months to February (Chart 1.8), 0.2 percentage points below expectations at the time of the February Report and down from around 6% at the start of 2025. Alternative indicators continue to point to wage growth being stronger than AWE, though these indicators have also trended downward. An estimate of private sector median pay based on HMRC RTI data implies pay growth of 4.4% in the three months to February, while data from Indeed and the DMP survey imply wage growth of around 4%, down from over 5% in early 2025. Part of the difference between these alternative indicators and the AWE data reflects the shifting composition of the workforce towards lower paid industries in the AWE statistics. ONS estimates suggest this effect pushed down

measured wage growth by around 0.5 percentage points in the three months to February. The dashed line in Chart 1.8, which excludes the impact of these compositional effects, is likely to provide a clearer indication of inflationary pressures.

Chart 1.8: Wage growth has continued to slow

Measures of private sector wage growth (**a**)



Sources: DMP survey, HMRC, Indeed, ONS and Bank calculations.

(a) Private sector regular pay growth shows the ONS measure of private sector regular AWE growth (three-month average on same three-month average a year ago). The DMP shows three-month average realised pay growth from the DMP survey (three-month average on same three-month average a year ago). HMRC RTI (three-month average on same three-month average a year ago) shows a proxy of growth in median pay in the private sector. Staff construct this measure by taking median pay for each industry (excluding public administration and defence, education, health and social work) and combining them using industry shares in payrolled employment. Annual growth is then calculated using the Laspeyres formula, holding industry weights fixed at their levels a year earlier to reduce the influence of changes in workforce composition. Indeed Wage Tracker shows annual average job title matched pay growth for UK job vacancies. Latest data points are for the three months to February 2026 for private sector regular pay and the Indeed Wage Tracker, March 2026 for the HMRC RTI private sector median, and April 2026 for the DMP survey. Private sector regular pay growth projection diamonds are for 2026 Q1 and 2026 Q2.

Pay settlements data are little changed and most settlements had been agreed before the recent energy price rises.

Indicators of pay settlements have been little changed in recent months. For 2026 as a whole, data from the Bank's Agents' contacts now suggests a median settlement of 3.5%, 0.1 percentage points higher than the pay survey outcome reported in February. That is slightly above the central estimate of target consistent wage growth of 3¼% outlined in Box A of the **February 2026 Monetary Policy Report**, although there is uncertainty around that estimate.

The impact of higher expected inflation is unlikely to show up in realised pay settlements data until the end of the year at the earliest. The majority of pay deals are implemented in January and April and intelligence from the Bank's Agents suggests that these pay deals were mostly agreed around the turn of the year, prior to the recent inflationary shock. Most firms tend to set basic pay only once a year, so the recent rise in inflation is unlikely to show up this year unless firms choose to reopen their pay deals. Looking ahead, contacts of the Agents report that, due to the energy shock, pay deals for 2027 are likely to be somewhat higher than firms would otherwise have planned. But the backdrop is different to the previous shock in 2022 since the labour market is much looser and margins are constrained (Box B). And so far, contacts report little sign of firms seeking to top up pay within the year, in light of higher inflation, in contrast to the 2022–23 period.

Pay growth is expected to continue to moderate in the near term.

Annual private sector AWE growth is expected to average 3.1% in 2026 Q1 before falling slightly to 3.0% in 2026 Q2 owing to base effects (Chart 1.8).

1.2: Activity

Domestic demand

Underlying GDP growth is expected to remain subdued.

Underlying GDP, based on the collective steer from business survey indicators, is estimated to have grown by 0.2% in 2026 Q1 (Chart 1.9). Underlying GDP growth is judged to be below Bank staff estimates of potential supply growth of around 0.3%–0.4%, consistent with a growing margin of slack.

Headline GDP growth is expected to have been significantly stronger at 0.5% in 2026 Q1, owing to an unusually high monthly growth rate of 0.5% in February. That rate is substantially higher than the signal from survey indicators and follows a pattern of unusually high growth rates in Q1 in recent years.

The energy supply shock could weigh on GDP growth via lower demand as real income growth slows (Box E) and via higher uncertainty. Potential supply growth could also be reduced, for example, if business investment were to fall, firms were to exit or supply chains were to become disrupted (Box B). The impact of the conflict on near-term growth is expected to be moderate. Underlying GDP is expected to grow by 0.1% in 2026 Q2, a touch weaker than expected in the February Report reflecting a small drag from higher uncertainty as firms reassess the outlook for demand. The S&P Global UK PMI Survey output and new orders indices were below their historical averages in April, albeit higher than in March. Survey respondents attributed the weakness to lower business confidence and the postponement of

new projects. Contacts of the Bank's Agents also report that the Middle East conflict has eroded business confidence, with many citing concerns about the potential impact on demand and higher input costs.

Chart 1.9: Underlying GDP growth is expected to remain subdued

Quarterly growth in headline GDP and underlying growth implied by business surveys (**a**)

Sources: Bank of England Agents, BCC, CBI, Lloyds Business Barometer, ONS, S&P Global and Bank calculations.

(a) The final data point for quarterly headline GDP growth is for 2025 Q4. The diamonds for 2026 Q1 and 2026 Q2 show Bank staff projections. Underlying GDP growth estimates are from a survey indicator model based on a Staggered-Combination MIDAS approach (**Moreira (2025)**). The orange diamonds to 2025 Q4 show in-sample fitted values of the survey indicator model, and diamonds for 2026 Q1 and 2026 Q2 show out-of-sample projections. The orange swathe shows the interquartile range of estimates from individual survey indicators in the model and values have been interpolated between quarters.

Household consumption growth remains subdued and real income growth is projected to fall in the near term.

Household consumption growth was 0.1% in 2025 Q4, unchanged from the past two quarters. The counterpart to weak consumption has been an elevated saving ratio, which rose by 0.7 percentage points to 9.9% in 2025 Q4, a little below its recent peak. Restrictive monetary policy has been an important driver of weakness in consumption growth and the elevated saving ratio. Recent rises in mortgage rates will weigh on consumption growth relative to expectations at the time of the February Report (Box E).

Consumption growth is expected to remain subdued in the near term owing to a weak expected path for real income growth. Bank staff project real income growth to fall by 0.5% in the year to 2026 Q2 (Chart 1.10), lower than expected in the February Report, as higher energy prices feed through to CPI inflation. The headline GfK consumer confidence index fell moderately over March and April, consistent with lower expected real incomes weighing on sentiment. The 12-month expectations balance for the general economic situation fell more sharply and is now more than 1½ standard deviations below its historical average. The savings index, which records whether households think it is currently a good time to save, rose by around one standard deviation between February and April.

In light of the weakness in spending indicators, consumption is expected to grow by 0.1% in 2026 Q2. That exceeds expected growth in real incomes such that the household saving ratio is expected to fall to 9.1% in that quarter.

Chart 1.10: Real income growth is expected to fall in the near term

Contributions to four-quarter growth in real post-tax household disposable income (a)

Sources: ONS and Bank calculations.

(a) Diamonds show Bank staff projections for 2026 Q1 and Q2. Bars may not sum to total due to rounding. Income includes non-profit institutions serving households and is defined as total available household resources, deflated by the consumer expenditure deflator. The data are based on ONS codes: RPQK/((ABJQ+HAYE)/(ABJR+HAYO)).

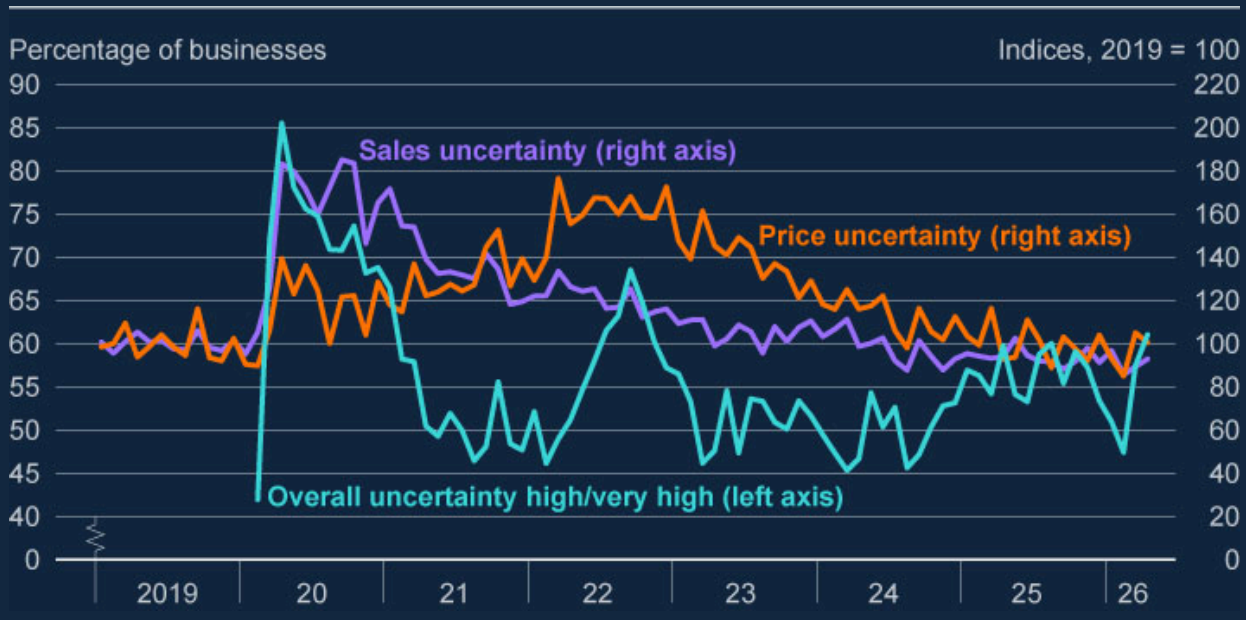
Business investment growth has been relatively robust but uncertainty is projected to weigh a little on investment decisions in the near term.

Business investment has been relatively robust, growing by 4.3% over 2025. That strength was largely concentrated in non-residual buildings and structures assets, and in utilities industries. Growth in other subcomponents of business investment was weaker.

Business investment is expected to fall by 0.6% in 2026 H1 relative to 2025 H2, down from around 1% growth anticipated in the February Report. That is consistent with a small impact from higher uncertainty following the onset of conflict in the Middle East. Agency intelligence suggests that a protracted conflict is likely to dent investment intentions. The share of firms reporting that overall uncertainty was high or very high has risen in the last few months (Chart 1.11), but it remains lower than the 2022 peak.

Chart 1.11: Measures of uncertainty among firms have risen slightly

DMP measures of uncertainty (a)



Source: DMP survey.

(a) The DMP overall uncertainty measure is based on responses to the question 'How would you rate the overall uncertainty facing your business at the moment?'. Firms can select an option from a five-point scale: very low/low/medium/high/very high. The sales and price uncertainty indices are based on the question 'Looking a year ahead from the first/second/third/fourth quarter to the first/second/third/fourth quarter, by what % amount do you expect your sales revenue/price growth to have changed in each of the following scenarios? (lowest, low, middle, high and highest)' and respondents were asked to assign a probability to each scenario. The indices are constructed using the firm-level standard deviations of expected growth over the next 12 months. These indices are normalised by their values in 2019. The data are monthly and non-seasonally adjusted. The latest data are for April 2026.

Labour market

The LFS unemployment rate has fallen and underlying employment has remained flat.

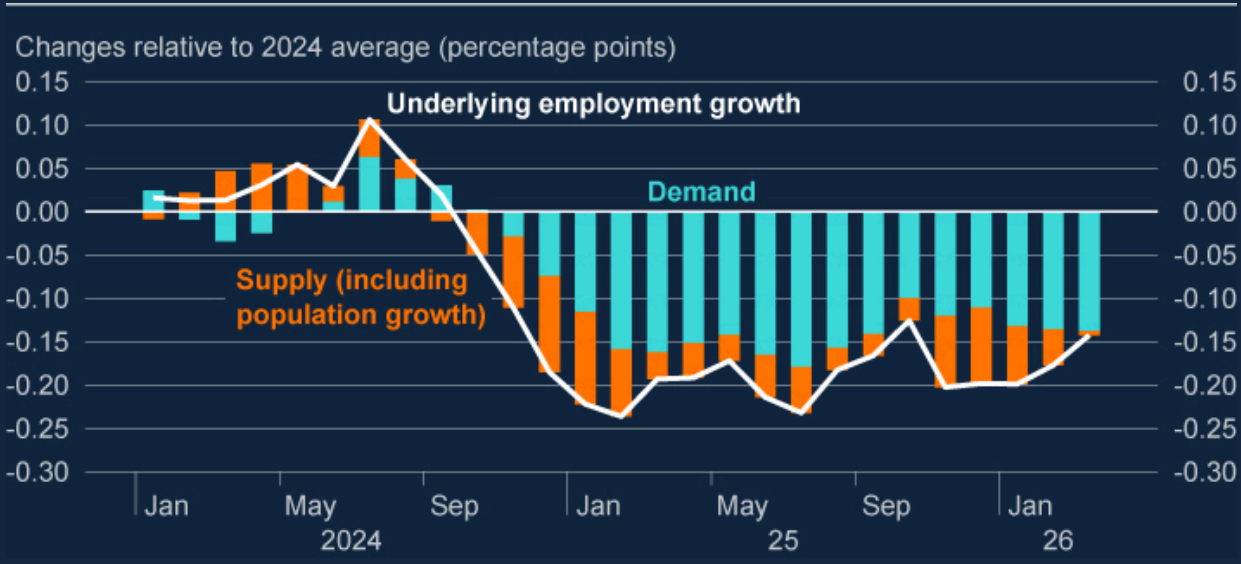
The LFS unemployment rate fell to 4.9% in the three months to February, 0.2 percentage points lower than both the previous quarter and expectations at the time of the February Report. The decline was driven entirely by a drop in the participation rate, reflecting an increase in the number of people who report being inactive because they are studying. Other indicators remain consistent with easing labour demand: job vacancies fell by around 4% in 2026 Q1, and the LFS redundancy rate remains elevated relative to in recent years. Reflecting these signals, Bank staff project the unemployment rate to rise to 5.1% in 2026 Q2.

Bank staff judge that underlying employment growth, based on the signal from a range of measures, has remained flat since early 2025, with no immediate sign of a change following the onset of the Middle East conflict. Contacts of the Bank's Agents typically attribute this weakness to subdued demand and higher labour costs. Survey data suggest a broadly similar picture, with respondents to the March KPMG/REC survey attributing weakness in permanent staff placements to uncertainty and relatively high staffing costs.

New analysis by Bank staff is also consistent with weakness in demand having driven lower employment growth. A structural vector autoregression model, which identifies labour demand and supply shocks based on movements in employment and real wage growth, attributes much of the recent slowing in employment growth to lower labour demand (Chart 1.12). That is because the fall in employment growth over 2025 occurred alongside a slowing in real wage growth, which the model attributes to demand weakness. The model also finds a small role for supply in driving the shortfall in employment, which may reflect slower population growth due to lower net migration. This analysis suggests that the weakness in employment growth is consistent with some widening in labour market slack.

Chart 1.12: New model-based analysis suggests that lower demand has been important in driving the deceleration in employment growth since 2024

Model-based decomposition of underlying employment growth (a)



Sources: Bank of England Agents, DMP survey, HMRC, KPMG/REC UK Report on Jobs, Lloyds Business Barometer, ONS, S&P Global and Bank calculations.

(a) The decomposition is based on a bivariate structural vector autoregression (SVAR) estimated on monthly UK data from November 2000 to December 2019, using three-month on three-month growth in underlying employment and real AWE. Bank staff's indicator-based measure of underlying employment growth is constructed using a dynamic factor model, following the approach of **Doz et al (2011)**. The model extracts a common component from monthly survey indicators, capturing comovements across series. The common component is scaled to align with LFS employment growth between 2000–19. The contributions from demand and supply are identified using sign restrictions: a demand shock is assumed to move employment and real wage growth in the same direction, whereas a supply shock pushes them in opposite directions (**Baumeister and Hamilton (2015)**). Population growth is treated as a supply factor. The latest data are for March 2026.

Employment growth is expected to remain muted in the near term and the energy shock and the resulting impact on demand could weigh on hiring plans later in the year (Boxes B and D). Respondents to the April DMP survey expected headcount to be flat in the three months to April 2027, up from -0.4% realised employment growth over the 12 months to April 2026. Contacts of the Bank's Agents report that the conflict in the Middle East has not yet affected hiring plans, and in general expect employment to be broadly flat over the next year (**ASBC – April 2026**).

> **Indicators of labour market tightness are consistent with some degree of spare capacity in the labour market.**

Higher unemployment over recent months and some stabilisation in the number of job vacancies has meant that the vacancies to unemployment ratio (V/U) remains well below its equilibrium, consistent with a margin of slack in the labour market (Chart 1.13, left panel). The net additional hours desired by workers as a percentage of average hours worked, a measure of underemployment, also suggests more slack relative to in the recent past (Chart 1.13, middle panel). LFS job-to-job flows remain subdued (Chart 1.13, right panel). Overall, these data suggest that labour market conditions are considerably looser than at the onset of the previous energy shock in 2022.

There is nevertheless a high degree of uncertainty over the precise level of slack in the labour market. Some developments, such as the recent increases in employer NICs and the NLW, could have caused the non-accelerating inflation rate of unemployment (NAIRU) to rise by weighing on labour demand for a given labour supply (Box F of the **November 2025 Monetary Policy Report**). That could imply a smaller degree of labour market slack, all else equal.

Chart 1.13: Labour market conditions are looser than in 2022

Indicators of labour market slack (a)

Sources: Advertising association/World Advertising Research Centre Expenditure Report, ONS and Bank calculations.

(a) Left panel: the equilibrium V/U ratio is estimated using an error-correction model over the period 1982–2025. The real cost of vacancy posting and hourly labour productivity are included as long-run determinants for the level of vacancies. The model also includes controls for short-term movements in these variables (**Stelmach et al (2025)**). The latest data are for 2025 Q4. The 2026 Q1 number is a projection based on data to the three months to February. Middle panel: number of net additional hours that the currently employed report they would like to work, on average, per week, expressed as a share of average weekly hours. Latest data are to 2025 Q4. Right panel: the data are two-quarter job-to-job flows, based on total employment of people aged 16–69. The latest data are for 2025 Q4.

The overall margin of slack in the economy is judged to have widened slightly further.

Consistent with some further loosening in the labour market and continued weakness in aggregate demand, spare capacity is judged to have widened a little further. Contacts of the Bank's Agents continue to report that there is a degree of spare capacity, in part reflecting weak demand. The current degree of spare capacity will be important in determining the size of any second-round effects from the energy price shock (Section 3).

1.3: Global and financial conditions

Global economic activity

The outlook for global activity has softened as the Middle East conflict has disrupted a key energy supply route.

The conflict in the Middle East has resulted in a substantial negative supply shock to the global economy. The most material economic development has been the effective closure of the Strait of Hormuz since 28 February. Approximately 25% of seaborne oil, around one fifth of global liquefied natural gas (LNG) and a significant share of refined products, such as petrol, diesel and jet fuel, normally transit the Strait. Its closure has therefore put marked upward pressure on global energy and some other commodity prices (Section 1.1 and Box F). In addition to disruptions to energy transport routes, damage to energy infrastructure across parts of the Gulf has further constrained global supply, amplifying upward pressure on world export prices.

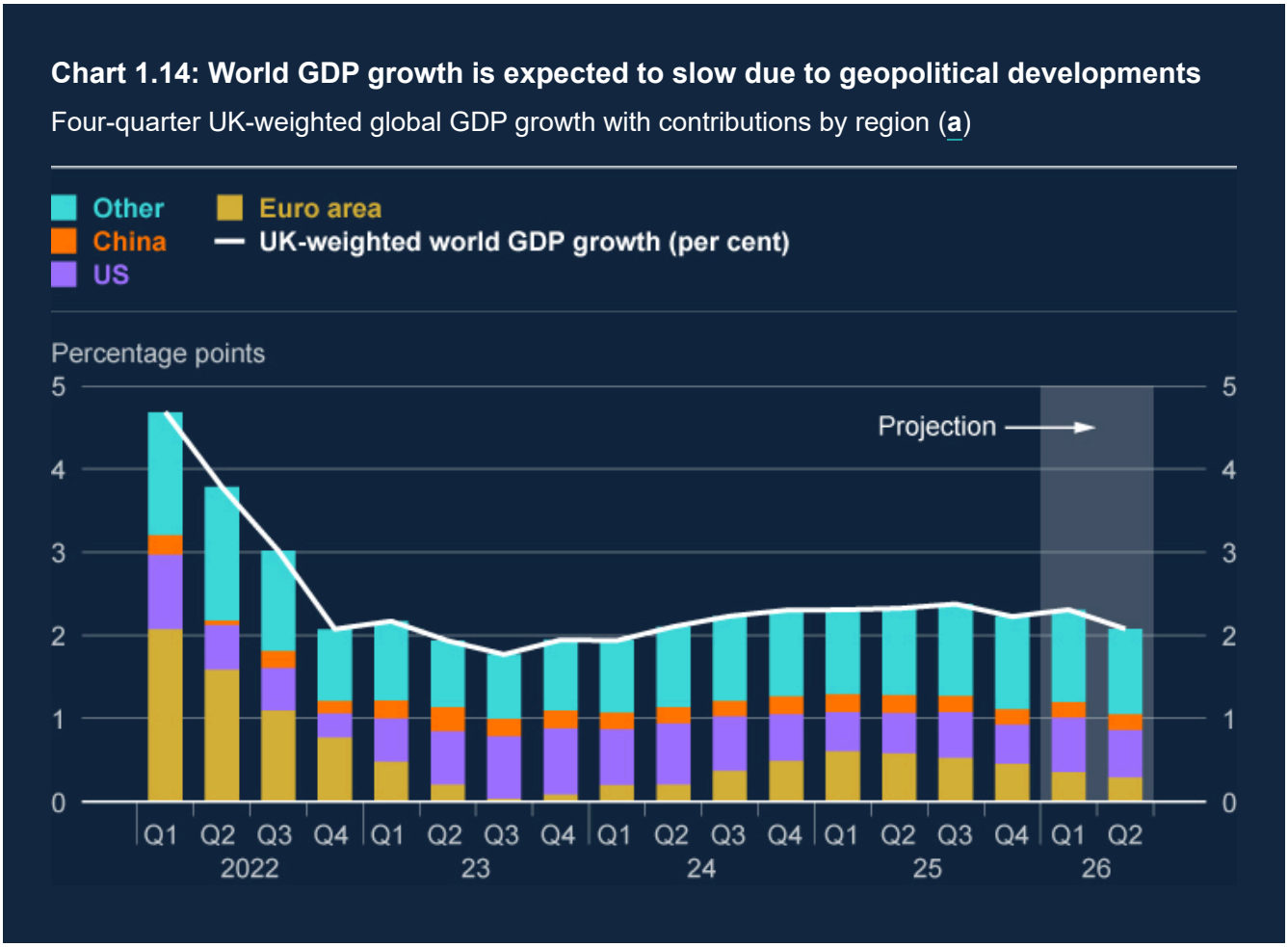
Based on the path of energy futures curves (Chart 1.5), the impact of the Middle East conflict on global activity is expected to be limited in 2026 Q1 but will start to weigh by just under 0.2% in Q2 and build thereafter, as higher energy prices reduce real household incomes and raise firms' costs globally. Consistent with some impact of the conflict on global demand, the JP Morgan Global Composite PMI new orders index fell in March to its lowest level in over two years. Risks to global activity are judged to be to the downside, should the rise in energy prices be greater or more persistent than embodied in energy futures curves (Section 3). The impact of the Middle East conflict on activity is expected to vary across regions, with net energy exporters such as the US relatively insulated, and activity in energy-importing economies such as the UK and euro area more exposed to higher energy prices.

Prior to the conflict, global growth had been resilient and stronger than expected a year ago. While increases in global trade tariffs had weighed on global growth, trade flows had remained robust and AI-related investment had supported growth in the US and China. Financial conditions had been easing. The impact of recent changes to US trade policy, which have resulted in a lower effective global tariff rate than at the time of the February Report (Box F), is expected to be small for the UK.

Four-quarter UK-weighted world GDP growth is expected to be 2.3% in 2026 Q1 before slowing to 2.1% in Q2 (Chart 1.14), in part reflecting lower global demand due to the drag from higher energy costs.

Chart 1.14: World GDP growth is expected to slow due to geopolitical developments

Four-quarter UK-weighted global GDP growth with contributions by region (a)



Sources: LSEG Workspace and Bank calculations.

(a) The figures for 2026 Q1 and 2026 Q2 are Bank staff projections. UK-weighted world GDP growth is constructed using real GDP growth rates of 188 countries weighted according to their shares in UK exports.

Financial conditions

The market-implied path for Bank Rate has been higher relative to in the lead up to the February Report.

Based on the 15-day average of forward interest rates to 22 April, the market-implied path for Bank Rate rises to 4.2% in early 2027 before gradually falling to 4% by early 2028 (Chart 1.15). The median respondent to the April 2026 Market Participants Survey (MaPS) expected Bank Rate to remain unchanged through the rest of this year, and to be 3.5% one year ahead and 3.25% two and three years ahead. The market-implied path for Bank Rate will capture not only market participants' central expectations for Bank Rate, but also the balance of risks to the outlook, and risk premia.

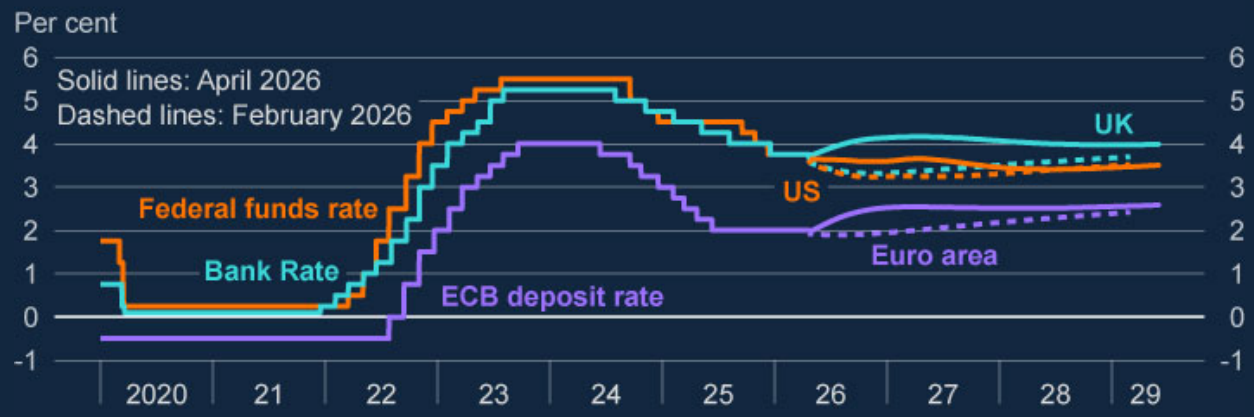
The UK market-implied path was just under 60 basis points higher, on average, over the next three years than in the period leading up to the February Report. Market contacts attribute that rise to a material change in the perceived balance of risks around the outlook for

monetary policy, as well as an increased risk premium given elevated geopolitical and macroeconomic uncertainty. Expected real rates as reflected by market-based measures are estimated to have increased at the three-year horizon. Uncertainty around the outlook for short-term rates has also increased, as reflected in a rise in the standard deviation of the option-implied distribution of 12-month three-month forward SONIA rates.

The US and euro-area paths have also risen, although by less than for the UK, and were 19 and 35 basis points higher on average respectively over the next three years.

Chart 1.15: The market-implied paths for policy rates were higher relative to the February Report across major economies

Policy rates and instantaneous forward curves for the UK, US and euro area (a)



Sources: Bloomberg Finance L.P. and Bank calculations.

(a) All data are as of 22 April 2026. The April 2026 curves are estimated based on the 15 UK working days to 22 April 2026. The February 2026 curves are estimated based on the 15 UK working days to 26 January 2026. The federal funds rate is the upper bound of the announced target range. The market-implied path for US policy rates is the expected effective federal funds rate. The ECB deposit rate is based on the date from which changes in policy rates are effective. The final data points are forward rates for June 2029.

Overall UK financial conditions have tightened since the outbreak of the Middle East conflict.

The upward shift in the market-implied path for Bank Rate has been the primary driver of the tightening over this period. Longer-term government bond yields have also moved higher. The sterling ERI has been broadly stable, while UK equities have been volatile but are a little higher than at the time of the February Report. Market-based measures of uncertainty, such

as the VIX and MOVE Index, which capture option-implied volatility in US equity prices and US Treasury yields, have increased since the start of the year, but remain below the peaks seen last year following US tariff announcements and below those observed in 2022.

Domestic credit conditions

Recent developments in financial markets have begun to pass through to the rates faced by households and firms.

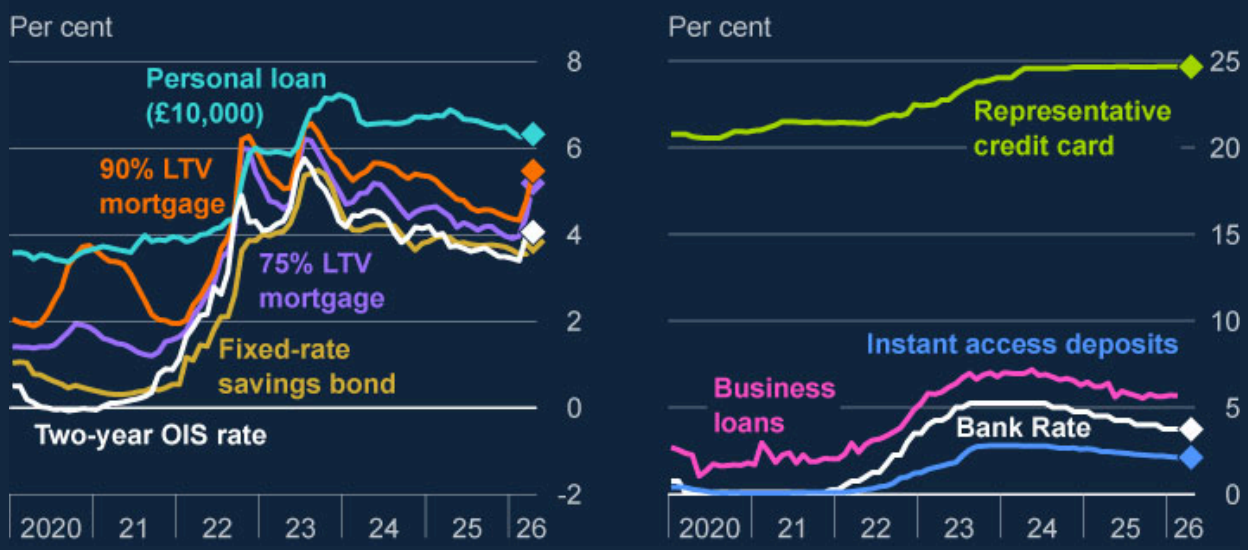
Quoted rates on new mortgages have risen by slightly over 100 basis points on average for 75% and 90% loan to value (LTV) mortgages since the February Report (Chart 1.16, left panel). This reflects faster than average pass-through of the rise in short-term OIS rates, which is not unusual following large moves in the latter. These rates have fallen a little in recent weeks, however.

Higher quoted rates will feed through to a higher effective rate on the stock of mortgages (Box E). Over the next three years, average monthly payments are expected to rise by approximately £80, although there is substantial variation within this figure and it will depend partly on the outlook for energy prices and any associated movements in reference rates. About 53% of UK mortgage holders are expected to see their payments rise, but around 25% of those who fixed at higher rates should see their payments fall, despite recent increases in quoted rates.

Other rates, including those on deposits and new bank lending to corporates, have been little changed since the February Report. That is consistent with Bank Rate having been unchanged and normal pass-through. Corporate bond yields have increased reflecting moves in risk-free rates. Credit spreads in household and corporate debt markets remain compressed by historical standards.

Chart 1.16: Mortgage rates have risen since the February Report, while other rates are little changed

Household and corporate interest rates and their corresponding reference rates (a)



Sources: Bank of England, Bloomberg Finance L.P. and Bank calculations.

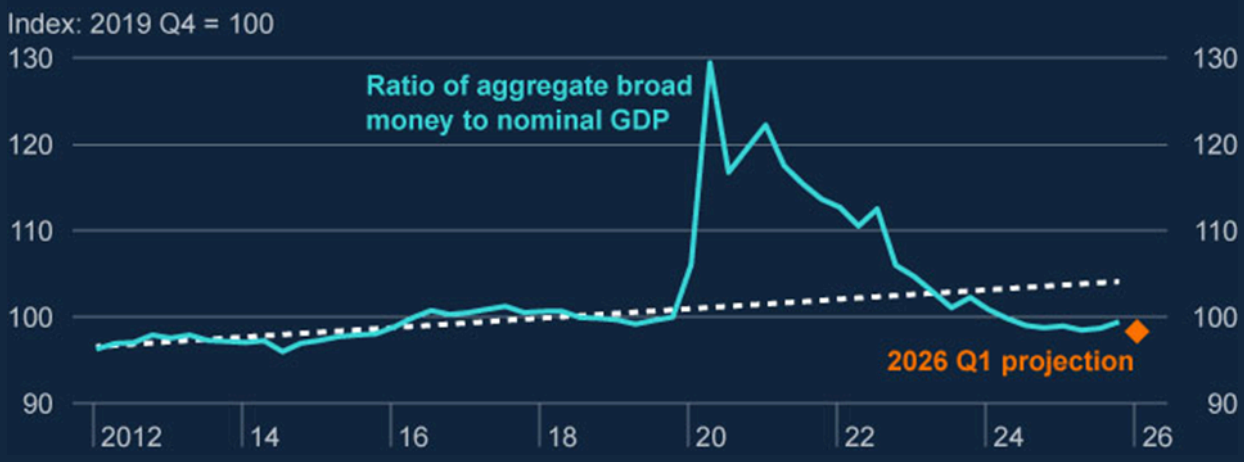
(a) Household loan and deposit rates are based on average quoted rates and business loan rates are based on average effective rates on new lending. The Bank's quoted rates series are weighted monthly average rates advertised by all UK banks and building societies with products meeting the specific criteria. **Introduction of new Quoted Rates data** provides more information. The 75% and 90% LTV mortgage rates are for two-year fixed-rate products. The reference rate for these and fixed-rate savings bonds is the two-year OIS rate. The reference rate for £10,000 personal loan rates is the five-year OIS rate but this is not shown. The two-year OIS rate shows monthly averages, while Bank Rate shows month-end numbers. Household quoted rates data are not seasonally adjusted. The provisional April 2026 data are shown as diamonds. For quoted rate series and the two-year OIS rate, these are based on average values to 22 April 2026. The provisional data point for Bank Rate is the rate as of 22 April 2026. The final business loan rate data are for February 2026.

Lenders responding to the **Bank's Credit Conditions Survey – 2026 Q1** reported increased availability of secured credit to households and of credit to corporates across firm sizes. That is consistent with intelligence from the Bank's Agents (**ASBC – April 2026**). Housing market activity has nevertheless remained subdued. Indicators of housing demand such as the RICS new buyer enquiries net balance have weakened following the rise in borrowing costs, consistent with an easing in housing demand. While the latest data for mortgage approvals pre-date recent geopolitical developments, contacts of the Bank's Agents report that higher mortgage rates are beginning to weigh on activity, with the full impact likely to be felt over the coming quarters.

Annual growth in aggregate broad money has been generally in line with rates seen over most of last year, at 3.9% in the year to February. Although there is uncertainty over trends in money velocity, the ratio of broad money to nominal GDP remains below its pre-pandemic trend, reflecting an erosion of the money overhang that built up during the pandemic and in the following years (Chart 1.17).

Chart 1.17: Broad money relative to GDP is below its pre-pandemic trend

Ratio of aggregate broad money to nominal GDP (**a**)



Sources: Bank of England, ONS and Bank calculations.

(a) Aggregate broad money captures M4 excluding the deposits of intermediate other financial corporations and is break-adjusted. The dashed line shows the 2012–19 linear trend in the ratio of aggregate broad money to nominal GDP, projected forward. The final data shown are for 2025 Q4. The diamond represents a provisional estimate for 2026 Q1, using the latest Bank staff projection for nominal GDP.

2: Topical policy issues

The boxes in this section highlight some of the key pieces of analysis that informed the MPC's discussions.

Box A: How could conflict in the Middle East affect households?

The conflict in the Middle East has raised energy prices. Energy is a necessary purchase for households and an input that businesses must use for production throughout supply chains. Higher energy prices directly increase costs for households. Average petrol pump prices reached a little under 160 pence per litre in April, for example. There will also be indirect effects as higher energy costs pass through supply chains, and because the prices of other key input goods, for example fertilisers used for agriculture, have also increased. Higher inflation itself may also lead to upward pressure on prices, for example by encouraging higher wage growth which will further raise firms' costs, although the extent of this is uncertain. Additional costs for households mean they are likely to cut back on spending. Higher inflation is unavoidable, at least in the short term, since the prices of energy imports have risen. But the MPC will set Bank Rate to ensure that energy costs do not lead to persistent inflation and that inflation returns sustainably to the 2% target.

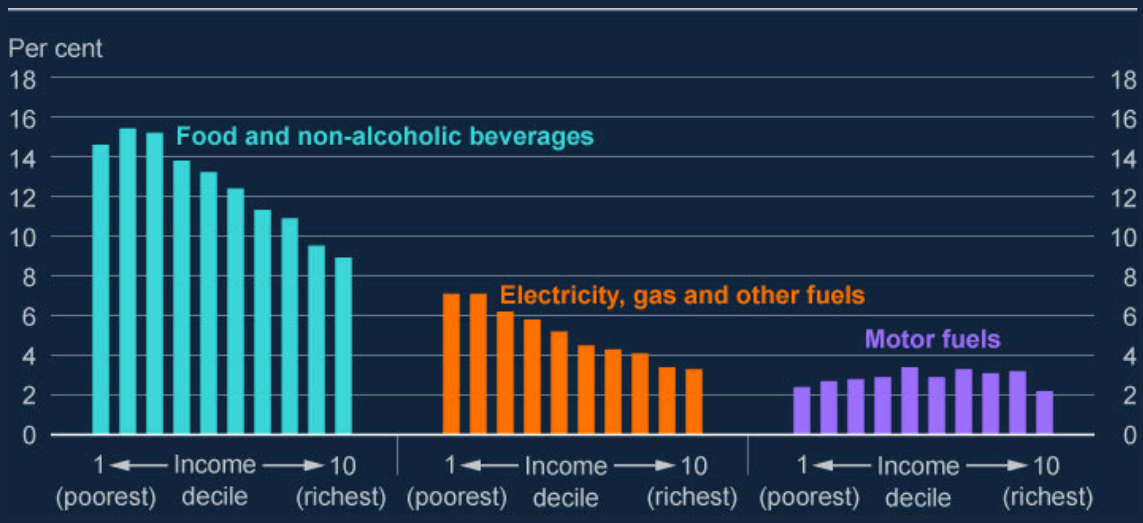
Conflict in the Middle East has had a significant impact on the availability and price of a range of goods, particularly oil and natural gas. Transport through the Strait of Hormuz, a key shipping route, has been effectively closed and there is limited capacity on alternative export routes. This has pushed up energy prices globally.

Oil and gas prices directly affect UK households' costs, via the cost of motor fuels and household utility bills. Oil prices peaked at a little under $120 per barrel on 31 March, up from $64 prior to the conflict, and natural gas prices peaked at over 150 pence per therm up from around 80 pence (Section 1.1). Despite falling back somewhat since then, wholesale prices are expected to remain elevated. As electricity prices in the UK tend to be driven, in part, by gas prices, electricity has also become more expensive.

Households mainly buy energy in the form of utilities supplied directly to the home, such as gas and electricity, and motor fuels, such as petrol and diesel. Some households also purchase other fuels to heat their homes. Purchases of energy made up around 8% of household spending in 2024 on average, although this varies widely. Utilities tend to comprise a larger proportion of lower income households' spending (Chart A.1). Expenditure on motor fuels is less related to income but will still vary widely. For example, those in rural areas, where driving longer distances is typically required, are likely to be most affected.

Chart A.1: Low-income households are more exposed to cost increases than high-income households

Share of household spending on categories particularly exposed to energy-driven price rises, by income decile (a)



Source: ONS.

(a) Data are for 2025 although the weights for 2025 are assumed to be the same as for 2024 and so are likely to be revised.

The price of household motor fuels tends to move quickly as global oil prices rise. Average petrol pump prices have risen from just over 130 pence in February, prior to the conflict, to around 157 pence per litre in the first three weeks of April, and diesel has risen by more to 190p. This is expected to add around 0.7 percentage points to April CPI inflation, relative to the projection in the February 2026 Report (Section 1.1).

Household gas and electricity prices are somewhat slower to increase following wholesale cost increases. A price cap on gas and electricity, set by the energy regulator, Ofgem, affects how much most households pay for their utilities. Energy suppliers tend to purchase gas weeks or months in advance of using it, and these prices are taken into account when Ofgem calculates the energy price cap. The cap is now expected to rise to close to £1,900 in 2026 Q3 from £1,641 in Q2. This remains well below the £4,279 peak the cap would have reached in early 2023 had the Government not introduced the Energy Price Guarantee (EPG). The price cap in future quarters is more uncertain as energy prices continue to evolve, but it is currently expected to remain around £1,900 in 2026 Q4. These figures are for households paying via direct debit; the cap for those paying via prepayment meter and standard credit is set at different levels, although the movements will be similar to that for direct debit customers.

Not all households face the same change in utility prices at the same time. Close to 40% of households are on fixed tariffs for electricity and gas, and this is higher than the roughly 25% of households with fixed tariffs when Russia invaded Ukraine in 2022 Q1. These households will be protected from higher prices until their contracts end. Around 1.5 million households rely on heating oil, however, for which prices have already risen. This is particularly common in Northern Ireland, where over half of households use heating oil. The Government has provided £50 million of support for low-income households relying on heating oil.

The time of year is also important for the economic impact of higher energy prices. For example, around three in ten households pay for utilities via prepayment meters or via standard credit tariffs. These households are less affected by an immediate cost increase because they can use less energy during the warmer summer months. If prices are still high in the winter, then these households will face larger rises in costs. Other households pay for utilities via direct debit which allows them to spread their payments evenly throughout the year.

Overall, the direct effect of higher energy prices for households is likely to add 0.9 percentage points to CPI inflation by 2026 Q3, compared with the projection in the February Report.

> **The prices of non-energy products are likely to rise as well, reducing household real incomes.**

Households will also be affected by higher energy prices as firms pass on their own higher energy costs to consumer prices. Many firms plan to pass on these cost increases to some extent (Box B). These indirect cost increases are expected to add a further 0.3 percentage points to CPI inflation in 2026 Q3 (Section 1.1).

Consumer food prices are expected to rise this year reflecting higher energy and transport costs (Section 1.1). Food prices may also rise further out due to increases in the cost of fertiliser. Around a third of global fertiliser exports typically go through the Strait of Hormuz as natural gas can be used to produce ammonia, an important component of fertilisers (Box F). The reduction in exports has led to a rapid increase in fertiliser costs which will raise the production costs of farmers. In addition, less fertiliser available to use means that global crop yields will be lower. Agents' contacts report that many UK farmers have already purchased fertilisers for this season and so are not facing an immediate increase in costs, but higher fertiliser costs may be important in the longer term.

Low-income households, on average, spend close to twice as much on food as a share of their expenditure compared with high-income households (Chart A.1). That means the effect on real incomes for low-income households will be larger than for others.

There are a range of other cost increases that may also be material, and these cost increases may be persistent. For example, some other raw materials, such as aluminium and other inputs to semiconductors, have risen in price. These cost increases will pass-through to the prices that households pay over time.

Higher inflation itself may also lead to further upward pressure on prices. This is often termed second-round effects from a rise in inflation. Second-round effects could result, for example, from firms raising wages to maintain pay growth in line with inflation for their employees, which would increase their costs and could lead to firms setting higher prices. It could also be driven by higher inflation expectations. But the extent of second-round effects is uncertain and will depend on a range of factors (Box C). Monetary policy cannot prevent higher inflation in the short term, which is due to the prices of energy imports having risen. But the MPC will set Bank Rate to ensure that energy costs do not lead to persistent inflation and that inflation returns sustainably to the 2% target (Box G).

Lower household real incomes will likely lead to somewhat lower consumption.

Higher energy prices will reduce real household incomes, the incomes households receive after taking account of changes in prices. Households are likely to reduce their real spending in response, but by less than the fall in incomes (Box E). Following the 2022 energy price shock, household real incomes fell but consumption remained broadly stable before falling back in 2023. This was partly a result of government policy, such as the EPG, which reduced household bills and allowed households to

maintain their consumption. But, based on historical experience, it is likely that households will again partly maintain their consumption through the latest fall in real incomes.

Box B: How might firms respond to higher energy prices?

Higher energy prices raise costs for firms and erode customers' real incomes, which can reduce demand for the goods and services firms sell. Firms will need to respond to the energy shock and can do so in several ways, including by allowing their profit margins to fall, raising their prices, reducing costs and reducing output. The balance of these responses across firms will partly determine the extent to which the rise in energy costs feeds through to CPI inflation. Early evidence suggests that, while firms expect to raise prices, they may not be able to pass through the full rise in costs and so their profit margins are likely to fall. Compared with the energy shock in 2022 following the Russian invasion of Ukraine, weaker demand and a looser labour market mean that firms may also respond to the shock by reducing their wage bills, although survey responses currently suggest only modest expected impacts on pay and employment growth. Firms' actions may change depending on the size and duration of the energy shock, as well as on how households react to lower real incomes, and to any monetary or fiscal policy response.

How are firms exposed to higher energy prices?

Global energy prices have risen significantly since the outbreak of the Middle East conflict (Section 1.1). Firms use energy in the form of oil, gas and electricity to produce their outputs. Higher energy costs therefore represent a direct increase in overall costs for firms, and a negative supply shock for the UK economy as it is a net importer of energy.

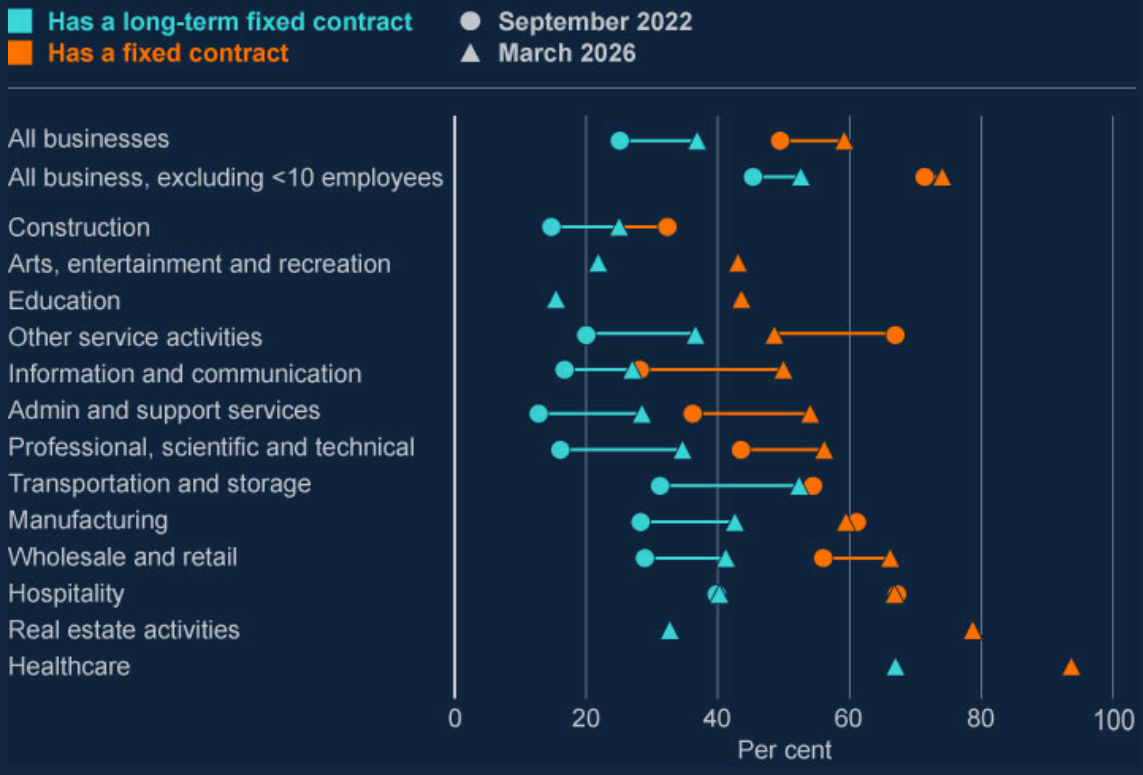
The extent of the direct rise in costs varies significantly by firm. Direct spending on energy, based on the latest data from 2023, averages around 3% of non-energy sector firms' intermediate consumption and labour costs. But there is wide variation across industries: for example, energy is an average of 0.3% of insurance firms' intermediate consumption and labour costs, compared with 5.1% for accommodation firms and 29.6% for air transport firms.

The timing of the increase in costs also varies across firms. Nearly 60% of firms report having a fixed-price contract for gas (Chart B.1) and similar numbers report the same for electricity. These shares have risen somewhat since 2022. Small firms are significantly less likely to purchase energy on fixed rates than the average across firms. Contract length varies, with around half of firms with 10 or more employees reporting having at least six months before their gas price is reset. This suggests it will

take time for direct energy costs to feed through fully for many firms, and if energy prices were to fall back quickly enough some firms may not be affected directly at all. There is also a range of typical energy contracts across sectors. For example, construction and education firms are much less likely to have fixed gas contracts.

Chart B.1: Energy price rises will affect many firms with a lag due to fixed-price contracts

Share of firms with a fixed-price gas contract (a)



Sources: ONS and Bank calculations.

(a) Long-term fixed contracts represent contracts lasting six months or longer. Some industries only have survey responses for 2026. Business size is split by employee numbers. 'Not applicable' and 'Not sure' responses are excluded from the gas contract responses with the remaining answers rescaled to equal 100%. Data are from the ONS' Business Insights and Conditions Survey.

Besides the direct impact of higher energy costs, firms also face an indirect increase in costs as the energy shock spreads through supply chains. For example, higher fuel prices will raise the costs of transporting goods which will be reflected in the costs of non-energy inputs for firms. This will magnify the effect of higher energy costs but will feed through with a lag.

Higher energy prices will also lead to a reduction in aggregate demand because, since the UK is a net energy importer, higher energy costs represent a real cut in domestic incomes. That reduction in demand is also likely to affect firms gradually and will depend on how households respond to rising costs (Box E).

How can firms respond to higher energy prices and how might it differ from the response in 2022?

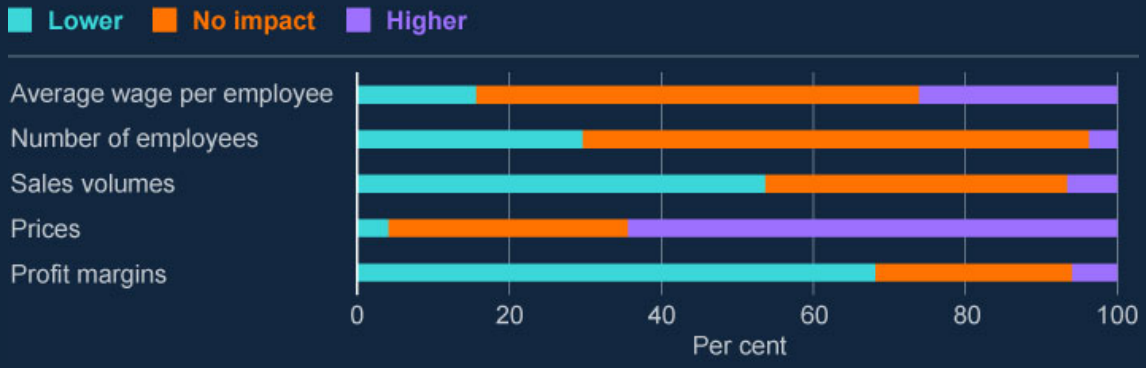
Firms can respond to higher energy prices in several ways, each of which could have differing effects on the inflationary impact of the shock, which in turn will affect the necessary monetary policy response. It will be important for policymakers to monitor the relative importance of these responses over coming months.

Firms could choose not to increase prices or take actions to reduce other costs. This would mean that higher energy costs would result in lower profits because firms would set a smaller mark-up between the cost of producing their output and the prices they charge. Following past energy price rises firms' mark-ups fell and stayed persistently lower for several years (**Manuel et al (2024)**). This is likely to happen in response to the recent rise in energy prices as well, with 68% of firms responding to the latest DMP survey reporting that they expect lower margins over the next year as a result of higher energy costs (Chart B.2).

Reductions in margins may be smaller than in response to past energy shocks because they are already compressed. Agents' contacts typically report lower margins than in 2022 and so fewer firms may be able to lower them further to absorb the cost increases. That said, historical evidence shows that in the aftermath of the 1979 oil price shock, mark-ups fell further even though they had yet to recover to levels prior to the 1973 oil price shock.

Chart B.2: Higher prices and lower profit margins are the most common responses from firms in response to higher energy costs

Share of firms reporting how they expect the increase in energy prices to affect aspects of their business over the next year (**a**)



Source: DMP survey.

(a) Responses were collected between 2–17 April 2026. Results show weighted responses to the question 'The war in Iran has led to higher energy prices. How do you expect these increases in energy prices to affect the following aspects of your business over the next year?'.

Firms may also respond to higher costs by raising their output prices. 64% of firms responding to the latest DMP survey are expecting to increase prices as a response to energy costs over the next year. And the average of firms' own output price growth expectations for the year ahead was 4.4% in April, compared with 3.4% in January (Chart B.3).

Chart B.3: Firms' expectations for price growth have increased markedly since energy prices rose, but wage growth expectations are little changed

Firms' reported expectations for their own price and wage growth (a)

Source: DMP survey.

(a) Data are responses from the individual monthly surveys.

Evidence suggests that firms' own price expectations have become more sensitive to increases in headline inflation and that firms are changing prices more frequently than in the past. This may mean that the initial rise in prices is larger than it would have been historically. The proportion of firms changing prices in response to changing economic conditions compared with those setting prices at fixed intervals, for example, has increased in recent years, peaking at 58% in March 2023 compared with a pre-pandemic estimate of 44%. This proportion has fallen back a little in recent years, to closer to 50%. These firms tend to exhibit faster pass-through of oil and gas supply shocks than time-dependent firms who adjust prices at regular intervals (**Bunn et al (2026)**).

On balance, Agents' contacts expect to pass on at least some of their additional costs because their profit margins are already squeezed. Contacts thought that customers might be willing to accept higher prices given the highly visible increase in input costs, although lower household real incomes and higher interest rates could reduce the extent to which such pass-through is possible (**ASBC – April 2026**). Indeed, a little over half of firms report expecting sales volumes to fall in response to higher energy prices (Chart B.2).

Rather than raising prices or reducing profit margins, firms could respond to higher energy costs by reducing other input costs, particularly their wage bill as this tends to be the largest cost for most firms and easier to change than fixed costs such as buildings. Labour market conditions are significantly looser now than in 2022, which may make it easier for firms to reduce wage growth compared with what wage growth would have been absent energy price rises, since there is less competition for available workers (Box D). Partly set against this is the fact that firms cannot reduce wages for workers on the National Living Wage (NLW), and there has been a slight increase in the NLW coverage rate of around one percentage point between 2022 and April 2025, when it was 6.6% of employees.

Consistent with firms having some capacity to reduce wage growth, nominal wage growth expectations in the DMP survey are little changed since the February Report. Firms responding in April on average expected wage growth of 3.5% over the next year, the same as in the January survey (Chart B.3).

Any adjustment to wages in response to the energy shock is likely to vary across firms as they balance the need to reduce costs with potential pressures to raise nominal wage growth as their employees face higher inflation. While wage expectations reported in the DMP survey are unchanged since the February Report, 26% of firms report that higher energy prices will lead them to raise wage growth over the year ahead (Chart B.2). Past evidence suggests that around 40% of employees work at firms that set wages using a ‘cost minimiser’ approach (Box B, **February 2026 Monetary Policy Report**), where labour market conditions, including policies such as the NLW, are the main drivers of wage growth. Looser labour market conditions should generally limit increases in wage growth. In contrast, around half of workers are employed at firms that tend to put relatively greater emphasis on changes in inflation, albeit with a lag, for example as a result of wage bargaining with their workers. In either case, any adjustment to wages is likely to happen largely in 2027, as wage settlements for 2026 are generally already fixed (Section 1.1).

Firms can also reduce employment costs by reducing the number of people they employ or employees’ average hours worked. Firms may be more likely to use this margin of adjustment in response to the latest energy price increase than in 2022, when some Agents’ contacts reported hoarding labour whereby firms continued to employ workers despite lower output given worries about recruiting in the future. Current measures of recruitment difficulty are materially lower than in 2022, meaning that firms may be less concerned about rehiring staff in the future. In addition, although judged to be still resilient in aggregate (**Financial Policy Committee Record – April 2026**), small firms' balance sheets are on average slightly weaker than in early 2022

and some firms have higher debt servicing costs. Evidence from the DMP survey suggests that weaker balance sheet positions are associated with firms choosing to reduce their own employment by slightly more when facing a fall in income.

Initial evidence suggests that the energy cost rise has had less impact on firms' future employment expectations than it has on other potential responses such as output prices and margins, however. Two-thirds of firms responding to the DMP survey reported that they expected higher energy prices to have no impact on their employment (Chart B.2). And Agents' contacts generally point to employment remaining at around current levels. These responses may change as the shock continues to propagate.

Firms can also attempt to reduce other costs in response to higher energy prices. They might reduce energy costs directly, for example, by reducing their usage of energy or substituting to alternative sources. This was an important margin of adjustment in 2022 when average energy consumption by firms fell. Some Agents' contacts have reported efforts to substitute to other energy sources, such as by installing solar panels.

Overall, early evidence suggests that, although firms do expect to absorb some of the rise in energy costs within their margins, most firms also expect to raise prices somewhat in response to the shock. There are fewer signs that firms are expecting to raise wage growth, consistent with there being spare capacity in the labour market. Expectations for employment also appear to be little changed.

How might overall supply capacity in the UK be affected by the energy price shock?

Firms' responses to the energy price shock will also affect the supply capacity of the economy. The outlook for inflation will depend in part on the impact of the energy price shock on the relative balance of supply and demand. The impact on potential supply capacity is uncertain but likely to be negative. Bank staff's central forecasting models suggests that around 20% of the total GDP reduction will be matched by a fall in potential GDP, meaning that – while spare capacity is likely to widen as a result of the shock – potential supply will also fall. Supply capacity can be reduced through several channels, including: lower investment reducing the future capital stock, firm closures, a rise in long-term unemployment, or other hysteresis effects associated with a weaker economy. The relative importance of each channel is uncertain, particularly as the scale and persistence of the shock is unknown. And, in the event of constraints in energy supply, the decline in potential output would be larger.

Given the uncertainty in the size and timing of the shock, and in how firms will respond to it, the MPC will continue to monitor the emerging evidence on the actions firms are taking and how that will affect the outlook for inflation.

Box C: How will prevailing economic conditions affect the impact of the energy shock on inflation?

A key question for monetary policy is whether the latest increase in energy prices will give rise to material second-round effects on inflation, absent a sufficient monetary policy response. Evidence suggests that the transmission of oil supply shocks can depend on the current inflation environment as well as the degree of tightness in the labour market. Updated evidence from a non-linear time series model (Box C of the **November 2025 Monetary Policy Report**) finds that, while the impact of energy price shocks on inflation tends to be amplified by rising inflation expectations when CPI inflation is elevated, the inflation response tends to be much weaker when there is spare capacity in the labour market. This suggests that current labour market slack will reduce the risk of second-round effects from the latest energy shock. There are some risks around this conclusion. Increased responsiveness of household inflation expectations to rises in prices, for example, could mean that the most recent rise in energy prices evolves differently to past energy shocks.

The persistence of any rise in inflation following an energy price shock will depend partly on recent inflation dynamics and spare capacity in the economy. When prevailing inflation is elevated, households and firms may pay closer attention to a renewed bout of price increases such that their expectations for future inflation are more likely to rise. That can feed into wage bargaining and price-setting decisions meaning that an energy price shock leads to more persistent inflation. The presence of spare capacity in the economy, either in the form of under-utilised capacity within firms or of slack in the labour market, may reduce the risk of this outcome occurring. When the labour market is looser, workers will tend to have less bargaining power over their wages. Firms may then be able to absorb some of the rise in costs by raising wages to a lesser degree than otherwise.

How do inflation and labour market conditions differ from 2022?

Annual CPI inflation averaged 3.3% in the six months to February ahead of the conflict in the Middle East, well below the elevated rates seen in recent years but a little above the level at which previous analysis has suggested energy shocks are more likely to be amplified through higher inflation expectations (Box C of the **November 2025 Monetary Policy Report**). By contrast, ahead of Russia's invasion of Ukraine in 2022, CPI inflation had already risen sharply to around 6%, in part due to a substantial rise in fuel prices over the preceding year.

Short-term household inflation expectations at the start of this year were somewhat lower than in 2022 (Section 1.1). They have since risen sharply but remain below their levels during the 2022 energy shock. Labour market conditions are considerably looser than four years ago (Section 1.2), when the labour market was exceptionally tight. That tightness reduced firms' scope to absorb higher energy costs through lower real wages.

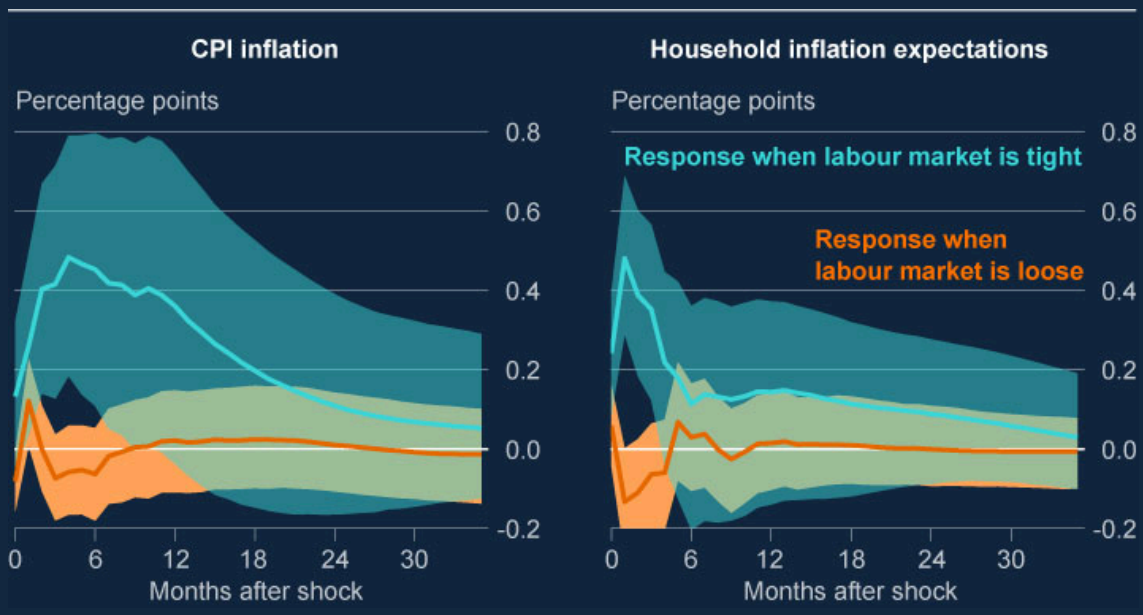
How have labour market tightness and prevailing inflation affected the transmission of past energy shocks to inflation?

Bank Staff have extended the self-exciting threshold Bayesian vector autoregression (SET-BVAR) model presented in Box C of the **November 2025 Monetary Policy Report** to allow for state-dependencies with regard to different degrees of labour market tightness alongside prevailing inflation. The model estimates the most likely level of inflation at which shifts in inflation behaviour become more probable using past observed historical associations between inflation, inflation expectations, and global shocks. The results presented below are based on the median threshold presented in Box C of the **November 2025 Monetary Policy Report**, of 3.1%. Low and high inflation regimes – that is, those with prevailing CPI inflation below and above 3.1% – are then split further into periods of tight and loose labour markets which are identified according to whether the vacancies to unemployment ratio is above or below its estimated trend (**Stelmach et al (2025)**).

The results of this model are shown in Charts C.1 and C.2. The panels in the former display responses to an adverse energy shock conditional on inflation starting above the 3.1% estimated threshold. Those in the latter display the estimated responses when inflation is below that threshold when the shock occurs. Across all panels in Charts C.1 and C.2, the aqua and orange lines (and associated credibility intervals) refer to the cases where the labour market is tight or loose, respectively. The panels on the left show the response of inflation and those on the right show the associated response of one-year-ahead household inflation expectations.

Chart C.1: Energy supply shocks have had a larger impact on inflation when the labour market has been tight

Estimated impulse response functions of CPI inflation and inflation expectations to an adverse oil supply shock when inflation is above 3.1% (a)



Sources: Bank of England, Citi/YouGov, **Känzig (2021)**, LSEG, ONS, **Stelmach et al (2025)**, and Bank calculations.

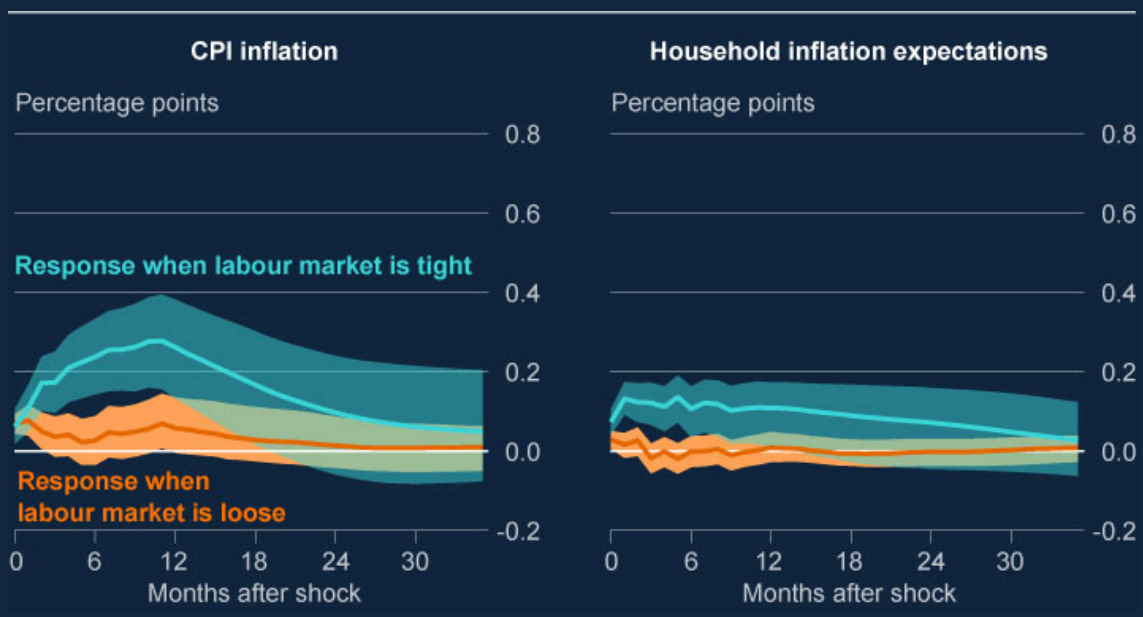
(a) The sample period is January 1989–June 2025; data are monthly. Generalised impulse response functions (GIRFs) to an oil supply news shock by **Känzig (2021)** that raises sterling oil prices by 10% on impact, from a self-exciting threshold Bayesian vector autoregression that endogenously estimates an inflation threshold (following **Gargiulo et al (2026)**). The partitioning of the sample yields four regimes in total, with piecewise-linear coefficients across regimes. Bayesian estimation is used. The GIRFs account for regime changes over the propagation horizon. The lines represent the median estimate, and shaded areas show the 68% credibility interval. Results remain broadly similar over an extended sample starting in January 1976, which yields a larger number of observations by regime and allows for the inclusion of more control variables, and when using a filtered unemployment gap as the labour market slack measure. Household inflation expectations refer to the one-year-ahead measure from the Citi/YouGov survey.

These results suggest that during periods when inflation was elevated, a higher degree of labour market tightness meant that global oil supply shocks led to a stronger and more persistent rise in inflation. This is shown in the left panel of Chart C.1, where the response of inflation remains muted if there is spare capacity in the labour market (orange line) but is larger and more persistent when the labour market is tight (aqua line). The model suggests that the difference in response between the two labour market regimes is at least in part related to the dynamics of household inflation

expectations, which have tended to rise sharply during periods when the labour market has been tight (aqua line, right panel) but not otherwise (orange line, right panel), even when prevailing inflation has been elevated. These findings are consistent with greater labour market slack allowing firms to absorb a greater portion of cost pressures through weaker pay growth, moderating workers' real-wage expectations and reducing pass-through to CPI inflation.

Chart C.2: The inflationary impact of energy supply shocks has been smaller when the prevailing rate of inflation has been lower

Estimated impulse response functions of CPI inflation and inflation expectations to an adverse oil supply shock when inflation is below 3.1% (a)



(a) Refer to Chart C.1 for model details.

There are reasons for caution, however, when drawing conclusions from these results for the current situation, and it is possible that current inflation conditions lead to more persistent inflation following the most recent energy shock. First, higher inflation does appear to play a role in amplifying the inflation response, at least in situations where the labour market has been tight (comparing the aqua lines in the left panels of Charts C.1 and C.2). This amplifying role is not evident in the case where inflation is elevated and the labour market is loose (Chart C.1, orange line in the left panel), but these results are based on a particularly small number of observations.

Second, household inflation expectations have risen sharply in response to the current energy shock whereas in the past they have remained stable when labour market conditions have been loose (orange lines in the right panels of Charts C.1 and C.2). The recent rise in household inflation expectations is consistent with households having a heightened awareness of inflationary developments. Repeated high inflation episodes – for example over the past five years – may have raised households' attentiveness to price changes (**Pfauti (2024)**), especially among salient items (Box E of the **August 2025 Monetary Policy Report**). Consistent with that, previously published analysis showed that household inflation expectations have become more responsive to inflation outturns compared with the pre-Covid period (**Anesti et al (2025)**). Internet search data provide another signal of household inflation attentiveness (**Buelens (2023)**). Whereas Google searches for 'inflation' rose modestly and then receded in previous inflationary episodes, search interest since 2021–22 has declined only gradually and has risen again this year.

Increased responsiveness of inflation expectations to realised inflation developments could pose upside risks to the extent of second-round effects, relative to the estimates presented above. Rises in household inflation expectations may mean that households bargain more strongly for wage increases, for example. The extent to which this is passed through into higher wage settlements may be limited given spare capacity in the labour market (Section 1.2). But pass-through will also depend on firms' pricing decisions (Box B). To the extent that firms pass through a large portion of the rise in energy costs to consumer prices, for example, that could lead to wage demands from households that are higher than otherwise.

Box D: What do industry-level data imply for the risks to unemployment?

The unemployment rate has risen over the past couple of years and is expected to rise further (Section 3). The rise in unemployment so far has been unevenly distributed across industries and dispersion in unemployment rates has increased. That could potentially mean there is less slack in the labour market than indicated by the decline in the aggregate vacancies to unemployment (V/U) ratio. Industry-level data may also point to upside risks to unemployment, including in light of the recent energy price shock. Firms in some industries – particularly accommodation and food services – appear particularly vulnerable. Given that unemployment has already risen in these industries and vacancy rates are low, these vulnerabilities could pose an upside risk to the aggregate unemployment outlook. But if workers displaced from these industries are also less able to move into vacancies elsewhere, then not all of that increase in unemployment may be associated with a rise in effective labour market slack.

How has the recent rise in unemployment varied across industries?

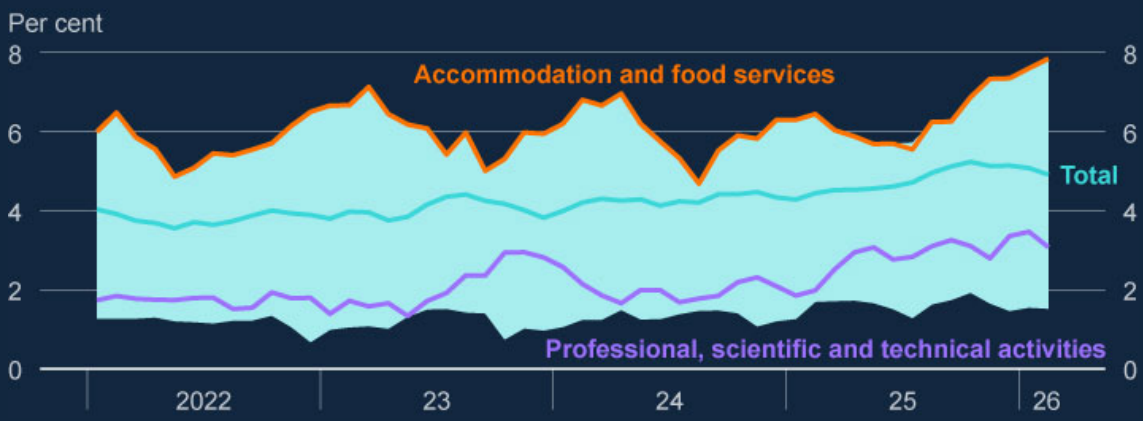
Having been exceptionally tight over 2022–24, conditions in the labour market have loosened over the past couple of years. The unemployment rate was 4.9% in the three months to February, up from 3.6% in the three months to July 2022, and the V/U ratio has fallen below its equilibrium level (Section 1.2).

That rise in unemployment has not been evenly distributed across industries. Chart D.1 shows how unemployment rates across industries have evolved since 2022. The shaded area, which captures the range across industries, provides a simple measure of dispersion in industrial unemployment rates. This dispersion has become more elevated recently and is somewhat wider than its 2001–19 average, indicating a more uneven distribution of unemployment across the economy.

In principle, increased dispersion in industry-level unemployment could indicate that workers are less able than in the past to move into available vacancies in other industries. If so, then effective labour market slack – which reflects not just the amount of spare capacity, but how easily unemployed workers can take up available jobs – may not be as much as indicated by the low level of the V/U ratio.

Chart D.1: Dispersion in unemployment rates across industries has increased

Unemployment rates by previous industry (a)



Sources: ONS and Bank calculations.

(a) Data show ONS estimates of unemployment by previous industry. This measure will not fully capture new entrants to the labour market who do not find a job as they have no previous industry, nor will it reflect the capacity for workers to transition across industries. The shaded area shows the range of industry-level unemployment rates by previous industry over time. Given data limitations and relatively small sample sizes, it can be difficult to draw firm conclusions from changes in these data. These data are not seasonally adjusted. The latest data shown are for the three months to February 2026.

How vulnerable is industry-level unemployment to the latest energy shock?

The uneven rise in unemployment across industries could suggest upside risks to aggregate unemployment from here in light of the latest energy shock. Industries in which unemployment has already risen and vacancy rates are relatively low may be more likely to experience a further increase in unemployment if labour demand weakens. Looser labour market conditions mean that workers who become unemployed may then find it hard to move quickly back into work. If firms in these industries are particularly exposed to the energy price shock – for example because they are vulnerable to a fall in discretionary consumer spending – it is possible that aggregate unemployment could rise by more than expected.

The relationship between vacancies and unemployment can be represented by the Beveridge curve. As explained in Box E of the **November 2025 Monetary Policy Report**, the economy has recently been operating on a ‘flatter’ part of the Beveridge curve, meaning that weak demand has been accompanied to a greater extent by rising unemployment rather than further reductions in vacancies.

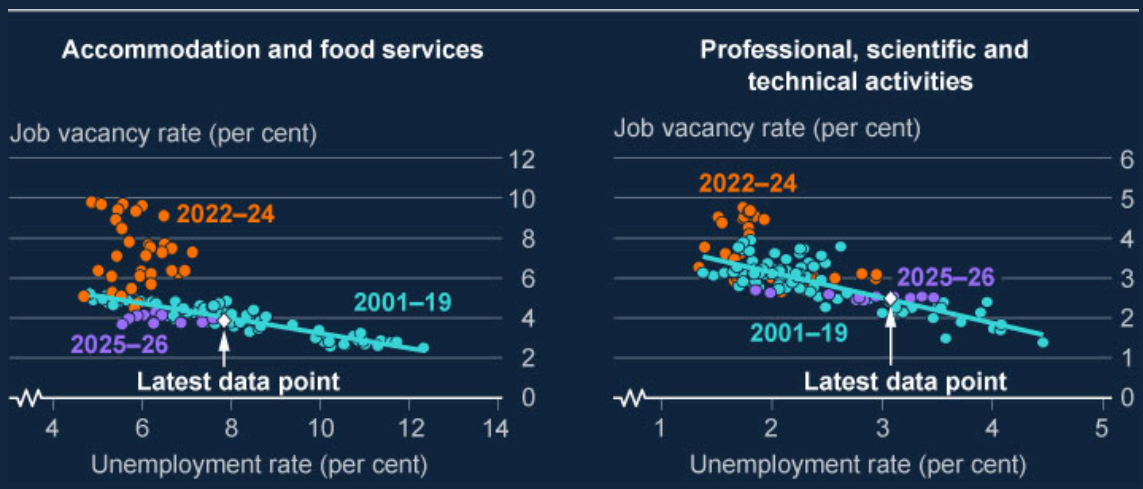
Chart D.2 illustrates the Beveridge curve relationship for two industries that have experienced relatively large rises in unemployment in recent years (Chart D.1). Given data limitations and small sample sizes, it can be difficult to draw firm conclusions from changes in the industry-level vacancy and unemployment relationship over time. Nevertheless, compared with dynamics between 2001 and 2019, the purple dots in Chart D.2 suggest tentative evidence that the link between vacancies and unemployment has changed in these industries since 2025, with unemployment now responding a little more sharply to falls in labour demand. The relationship between unemployment and vacancies for these industries also appears a little flatter than that implied by the aggregate Beveridge curve.

Within accommodation and food services, unemployment has risen notably since early 2025 while vacancy rates are relatively low (Chart D.2, purple dots in left panel). This could reflect a sustained period of rising labour costs following increases in the National Living Wage (NLW) and employer National Insurance Contributions (NICs), in conjunction with subdued labour demand. Given the high concentration of low-paid jobs in the industry, the resulting cost pressures may have been particularly acute, reducing firms' scope to adjust employment solely through hiring.

The professional, scientific and technical activities industry has also seen fairly low vacancy rates alongside a notable rise in unemployment in recent years (Chart D.2, purple dots in right panel). This shift in labour market dynamics has been associated with both slower hiring and an increase in redundancies. Agency intelligence links this in part to developments in automation and AI, which may have reduced demand for labour. Recruitment in the industry has meanwhile become increasingly concentrated in specialist, high-skill roles, leading to a degree of mismatch between the skills demanded and those held by available workers.

Chart D.2: Some industries appear particularly exposed to further increases in unemployment

Industry-level job vacancy and unemployment rates (a)



Sources: ONS and Bank calculations.

(a) The left panel shows data for the accommodation and food services industry (ONS SIC I) and the right panel shows the professional, scientific and technical activities industry (ONS SIC M). ONS vacancies by industry are plotted against ONS estimates of unemployment by previous industry. The latter will not fully capture new entrants to the labour market who do not find a job as they have no previous industry, nor will it reflect the capacity for workers to transition across industries. The aqua line is a simple linear trend based on the 2001−19 data. Data are available quarterly until 2018 Q1 and are shown monthly (on a three-month rolling average basis) thereafter. The Covid period has been excluded due to data volatility. These data are not seasonally adjusted. The latest data, which are indicated in the white diamonds, are for the three months to February 2026.

The energy price shock will raise input costs for firms, who will need to respond by raising prices, reducing margins or reducing costs (Box B). Intelligence from the Bank's Agents and DMP survey suggests little evidence so far of the energy price shock having affected firms' employment decisions (Box B and Section 1.2), though contacts note that employment and investment plans could be pared back if the shock were to persist or intensify. The outlook for unemployment will depend in part on any monetary and fiscal response to the energy shock.

Risks to the outlook for unemployment appear particularly pronounced for the hospitality sector, including accommodation and food which represents around 7% of total private sector employment. While this industry is not particularly energy intensive, a high share of spending on accommodation and food services is discretionary,

meaning that it is more likely to be cut if household real incomes fall. Consistent with that, the industry experienced a rise in unemployment immediately after the previous energy shock in 2022. And a higher than average proportion of accommodation and food services firms responding to the latest ONS BICS have reported being ‘very concerned’ about energy prices, despite their relatively low use of energy.

There are some reasons to believe that hospitality sector unemployment could rise by more in response to the current energy shock than in 2022. While most aggregate indicators do not point to acute financial stress at present, with limited signs of a sharp pickup in the company insolvency rate or across a range of redundancy indicators, vulnerabilities appear more pronounced in parts of this sector. Industrial breakdowns of Experian data suggest that accommodation and food services has one of the highest shares of firms reporting particularly low cash positions among small and medium-sized enterprises, with around 80% holding cash worth less than one month of turnover, a higher share than in 2022. This may limit these firms’ ability to retain workers in the face of continued demand weakness. Intelligence from the Bank’s Agents suggests that hiring intentions in the hospitality sector have been particularly weak compared with other sectors, which have shown some tentative improvement in recent months.

Overall, the industry-level evidence suggests that labour market loosening has been uneven across sectors and that some industries, such as accommodation and food, may be more vulnerable than others to a further increase in unemployment if demand weakens. Where those industries have already seen a rise in unemployment and vacancy rates are relatively low, there may be fewer opportunities for displaced workers to move quickly back into employment. That could increase the risk that further weakness in demand leads to a larger than expected rise in aggregate unemployment. If workers displaced from these sectors are also less able to move into vacancies elsewhere, some of that increase in unemployment could prove persistent, and may therefore be associated with a smaller increase in effective labour market slack.

Box E: How resilient will household spending be to the rise in energy prices?

The recent rise in energy prices will reduce households' real incomes. Households tend to reduce consumption by less than any falls in their real incomes, especially when those falls are expected to be temporary. This is known as consumption smoothing. As in 2022 following the previous energy price shock, the financial positions of households appear consistent with households collectively having the capacity to partially smooth their consumption through the recent energy price rise. That consumption response is uncertain, however, and perceptions that the rise in energy prices will be permanent or very long-lasting, or that job losses will increase, could mean that spending falls more sharply. Recent increases in expected mortgage rates will also weigh on consumption, in part because higher mortgage payments will weigh on mortgagor households' disposable incomes.

Higher energy prices will reduce real incomes for UK households (Box A). Lower real incomes would typically be associated with lower real household consumption. But declines in consumption are usually smaller than in incomes as households – perhaps expecting the reduction in income to be temporary – tend to partially smooth their consumption in response to the shock. To do this, households may reduce the pace at which they are currently saving, draw down on existing savings or increase borrowing.

The extent of consumption smoothing will partly depend on whether households have available savings to use or are able to access credit. This is the focus of the remainder of the box. But it will also depend on how households expect the income shock to evolve. If households judge the rise in energy prices to be temporary, they may be more willing to maintain their current consumption by using savings or borrowing. Following the initial rise in energy prices in 2022, the aggregate household saving ratio fell from 7.5% to 4% between Q1 and Q2, suggesting that households smoothed through part of the fall in real incomes over that period. The saving ratio rose after that, in part due to the restrictive stance of monetary policy.

As households have experienced a protracted period of high energy prices over recent years, they may be more likely to perceive the latest shock as permanent and consequently to reduce consumption. Periods of higher and more volatile inflation can also increase uncertainty around future real incomes which may further weigh on the consumption of some households (**Mann (2025)**). In addition, working-age households may be less willing to smooth their consumption if they are worried about the risk of job

losses causing further falls in income. Unemployment is higher, and job vacancies lower, than in 2022 (Box D), although the share of households reporting having saved more money due to concerns about job loss in response to the 2026 H1 Bank of England/NMG survey remained low.

The extent of consumption smoothing will be important in determining the impact of the energy shock on demand in the economy and therefore the potential trade-off that the MPC faces between the speed at which inflation is returned to the 2% target while avoiding undesirable volatility in output (Box G).

Do households have enough savings to smooth consumption?

Some households may choose to maintain consumption by saving less. There appears to be capacity overall for households to smooth consumption in this way, although households who save very little – for example those on lower incomes – may not be able to do so. The household saving ratio was 9.9% in 2025 Q4, above historical averages and the 7.5% recorded in 2022 Q1. That suggests there is room for the saving ratio to decline, allowing households to at least partly maintain real consumption even with reduced real incomes.

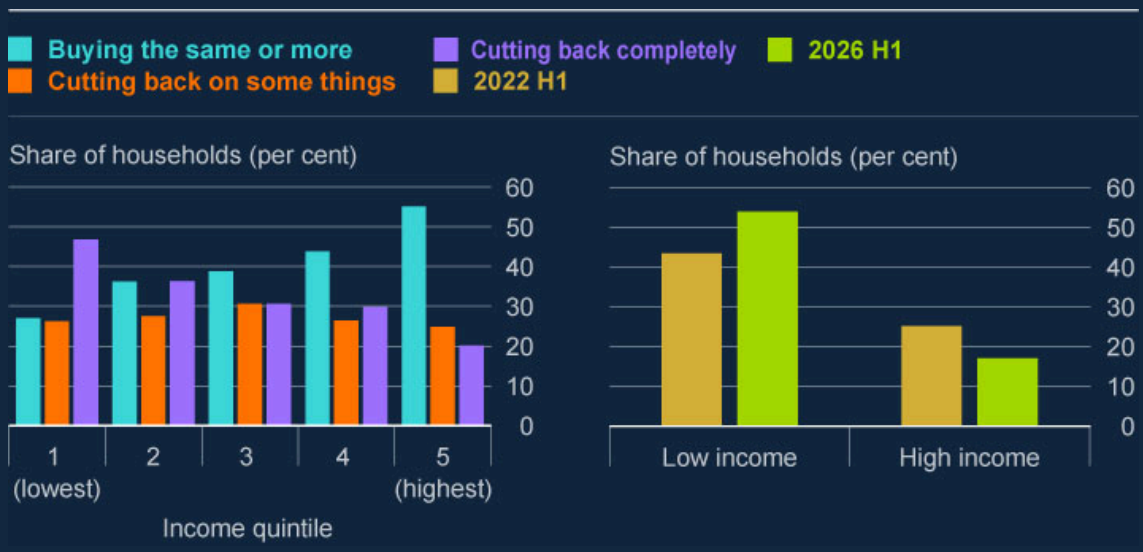
Households may also be able to smooth consumption if they do not face liquidity constraints, for example if they have existing savings to fall back on. In aggregate, the stock of household bank deposits has fallen relative to incomes since it peaked in 2021–22, suggesting less capacity for consumption smoothing than was the case during the 2022 energy price shock. However, aggregate deposits remain higher than pre-pandemic and, according to alternative data on household savings and income from the 2026 H1 NMG survey, the median level of household savings relative to income is slightly higher than in 2022. This evidence also suggests some capacity for households to smooth their consumption through the recent rise in energy prices.

Aggregate data on household savings mask differences across households, however. The rise in energy prices is likely to disproportionately reduce real incomes for lower-income households because utility bills make up a larger-than-average share of their expenditure (Box A). Consistent with that, evidence from the 2022 H2 NMG survey indicates that lower-income households cut back consumption by more than higher-income households after the energy price shock in 2022 (Chart E.1, purple bars in left panel). The share of lower-income households with savings worth less than two weeks of income is greater than in 2022 (Chart E.1, right panel), all else equal suggesting that any reduction in consumption could be greater than during the last energy shock for these households.

Acting in the opposite direction, however, a fall in the proportion of liquidity-constrained high-income households could mean that the overall degree of consumption smoothing is somewhat greater than in 2022. Since 2022, there has been a modest fall in the share of high-income households with savings worth less than two weeks of income (Chart E.1, right panel). Higher-income households account for a disproportionate share of discretionary consumption, which can be more easily reduced than spending on essentials when incomes fall. As such, the fall in the share of higher-income households with few savings could mean that consumption smoothing is somewhat greater than during the previous energy shock.

Chart E.1: Evidence from the 2022 energy price shock suggests that lower-income households experiencing higher costs were more likely to cut spending; there is a lower share of financially insecure high-income households than in 2022

Actions taken by households in response to higher costs; (**a**) share of households with deposits worth less than two weeks of income (**b**)



Sources: Bank of England/NMG survey and Bank calculations.

(a) The data are from the September 2022 NMG survey. The bars show the share of respondents within each quintile of the non-equivalised total household gross income distribution for all households answering how their total spending had been affected by the increase in the cost of living over the past six months, excluding those who responded 'Don't know'. The full responses corresponding to the aqua, orange and purple bars were 'Buying the same things or more, despite higher cost', 'Cutting back on some things but not others, spending more money overall' and 'Cutting back completely, spending the same money or less', respectively.
(b) The data are from the March 2022 and March 2026 NMG surveys. Low and high-income households are defined as those in the lowest fifth and the highest fifth of the non-equivalised total household gross income distribution for non-retired households, respectively. In addition to the standard cleaning procedures applied to each wave of the survey, further targeted cleaning was applied to the data for 2026 H1 to exclude a small number of implausible respondents concentrated in younger age cohorts. Observations with implausibly high income or savings were excluded using thresholds based on the 95th percentile of outcomes observed among prime age respondents. Following these exclusions, survey weights were recalibrated to preserve representativeness.

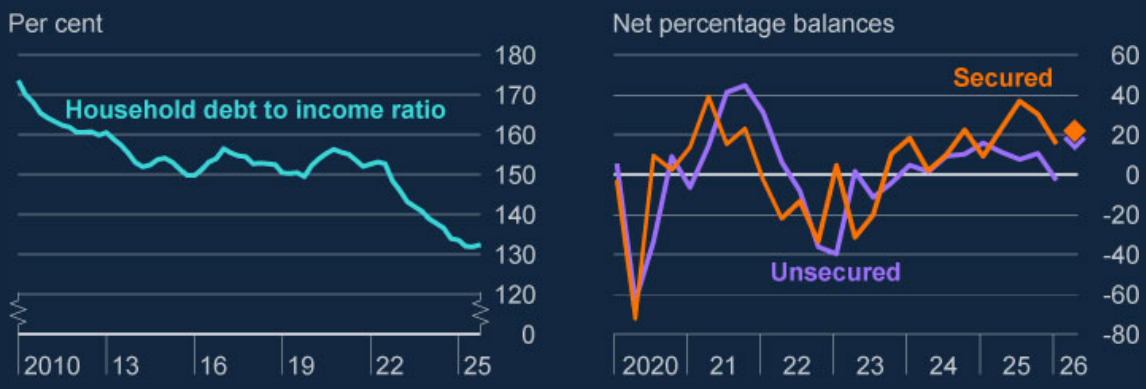
Can households access enough credit to smooth consumption?

Households with few savings or other liquid assets can also use credit to temporarily support consumption. Households' current debt positions appear more favourable than in 2022. Real household debt stocks are lower, and the aggregate debt to income ratio has fallen from around 153% in 2022 Q1 to around 132% in 2025 Q4 (Chart E.2, left panel), primarily driven by a reduction in mortgage borrowing relative to income.

The availability of credit has improved since 2022, which should also help households to smooth consumption. The Bank's **Credit Conditions Survey** (CCS) has shown improvements in lenders' reported availability of both secured and unsecured credit, including credit card borrowing. And the latest expectations, reported for the three-month period to the end of February 2026, point towards a further improvement in credit availability (Chart E.2, diamonds in right panel). Taken together with the reduction in household indebtedness, this suggests that households may collectively have greater capacity than in 2022 to use borrowing to support consumption temporarily.

Chart E.2: Household debt has fallen relative to income since 2022 and the availability of credit has improved

Aggregate household debt to income ratio; (a) household credit availability (b)



Sources: Bank of England, ONS and Bank calculations.

(a) The measure shown is calculated as consumer credit and mortgage gross debt outstanding as a proportion of nominal household post-tax income. Household income is defined as post-tax income adjusted for changes in pension entitlements. This is further adjusted to exclude gross operating surplus and the effects of financial intermediation services indirectly measured, and to add back in interest paid. Mortgage interest payments before 2000 are adjusted for the effect of mortgage interest relief at source. The data are not seasonally adjusted. The final data point is for 2025 Q4.
(b) The results are based on lenders' own responses to the CCS. The question asked was 'How has the availability of secured/unsecured credit provided to households changed?' and respondents were asked to account for normal seasonal variations. The diamonds show expectations over the next three months based on the 2026 Q1 survey. To calculate aggregate results, each lender is assigned a score based on their response. Scores are positive for lenders reporting an increase in credit availability and negative for lenders reporting a reduction in credit availability. Lenders who report that credit conditions have changed 'a lot' are assigned twice the score of those who report that conditions have changed 'a little'. These scores are then weighted by lenders' market shares. The net percentage balances are calculated as the sum of the weighted scores across lenders and are scaled to lie between ±100.

How might recent rises in household interest rates affect consumption?

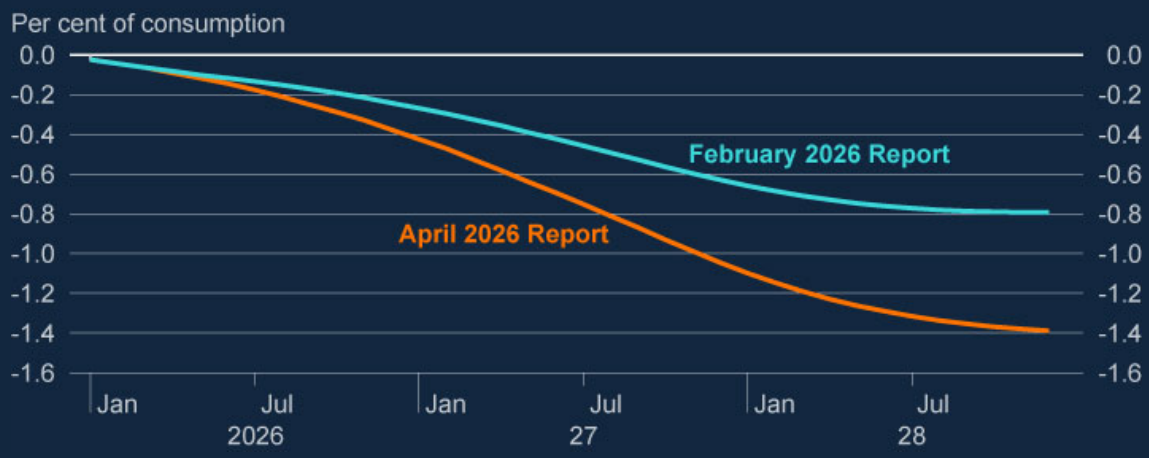
The increased cost of credit, due to recent rises in household interest rates, may affect the outlook for consumption. Higher energy prices have been accompanied by a rise in market-implied expectations for future Bank Rate, which has started to feed through into household borrowing rates (Section 1.3).

One way in which higher rates can lead to lower consumption is via a household debt channel of monetary policy (**Foulis et al (2026)**). This channel captures the negative effects of higher interest rates on house prices, which reduces the extent to which households can borrow by using housing as collateral, and also reduces mortgagor households' disposable incomes due to higher mortgage payments (the cash-flow channel of monetary policy, Box A of the **August 2025 Monetary Policy Report**). As most mortgages are fixed rate, typically refinanced every two to five years, the effects of increases in mortgage rates feed through only gradually to consumption.

The rise in market interest rates is expected to weigh on household consumption relative to expectations at the time of the February Report. A microdata-based estimate of the household debt channel suggests that rises in mortgage rates preceding the onset of the Middle East conflict will continue to feed through to consumption as mortgagors refinance over time and will cumulatively reduce the level of consumption by 0.8% from the start of 2026 to end-2028 (Chart E.3, aqua line). More recent rises in mortgage rates mean that, based on the latest market-implied interest rates, aggregate consumption is now expected to fall by a further 0.6 percentage points as a result of this channel (the difference between the aqua and orange lines).

Chart E.3: The household debt channel is projected to weigh on consumption by more than expected at the time of the February Report

Projected impact of the household debt channel (**a**)



Sources: Bank of England, ClearScore, FCA Product Sales Data (PSD), **Foulis et al (2026)**, Money Dashboard, ONS and Bank calculations.

(a) The data from January 2026 to December 2028 are monthly projections. The latest historical data are from the December 2025 PSD. The projections are informed by the Bank's quoted mortgage rate data. The aqua line is consistent with the central projection in the February 2026 Report, and the orange line is consistent with Scenario A in the April 2026 Report. Conditional on the same market-implied path for Bank Rate as in Scenario A (Section 3.1), the consumption impacts would be similar to the orange line under Scenario B but could be somewhat higher under Scenario C, given that the weaker outlook for unemployment and house prices associated with that scenario could lead to slightly higher expected credit risk, which may be priced into mortgage rates. However, the differences between all three scenarios would be small relative to the impact of changes in the market-implied path for interest rates since the February 2026 Report.

Box F: How are global developments affecting UK non-energy import prices?

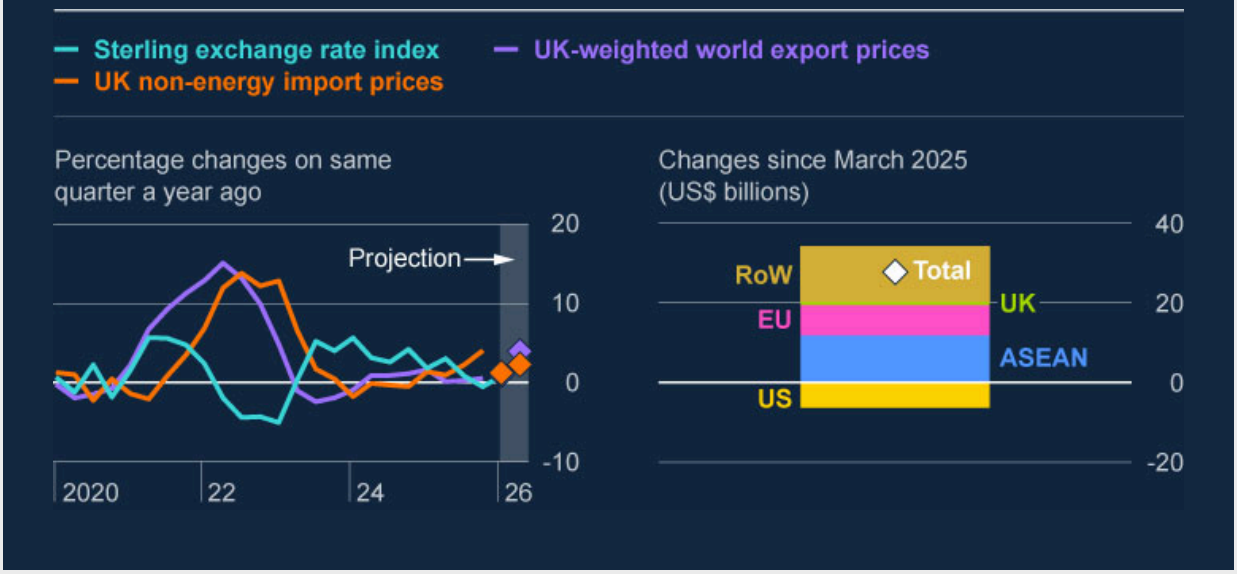
Movements in world export prices affect the cost of goods and services imported to the UK. Over the past year, two important geopolitical developments have influenced the prices charged by foreign exporters to the UK. Higher global trade tariffs are judged to have weighed a little on UK non-energy import price inflation owing to the effects of trade diversion. Any remaining disinflationary effects from higher tariffs are expected to be far outweighed, however, by the impact of the conflict in the Middle East. In addition to raising directly the cost of energy for UK households and businesses, the conflict is expected to increase UK non-energy import price inflation as foreign exporters pass on the higher cost of producing and transporting their goods due to higher energy costs (Section 1.1 and Box A).

Weak world export price inflation weighed slightly on UK non-energy import price inflation over 2025, consistent with some small disinflationary effects from higher trade tariffs. But the conflict in the Middle East is expected to raise UK non-energy import prices materially over coming quarters.

UK-weighted world export price inflation (excluding the direct effect of oil prices) was subdued during 2025, in part due to higher global trade tariffs having led to some trade diversion. The sterling ERI appreciated by 1.3% during that period compared with its average over 2024, and within that rose 3.2% against the dollar and fell 1.2% against the euro. Combined with the weakness in world export price inflation, that weighed on UK non-energy import price inflation (Chart F.1, left panel). The conflict in the Middle East is expected to push up significantly world export price inflation and consequently UK non-energy import price inflation this year, however, more than offsetting any remaining disinflationary effects from trade diversion.

Chart F.1: World export price inflation has been subdued, consistent with some small disinflationary effects from trade diversion

UK-weighted world export prices (excluding the direct effect of oil prices), UK non-energy import prices and the sterling ERI, (**a**) Chinese goods export values by destination (**b**)



Sources: Bank of England, Bloomberg Finance L.P., China Customs – provided by CEIC, Eurostat, LSEG Workspace, ONS and Bank calculations.

(a) UK-weighted world export prices are based on goods and services exports of 51 countries weighted according to their shares in UK imports, each measured in their domestic currency. The sample does not include any major oil exporters (except for the US). The final data point for the UK-weighted world export prices and UK non-energy import prices series is 2025 Q4. The final data point for the sterling exchange rate index series is 2026 Q1. Diamonds show Bank staff projections for UK-weighted world export prices excluding the direct impact of oil and UK non-energy import prices excluding fuel for 2026 Q1–Q2 for Scenarios A and B. The projection for Scenario C would be higher.
(b) The bars show contributions to the change in the value of Chinese goods exports by destination since March 2025. ASEAN stands for the Association of Southeast Asian Nations and RoW stands for rest of the world. The data are shown in US dollars. The data are to March 2026.

Higher global trade tariffs appear to have led to some trade diversion.

Global trade tensions intensified last year, with the US increasing its effective tariff rate on a wide range of countries in March 2025. Bank staff estimate that the global effective tariff on imports to the US is currently around 12% and the effective tariff rate on US imports from the UK is around 9%. The effective tariff rate on US imports from China is around 24%. The slightly lower global tariff rate, relative to what was assumed

at the time of the February Report, reflects the US administration's decision to replace previously imposed tariffs with a new, temporary, uniform 10% tariff on all trade partners on 20 February 2026.

There is tentative evidence that higher global trade tariffs have led to some trade diversion, which has put downward pressure on world export price inflation as exporters have responded to lower demand from the US by attempting to shift some of their trade elsewhere, requiring a fall in the prices of those exports (Box C of the **February 2025 Monetary Policy Report**). The value of Chinese exports to the US has declined, as expected given the increase in US tariffs. There is limited evidence that those exports have been directly diverted to the UK or the European Union, however. While the right panel of Chart F.1 shows that the value of Chinese exports to these areas has risen, separate data suggest that the volume of those exports has not increased significantly above previous trends. This is consistent with Bank staff analysis which found limited evidence of significant shifts in export flows to the UK in previous episodes of higher tariffs (Box D of the **August 2025 Monetary Policy Report**).

There is some evidence of trade diversion to other regions. The value of Chinese exports to ASEAN and RoW has increased since March 2025 (Chart F.1, right panel). While data on Chinese export prices to ASEAN and the RoW are not available, Bank staff estimate that – based on data for Chinese import volumes to the US, euro area and the UK and the fact that Chinese export prices have overall fallen during this period – the price of Chinese exports to ASEAN and the RoW has fallen. That would be consistent with export volumes to those markets having risen.

Rather than trade diversion, the rise in Chinese exports to ASEAN and the rest of the world could be consistent with some rerouting of exports from China or changes to supply chains, whereby Chinese exports reach the US via other countries. Rerouting involves exporting goods originally destined for a market where they would face higher tariffs via a country facing lower tariffs, without a substantial change in where the goods are produced. The changes to trade patterns may also reflect a reorganisation of supply chains whereby instead of exporting the final goods intended for the ultimate destination, intermediate goods are exported to a country that faces lower tariffs and final goods are then exported from there (Box C of the **February 2025 Monetary Policy Report**). Rerouting or changes to supply chains would imply a smaller reduction in overall export demand from global trade tariffs, since these goods are continuing to reach the US. As such it would probably result in smaller disinflationary effects on global export prices compared with trade diversion.

Beyond the effects of trade diversion or possible rerouting, other factors may have contributed to a fall in Chinese export prices over the past year. The decline in Chinese export prices predates the imposition of higher trade tariffs and may reflect weak domestic demand in China as well as the depreciation of the renminbi effective exchange rate index over the first half of 2025.

Overall, trade diversion, alongside a broader decline in Chinese export prices, is likely to have put downward pressure on world export prices and subsequently UK import prices. The effects of US trade tariffs are expected to weigh on world export prices by a further 0.4% over the next three years.

> **The conflict in the Middle East is expected to raise world export price inflation materially, more than offsetting any remaining disinflationary effects from higher trade tariffs.**

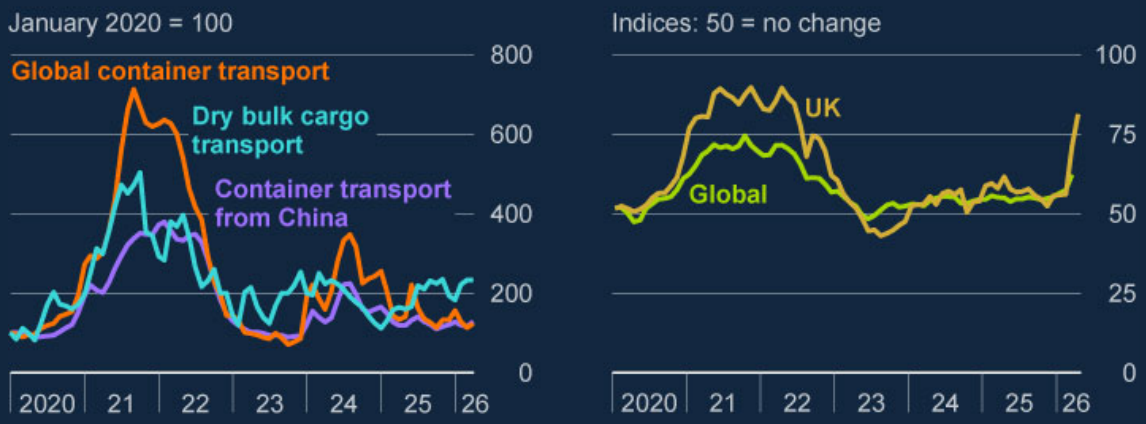
In addition to directly raising the cost of energy (Section 1.1), the conflict in the Middle East has raised the prices of some non-energy goods globally, largely through the indirect effects of higher energy costs. This has already started to feed through to higher world export price inflation. Global agricultural prices have risen by around 4.5% since the start of the conflict, largely owing to the direct effects of rising energy costs (Box A). The conflict has also pushed up prices of key inputs to fertiliser production, including urea, ammonia and sulphur, large volumes of which had passed through the Strait of Hormuz before the start of the conflict. Natural gas, the price of which has increased sharply, is also a key input into fertiliser production. Changes in fertiliser prices pass through to food prices with a lag given the length of harvest cycles. If the conflict were to persist and fertiliser prices to remain high, global food prices would increase further in the medium term.

Some costs of global goods transportation have also increased since the start of the conflict. European jet fuel prices have risen by 87% since then, consistent with around 40% of Europe's jet fuel supply passing through the Strait of Hormuz. Container shipping costs have so far increased only very slightly (Chart F.2, left panel). This may partly reflect the fact that the Strait of Hormuz is not a major route for container shipping and some trade through the Red Sea had already been redirected to alternative routes, such as via the Cape of Good Hope, following Red Sea disruption in 2024 (**May 2024 Monetary Policy Report**). Survey evidence from the S&P Global Manufacturing PMIs suggests that input costs have increased, with the latest UK flash reading only slightly below its 2022 levels (Chart F.2, right panel). That recent increase could partly reflect the widespread nature of the shock, rather than the size of the price rise (Section 1.1).

The conflict is expected to have raised the level of world export prices by around 1% in 2026 Q1. World export price inflation is expected to peak in 2026 Q3 in Scenarios A and B, and in 2026 Q4 in Scenario C. Most of the rise in world export prices over the remainder of this year is judged to be the result of the conflict in the Middle East (Section 3).

Chart F.2: Global transport costs have risen only slightly following the conflict in the Middle East; input costs indices have risen by more

Shipping cost indices and survey indicators of global and UK manufacturers' input costs (**a**) (**b**)



Sources: Baltic Exchange, Freightos Baltic Index, J.P.Morgan, LSEG Workspace, Shanghai Shipping Exchange, S&P Global and Bank calculations.

(a) 'Global container transport' represents the Freightos Baltic Container Index, a global measure of the cost of container transport. 'Dry bulk cargo transport' represents the Baltic Exchange Panamax Index, a measure of average prices paid for the transport of dry bulk cargo around the world on Panamax-sized carriers. 'Container transport from China' represents the China Containerised Freight Index, a measure of the cost of container transport from China. The data are monthly averages of daily data; latest data are to 22 April. The data are not seasonally adjusted.
(b) A reading of above 50 indicates an increase on the previous month while a reading below 50 indicates a fall. The latest data point for the UK series is the flash estimate for April 2026; the latest data point for the Global series is the final estimate for March 2026.

3: Outlook, scenarios and risks

The conflict in the Middle East has significantly increased the uncertainty surrounding the UK economic outlook. Given that uncertainty, this section presents three scenarios to help to illustrate a range of possible outcomes for the UK economy. The scenarios primarily differ in their assumptions about the paths of global energy prices and the extent of any second-round effects on domestic price and wage-setting. They are used to assess the implications of this new economic shock for inflation, activity and aspects of monetary policy strategy.

Across these three scenarios, inflation is higher in the near term than the central projection in the February Report. The outlook varies depending on the magnitude of the energy shock and how that propagates through the economy. Larger and more persistent rises in global energy prices are judged to be likely to lead to bigger second-round effects on inflation. Given the inflationary nature of the energy price shock, the monetary policy stance needs to be tighter on average in these scenarios compared with the central projection in the February Report, and materially so for a scenario in which there is a further sharp rise in energy prices and strongly persistent second-round effects. The appropriate path for Bank Rate will vary depending on how the shock evolves, as well as how the MPC judges the balance between the costs of leaning too little against second-round effects and the costs of responding too much.

3.1: Key assumptions and judgements differentiating scenarios

Since the February 2026 Report and following the onset of the conflict in the Middle East, the UK economy has been hit by a significant energy price shock. There is uncertainty around the severity and duration of the conflict, its impact on global energy supply and broader trade disruption, as well as its propagation through the UK economy, which makes the outlook for inflation and activity highly uncertain.

Recent experience has highlighted the difficulty of forecasting inflation during large and persistent cost shocks. The **Bernanke Review** emphasised the value of using a range of inputs to support policymaking under uncertainty, including considering risks and alternative scenarios.

Against this backdrop, this section presents three scenarios, A, B and C, which help illustrate a range of potential outcomes for the UK economy, without any one being designated as a central projection. MPC members' individual views on how they are taking account of the scenarios are set out in the **April 2026 minutes**.

The scenarios differ along two main dimensions, reflecting the two sources of uncertainty that are particularly important for the outlook at present (Table 3.A). The first is the future paths of global oil and gas prices. Scenarios A, B and C are conditioned on alternative paths for energy prices, reflecting different potential profiles for the severity and persistence of disruptions to global energy supply. The second is the strength of any second-round effects in domestic price and wage-setting, which may themselves be related to the magnitude and persistence of the global energy shock.

All three scenarios are conditioned on a range of other assumptions, including the Government's fiscal plans as set out in Budget 2025. For more information see the **Scenario Projections Databank** accompanying this Report.

They are also conditioned on the market-implied path for interest rates in the 15 days to 22 April; Section 3.3 illustrates the impact of changing that conditioning assumption for scenario outcomes by drawing on some simple policy rules.

Table 3.A: Key assumptions and judgements in scenarios

	Scenario A	Scenario B	Scenario C
Energy prices	Energy prices for oil and gas follow the market futures curves over the scenario period.	Energy prices follow the market futures curves for six months and then follow the average of the futures curves and a constant spot price at six months for the remainder of the scenario period.	Energy prices rise sharply – to a level in the upper tail of option-implied distributions – and remain elevated for a prolonged period.
Second-round effects from new energy shock	No second-round effects from the new energy shock, owing to weaker worker bargaining and firm pricing power stemming from weaker demand, driven by less consumption smoothing than in other scenarios.	Modest additional second-round effects, consistent with some effect on short-term inflation expectations and hence wages.	Stronger and more persistent additional second-round effects, relative to the other scenarios, stemming from a greater effect of the energy shock on inflation expectations and hence wages and prices.

Energy price assumptions

The alternative energy price paths in the scenarios are designed to be illustrative, and reflect heightened unpredictability and uncertainty about the severity and persistence of disruptions to global energy supply.

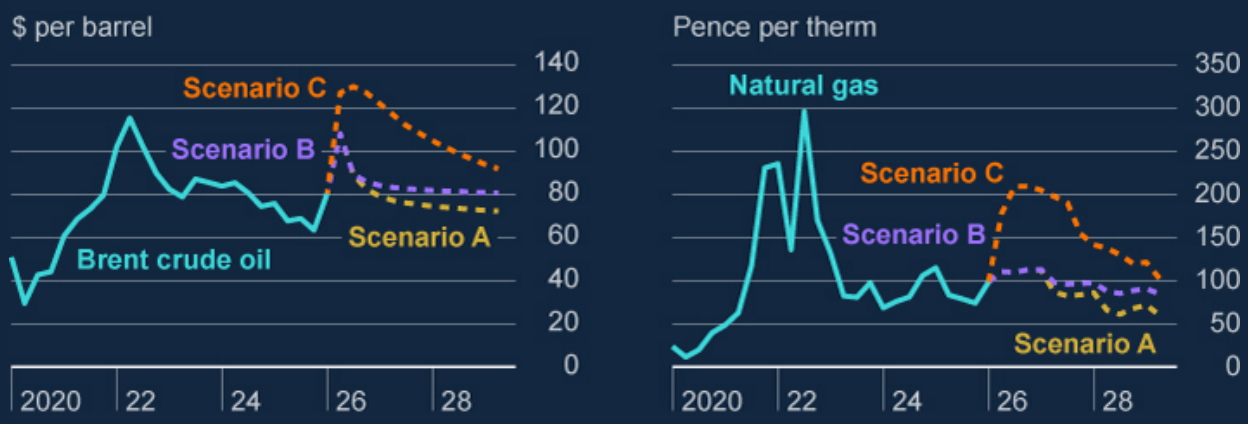
Chart 3.1 illustrates the assumed paths for oil and gas prices under each scenario. In Scenario A, energy prices are conditioned on market futures curves in the 15 UK working days to 22 April 2026, with oil peaking at $108 per barrel this year before falling to below $80 by 2027 Q1 and to $72 by the end of the scenario period (gold line in left panel). Gas prices peak at 114 pence per therm before falling to around 60 pence per therm (gold line in right panel).

Given the risk that energy futures curves understate the potential disruption to energy supply that has already occurred, or might occur in the future, Scenarios B and C assume energy prices remain elevated for longer.

In Scenario B, prices peak at $108 per barrel and 114 pence per therm, the same as in Scenario A, but remain higher over the scenario period. Prices end the scenario period at $81 per barrel and 86 pence per therm, respectively (Chart 3.1, purple lines). In Scenario C, oil prices rise to a peak of $130 per barrel and gas prices to 211 pence per therm (orange lines), consistent with continued substantial disruption to Middle Eastern energy supplies. In the first year, energy prices in this scenario lie in the upper tail of option-implied distributions. Prices decline gradually for the rest of the scenario period and remain higher than in Scenarios A and B for the entire period and end at $92 per barrel and 104 pence per therm.

Chart 3.1: Energy price paths are higher in Scenario C relative to A and B

Brent crude oil (**a**) and natural gas (**b**) price paths in Scenarios A, B and C



Sources: Bloomberg Finance L.P. and Bank calculations.

(a) Historical spot prices are quarterly averages of Brent crude oil prices and are in US dollars. The dashed lines refer to the conditioning assumptions for Scenarios A, B and C, as outlined in Table 3.A. The final data are for 2029 Q2.
(b) Historical spot prices are quarterly averages of Bloomberg UK NBP Natural Gas Forward Day prices and are in sterling. The dashed lines refer to the conditioning assumptions for Scenarios A, B and C, as outlined in Table 3.A. The final data are for 2029 Q2.

Potential impacts of second-round effects

The impact of higher energy prices on UK inflation occurs through direct, indirect and second-round effects on domestic wages and prices, with uncertainty around the second-round effects judged to be substantial for the policy outlook. The extent to which second-round effects are likely to occur is state-dependent and reflects the interaction between the magnitude and persistence of the energy price shock, changes in inflation expectations and the degree of spare capacity in the economy (Box C), as well as the policy response (Box G).

The Committee has drawn on lessons from past experience and a wide range of evidence to better understand and model second-round effects from energy prices (**Mrabet and Page (2023)** and **Forecast Evaluation Report**). But the impact from the new energy shock remains uncertain. The MPC continues to judge that second-round effects from previous shocks are continuing to fade, as set out in the February 2026 Report.

Scenario A assumes that there are no new second-round effects as a result of the increase in energy prices, because slack in the labour market and the relative weakness in demand limits worker bargaining and firm pricing power. The energy shock is also relatively short-lived in

this scenario, reducing the risk of second-round effects. Consumer demand is assumed to fall disproportionately more than has been the case historically, on average. In this scenario, recent economic experience of high inflation induces households to want to hold more liquidity to insure against future shocks (Box E), so households smooth their consumption by less than normal as they see the shock representing a more permanent shift in the price level.

In Scenario B, higher energy prices raise short-term inflation expectations, leading to second-round effects. But those effects are modest, driven in part by a softer labour market and more slack in the economy since the energy shock in 2022, resulting in weaker worker bargaining and firm pricing power. Second-round effects in this scenario have been calibrated using the model in **Bernanke and Blanchard (2023)**, applied to the UK, in which energy price shocks primarily affect inflation persistence via expectations and wage-setting (**Haskel et al (2025)**), although the magnitudes of the effects could instead be judged to be consistent with some degree of firm pricing power. There is no additional demand weakness from lower consumption smoothing in this scenario.

Scenario C is more severe, and so both short and long-term inflation expectations are more sensitive to persistently elevated inflation outturns and drift higher, including because of the experience of previously high inflation in 2022. Firms are assumed to have sufficient pricing power for higher wages and costs to feed through more fully into prices – despite consumption falling in line with the average response to energy price shocks – resulting in materially stronger second-round effects.

In this scenario, the calibration of second-round effects stemming from higher short-term inflation expectations draws from the Bernanke-Blanchard framework as in Scenario B, scaled for the larger size and persistence of the energy shock. To calibrate second-round effects stemming from higher long-term inflation expectations, Bank staff have adjusted **COMPASS**, the Bank's main forecasting model, so that households' and firms' recent experience of high inflation play a greater role in shaping inflation dynamics. This method was also used to calibrate the higher persistence scenario in the November 2025 Report.

Energy price shocks push up world export prices across all scenarios, relative to the February 2026 Report. World export prices rise in line with the scale of each shock in Scenarios A and B, but remain elevated for longer even as energy prices gradually fall from their peaks. In Scenario C, continued substantial disruption to energy supplies encompasses further global supply-chain cost pressures and the larger initial price shocks trigger stronger second-round effects than in Scenarios A and B, as firms pass on higher costs more aggressively to protect margins and workers seek compensating wage increases. This is consistent with the findings of the recent **Forecast Evaluation Report,** which found that, for the 2022 energy shock, world export prices were more persistent and higher than expected.

3.2: Scenario outcomes

This section sets out how inflation and slack in the economy evolve across the three illustrative scenarios. They are all conditioned on the market-implied path for Bank Rate in the 15 days to 22 April (Table 3.B and Chart 3.2), which is significantly higher than in the February Report, peaking at 4.2% in 2027 before gradually falling to 4% by 2028 Q2, relative to a peak of 3.7% in February.

Comparisons to the February 2026 Monetary Policy Report central projection can be found in the **Scenario Projections Databank** accompanying this Report.

Table 3.B: Summary of scenarios (a)

	2026 Q2	2027 Q2	2028 Q2	2029 Q2
Scenario A				
CPI inflation (b)	3.1	2.9	1.5	1.7
GDP (c)	0.7	0.8	1.7	1.8
Excess supply/**Excess demand** (d)	-1.1	-1.5	-1.0	-0.8
Unemployment rate (e)	5.1	5.5	5.4	5.1
Private sector regular average weekly earnings (f)	3.0	3.0	2.5	2.7
Energy prices – direct contribution to CPI inflation (g)	0.5	-0.1	-0.3	0.1
World export prices (h)	3.9	0.4	-0.3	-0.5
Scenario B				
CPI inflation (b)	3.1	3.2	2.0	2.0
GDP (c)	0.7	0.8	1.7	1.7
Excess supply/**Excess demand** (d)	-1.1	-1.4	-1.0	-0.8
Unemployment rate (e)	5.1	5.5	5.4	5.2
Private sector regular average weekly earnings (f)	3.0	3.4	2.9	3.0
Energy prices – direct contribution to CPI inflation (g)	0.5	0.1	-0.1	0.1
World export prices (h)	3.9	1.5	0.4	0.1
Scenario C				
CPI inflation (b)	3.6	5.6	2.9	2.6
GDP (c)	0.7	0.5	1.7	1.8
Excess supply/**Excess demand** (d)	-1.1	-1.7	-1.3	-1.0
Unemployment rate (e)	5.1	5.6	5.6	5.3
Private sector regular average weekly earnings (f)	3.1	4.6	4.6	3.7
Energy prices – direct contribution to CPI inflation (g)	0.6	1.3	-0.5	-0.2
World export prices (h)	5.8	4.5	0.5	-0.2

(a) The numbers shown in this table are conditioned on the assumptions described in Table 3.A and the **Scenario Projections Databank** accompanying this Report. All three scenarios are conditioned on the same market-implied path for Bank Rate.
(b) Four-quarter inflation rate. Based on ONS series D7BT.
(c) Four-quarter growth in real GDP. Based on ONS series ABMI.
(d) Per cent of potential GDP. A negative figure implies output is below potential and a positive that it is above.
(e) International Labour Organization (ILO) definition of unemployment. Based on ONS series MGSX.
(f) Private sector average weekly earnings excluding bonuses and arrears of pay. Based on ONS series KAJ2.
(g) Contribution of fuels and lubricants and gas and electricity prices to four-quarter CPI inflation.
(h) Four-quarter growth in UK-weighted world export prices excluding the direct effect of oil prices.

Inflation

Across all three scenarios, CPI inflation is projected to be significantly higher in the near term than in February, driven by the direct and indirect effects of higher energy prices (Section 1.1 and Boxes A, B and G), and is higher on average across the scenario period.

In Scenario A, CPI inflation rises to 3.6% at the end of 2026 (Chart 3.2, gold line in left panel). Wage growth rises a little in the near term, but eases back to below 3% by 2027 Q3 (Chart 3.4, gold line in left panel), as labour market conditions loosen due to weak activity. As a result, there are no second-round effects from the new shock and domestically generated inflation slows relatively quickly. CPI inflation falls below target at the end of 2027, conditioned on market interest rates in the 15 days to 22 April, and ends the scenario period at 1.7%. This is largely due to the direct impact of energy prices falling back, as well as the impact of persistent slack weighing on inflation.

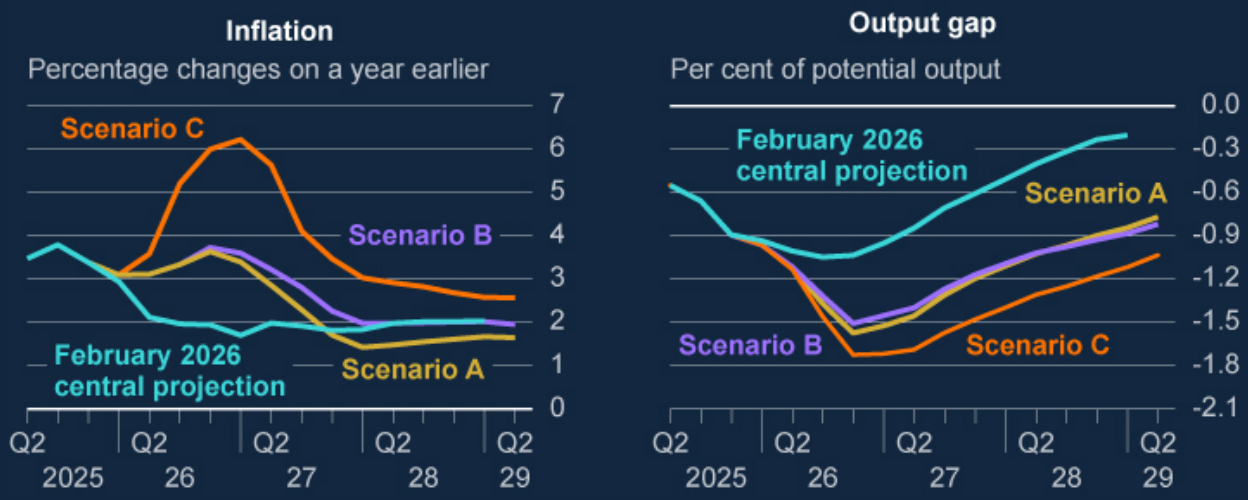
In Scenario B, inflation peaks at similar levels as in Scenario A, at 3.7% at the end of 2026, reflecting similar direct impacts in both scenarios (Chart 3.2, purple line in left panel). Inflation declines as energy prices fall back, but remains elevated for longer in Scenario B due to energy prices falling more slowly (Chart 3.1). Second-round effects are modest (Chart 3.3, purple line), with wage growth rising to 3.5% in 2027 Q1 and declining only gradually thereafter (Chart 3.4, purple line in left panel). Nonetheless, second-round effects add 0.2 percentage points to CPI during the second year of the scenario (Chart 3.3). In contrast, the direct contributions from energy make a negative contribution to inflation over that period. Inflation is around the 2% target in years two and three, conditioned on market interest rates in the 15 days to 22 April.

In Scenario C, inflation peaks at 6.2% in 2027 Q1 and remains above target for the entire scenario period, conditioned on market interest rates (Chart 3.2, orange line in left panel). The direct impact of the pronounced and persistent energy price shock raises inflation by 1.3

percentage points in 2027 Q2. Second-round effects are strongest in this scenario (Chart 3.3, orange line), and wage growth rises and stays significantly higher relative to Scenarios A and B. As a result, inflation persistence is materially higher than in the other scenarios, with inflation ending the scenario at 2.6%.

Chart 3.2: Inflation is higher in the near term and the output gap larger in all Scenarios relative to the February 2026 MPR central projection

Annual CPI inflation and the level of the output gap in Scenarios A, B and C (a)

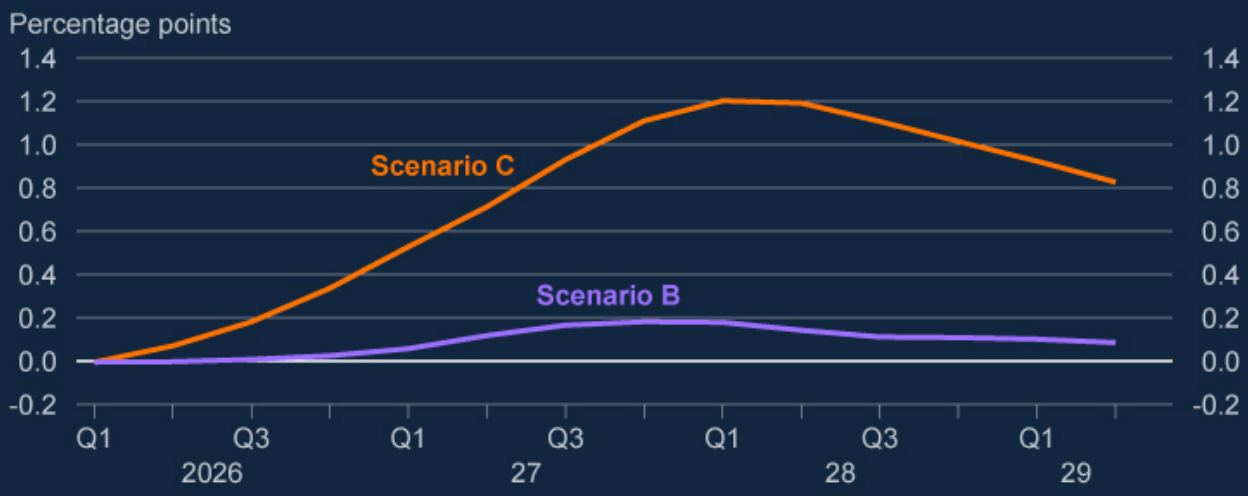


Sources: ONS and Bank calculations.

(a) All three scenarios shown here are conditioned on the same market-implied path for Bank Rate. Further details on conditioning assumptions can be found in Table 3.A and the **Scenario Projections Databank** accompanying this Report. The final projections are for 2029 Q2.

Chart 3.3: The impact of second-round effects on inflation in Scenario C is higher than in Scenario B

Potential additional inflation impacts of second-round effects stemming from the new energy shock (a)



Source: Bank calculations.

(a) Both scenarios shown here are conditioned on the same market-implied path for Bank Rate. Further details on conditioning assumptions can be found in Table 3.A and the **Scenario Projections Databank** accompanying this Report. The final projections are for 2029 Q2.

Activity and slack in the economy

In all scenarios, the output gap is wider than projected in February 2026 (Chart 3.2, right panel), reflecting the impact of tighter financial conditions resulting from the energy shock (Section 1.3), with some impact from energy prices on demand and real incomes too (Section 5 in **Forecast Evaluation Report**). The scenarios are all conditioned on the market-implied path for Bank Rate in the 15 days to 22 April, which is significantly higher than in the February Report.

Unemployment is also projected to be higher across all three scenarios for most of the scenario period relative to February 2026 MPR because of lower demand (Chart 3.4, right panel).

In Scenario A, four-quarter GDP growth slows to 0.5% in 2027 Q1 before recovering to 1.8% by the end of the scenario period. The output gap widens to -1.6% of potential output at the end of 2026, before narrowing later in the scenario (Chart 3.2, gold line in right panel). Reduced consumption smoothing weighs on demand. And while the lack of second-round effects helps to contain domestic cost pressures, supporting a rebound in demand, real

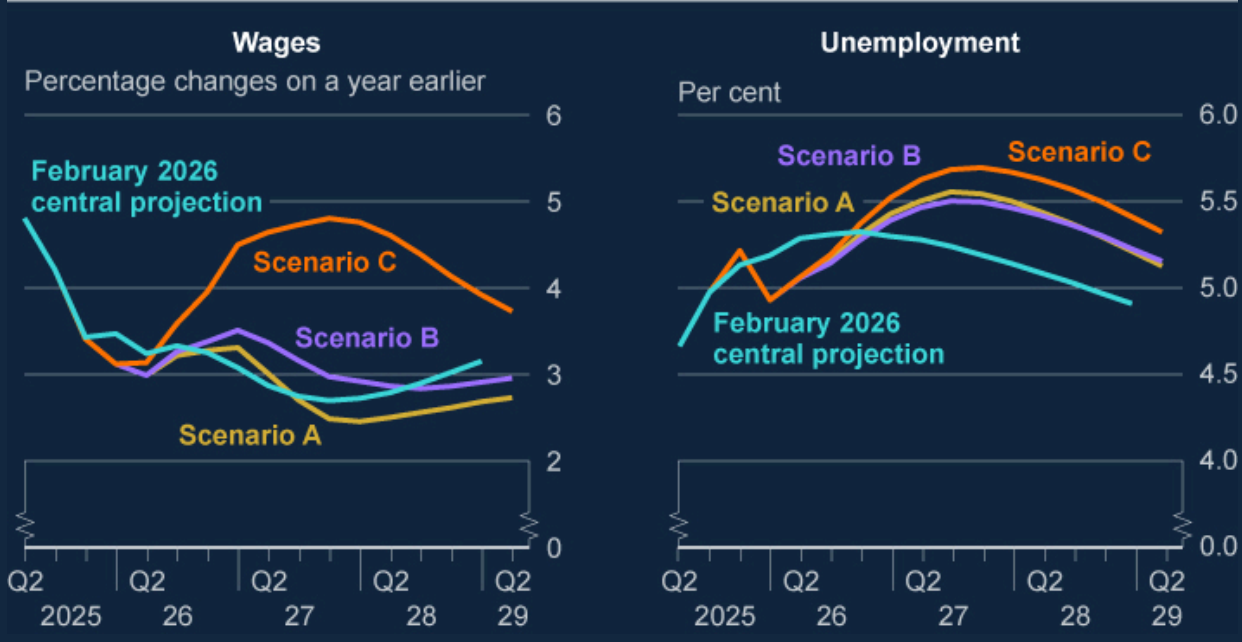
incomes remain permanently lower over the scenario period due to the drag from higher yield curve. The unemployment rate picks up to 5.6% in 2027 Q2 and remains at 5.1% at the end of the scenario.

In Scenario B, four-quarter GDP growth also weakens, falling to a trough of 0.6% in 2027 Q1, before recovering somewhat over the scenario period. The output gap widens to -1.5% of potential output by the end of 2026 and ends the period at -0.8% (Chart 3.2, purple line in right panel). While households smooth consumption more than in scenario A, the hit to real income from the energy price shock is larger, which weighs on demand. As a result, the unemployment rate rises, peaking at 5.5% in 2027, before declining to 5.2% at the end of the scenario period.

In Scenario C, the combination of high and persistent energy prices, elevated global export prices and strong second-round effects, alongside the impact of the higher yield curve, results in a marked deterioration in activity. Four-quarter GDP growth falls to 0.3% in 2027 Q1. The output gap widens to -1.7% of potential output by the end of 2026, remaining significantly negative for an extended period (Chart 3.2, orange line in right panel). Despite weaker demand and real incomes falling materially in Scenario C, inflation remains elevated for longer (Chart 3.2, orange line in left panel), reflecting the strength and persistence of domestic wage and price pressures. The unemployment rate peaks at 5.7% and ends the scenario period at 5.3%, a little higher than in Scenarios A and B.

Chart 3.4: Wage growth rises more in Scenario C relative to A and B; and unemployment is higher for most of the period in all scenarios relative to the February 2026 Report

Private sector regular pay growth and the unemployment rate in Scenarios A, B and C (a)



Sources: ONS and Bank calculations.

(a) All three scenarios shown here are conditioned on the same market-implied path for Bank Rate. Further details on conditioning assumptions can be found in Table 3.A and the **Scenario Projections Databank** accompanying this Report. The final projections are for 2029 Q2 and use the ILO definition of unemployment.

3.3: Model-based policy simulations

Monetary policy typically looks through the direct effects of energy shocks and partially looks through indirect effects but responds to second-round effects (Box G). In response to supply shocks like an energy supply shock, monetary policy strategy must also factor in the trade-off between the speed with which inflation is returned to target and the consideration that should be placed on the variability of output.

Illustrative policy rules, which relate Bank Rate to developments in certain economic variables, can provide some information about potential paths for Bank Rate for different scenarios.

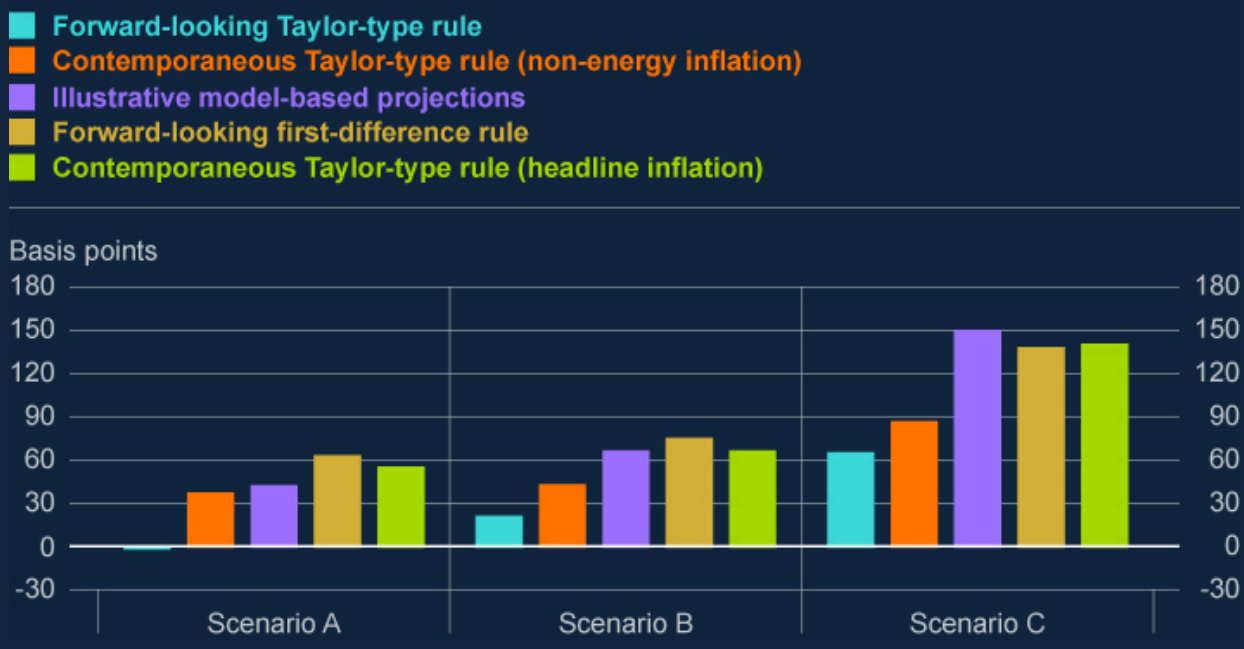
Compared to the central projection in the February Report, under almost all of the illustrative rules produced by Bank staff, Bank Rate is higher on average over the period in all scenarios because of the inflationary impact of the energy price shock (Chart 3.5). However, the extent to which it is higher depends on the scenario and the policy rule considered.

For example, a forward-looking Taylor-type rule in effect looks through the near-term increase in inflation but responds to the medium-term outlook, including the impact of base effects and future declines in energy prices in these scenarios, which means that it tends to result in relatively low paths for Bank Rate across scenarios (Chart 3.5, aqua bars). A contemporaneous Taylor-type rule that excludes the direct contributions of energy prices to inflation would only look through the direct effects of the energy price shock, producing somewhat higher paths for Bank Rate (orange bars). Meanwhile, a contemporaneous Taylor-type rule that responds to headline inflation would also respond to direct effects, resulting in materially higher Bank Rate paths (green bars).

Between the February Report and the April Report, the market-implied path for Bank Rate has shifted up by around 55 basis points on average over the next three years. That increase is within the range of changes in Bank Rate paths suggested by the rules for Scenario B over the same period (Chart 3.5). The changes suggested by the policy rules for Scenario A are somewhat lower, on average.

Chart 3.5: Compared to the central projection in the February Report, monetary policy would have to be tighter across different rules and scenarios

Average change in Bank Rate path over the scenario period compared to the same illustrative rule for the central projection in the February Report (**a**)



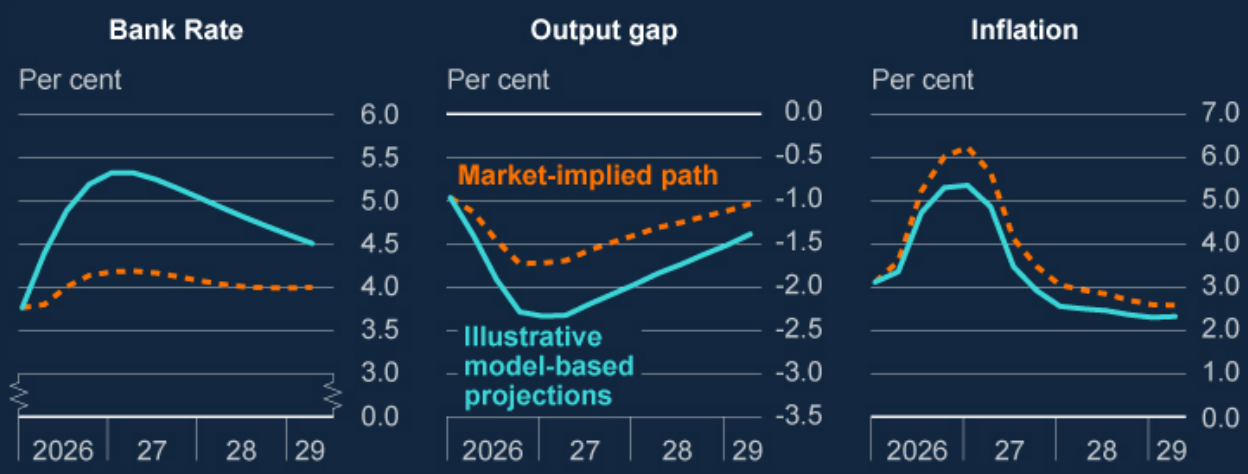
Source: Bank of England.

(a) Annex 1 provides additional detail on the definition of the policy rules shown here and the equivalent paths for the output gap and inflation. These should not be interpreted as a prescription for how policy is likely to evolve.

In Scenario C, the path for Bank Rate is materially higher than the market-implied path in most illustrative policy rules produced by Bank staff, given the outlook embodies persistent and material second-round effects which policy needs to act to offset. In staff's illustrative model-based projections for Scenario C, for example, Bank Rate rises to around 5.25% by 2027 Q1 (Chart 3.6, left panel), which reduces the projected inflation peak in this scenario and subsequently returns inflation towards the 2% target more quickly than under the market-implied path (Chart 3.6, right panel). This would come at the cost of a larger output gap (Chart 3.6, middle panel) and would raise the risk of a recession. In practice, monetary policy makers would have to judge the balance between the costs of leaning too little against second-round effects and the costs to output of responding too much. If there are signs of stronger second-round effects, policymakers may want to put relatively more weight on stabilising inflation in order to ensure that changes in price and wage-setting behaviour do not become entrenched (Box G).

Chart 3.6: Bank Rate may need to rise materially in Scenario C to ensure that inflation returns to the 2% target in the medium term

Scenario C under the market-implied path for Bank Rate and staff's illustrative model-based projections (a)



Sources: Bank of England and Bloomberg Finance L.P.

(a) Annex 1 provides additional detail on the definition of the illustrative model-based projections shown here. These should not be interpreted as a prescription for how policy is likely to evolve.

All illustrative policy paths assume that monetary policy makers know which scenario is going to unfold. In reality, there is uncertainty so, as well as considering what would be the appropriate policy response for different scenarios, policymakers can also assess whether and how to set policy robustly across a range of possible scenarios. Over time, the MPC can monitor the economic outlook to update its view of the risks around it and the appropriate policy strategy.

Box G: How should monetary policy respond to an energy price shock?

An increase in global energy prices raises UK CPI inflation in the near term. That higher inflation can lead to second-round effects in domestic wage and price-setting, which may generate persistent inflationary pressures in the medium term. At the same time, an energy shock reduces UK households' real incomes, which could weigh on demand. Monetary policy typically does not respond to the near-term effects of an energy shock on inflation but leans against any second-round effects to ensure that inflation returns to target in the medium term. Because energy shocks can push up inflation and weigh on activity, monetary policy should consider how best to manage a trade-off between the speed with which inflation is returned to target and the consideration that should be placed on the variability of output.

How does an increase in energy prices matter for monetary policy decisions?

The MPC is tasked with setting UK monetary policy to maintain price stability, defined by the 2% CPI inflation target which applies at all times. The **MPC's Remit** also recognises, however, that inflation will sometimes depart from its target because of shocks and disturbances, and that 'attempts to keep inflation at the inflation target in these circumstances may cause undesirable volatility in output due to the short term trade-offs involved'. A sharp increase in energy prices is a textbook example of such a shock, as it increases inflation while putting downward pressure on demand.

Energy prices are set on global markets and cannot be affected materially by UK monetary policy. The UK economy is a net energy importer, which means that an increase in global energy prices is an adverse terms of trade shock because one of the UK's key imports has become more expensive. Monetary policy cannot offset this. Some combination of UK firms, households, and the government must absorb the resulting loss of real income. The task for monetary policy is to ensure that, as that adjustment happens, inflation returns sustainably to the 2% target in the medium term.

Energy prices affect UK inflation through several channels, with different potential implications for monetary policy (Table G.A). The direct effect from pass-through of changes in global energy prices to the motor fuel and utility prices faced by UK households is relatively quick. Energy price increases also have indirect effects on inflation because energy is an important input to the production of many goods and services. These indirect effects tend to come through somewhat more slowly (Box A).

Table G.A: Global energy shocks can affect UK CPI inflation through several channels

Channel	Mechanism	Typical speed	Effect on inflation	Policy response
Direct effects	Increase in motor fuel prices and household utility prices	Fuel: < 1 month Utilities: 3–6 months		Look through
Indirect effects	Energy cost increases propagate through supply chains to other consumer prices	3–24 months		(Partially) look through
Second-round effects	Increases in prices beyond direct and indirect effects via higher inflation expectations and wage bargaining	12–36 months		Tighten policy
Real income effects	(Expected) lower real incomes weigh on demand	12–36 months		Loosen policy/ Trade off

Second-round effects can arise if the increase in energy prices generates persistently higher inflationary pressures in domestically set wages and prices (Box C). This could be driven by forward-looking increases in inflation expectations or by backward-looking real wage and profit resistance (**Pill (2026)**).

Meanwhile, the decline in real incomes due to the energy shock could lead households to reduce consumption, weighing on economic activity (Box E).

> **Monetary policy often looks through the direct effects of energy shocks on inflation.**

Monetary policy usually looks through the direct effects of an energy shock on inflation. That is mainly because monetary policy works with transmission lags, which make it difficult to lean against direct effects (**Bandera et al (2023)**). Estimates in the literature vary, but many studies find that the peak impact of monetary policy on inflation comes after around 18 to 24 months (**Christiano et al (1999)**, **Romer and Romer (2004)**, **Bernanke et al (2005)** and **Cloyne and Hürtgen (2016)**). So, by the time the impact of tighter monetary policy would be at its peak, the direct effect of an energy shock has usually already dropped out of the annual inflation calculation or reversed. This means

that a policy response large enough to offset direct effects would be likely to push inflation materially below target in the medium term, resulting in undesirable volatility in inflation and output.

But even if monetary policy lags were much shorter, it may not be optimal to respond to the direct effects of an energy shock on inflation. UK monetary policy cannot materially affect global energy prices, so offsetting the direct effect of an energy price shock would require pushing down domestic core inflation and wage inflation. This would create a larger output gap, an increase in unemployment and a decline in real wages (**Broadbent (2021)** and **Tenreyro (2022)**). Looking through the direct effects of an energy shock avoids such output volatility, as the MPC's Remit suggests may be preferable.

> **Monetary policy may want to partially but not fully look through the indirect effects of an energy shock on inflation.**

Monetary policy transmission lags can also make it difficult to respond to indirect effects. But because indirect effects tend to come through somewhat more slowly than direct effects, the argument is less clear cut. A policymaker who places weight on studies that find relatively short monetary policy lags (**Cesa-Bianchi et al (2020)** and **Buda et al (2025)**) may be inclined to lean against indirect effects. And, if energy cost increases propagate through supply chains with relatively long lags, an argument for leaning against them could become stronger. Protracted indirect effects following a large energy cost increase could keep inflation above target for some time, which could raise inflation expectations. By leaning against this, a tighter monetary policy stance could mitigate the development of second-round effects to some extent.

In response to an increase in energy prices, the prices of goods that are energy-intensive in their production should rise relative to the prices of less energy-intensive goods. This would encourage consumption to shift towards sectors where inputs are cheaper insofar as that is possible, reducing the economy-wide use of energy. In principle, relative prices could adjust by the prices of energy-intensive goods rising or by the prices of less energy-intensive goods falling. But when there are downward nominal rigidities that prevent prices or wages from falling, it is easier to achieve the relative price adjustment through price increases in energy-intensive sectors. This means that by looking through the indirect effects of energy shocks and letting core inflation rise, monetary policy can promote the efficient reallocation of resources across sectors and avoid any reductions in aggregate production and consumption due to an inefficient use of resources (**Guerrieri et al (2021)** and **Rubbo (2023)**).

Allowing core inflation to rise also means that many firms within each sector will have to adjust their prices, however, which would not be the case if monetary policy offsets the indirect effects of an energy shock. This can generate inefficient temporary distortions between the prices of goods with the same energy-intensity of production, because different firms reset prices and wages at different times (**Aoki (2001)**, **Woodford (2003)** and **Benigno (2004)**). To strike a balance between promoting efficient relative price adjustments between sectors, but limiting inefficient price dispersion within sectors, monetary policy may want to partially but not fully look through indirect effects (**Guerrieri et al (2023)**).

Monetary policy must lean against second-round effects.

Monetary policy must lean against second-round effects to ensure that inflation returns to the 2% target sustainably. But the size of any second-round effects that emerge in response to an energy shock is uncertain. A small and short-lived energy shock might not generate any significant second-round effects. But the larger and the more persistent the shock is, the more likely such effects are to arise, for example because the shock pushes inflation above thresholds where additional persistence has historically taken hold (Box C). And second-round effects are more likely to arise if a sequence of shocks keeps inflation above target for an extended period, as was the case in 2020–23. The strength of second-round effects is also likely to depend on the extent of spare capacity in the labour market (Box D) and could be affected by people's recent experience of inflation.

In practice, it is difficult to judge when and how strongly monetary policy should respond to second-round effects. Because monetary policy works with material transmission lags, it could be costly to wait for conclusive evidence of the strength of second-round effects, given that some of this evidence will only emerge with a delay as wage settlements – that are typically annual – are announced and consumer prices reset (Section 1.1). This means that, by the time policymakers can be certain about the strength of second-round effects, those effects may already have become entrenched.

When there is uncertainty about the strength of inflation persistence, it may be better to err on the side of setting policy as if inflation persistence will be significant (**Söderström (2002)**). By leaning against potential second-round effects to stop them from becoming entrenched, monetary policy can reduce the uncertainty about their size. Setting policy as if second-round effects will not emerge could run the risk of needing to tighten policy by more in the future to squeeze out entrenched inflation persistence, at a potentially larger cost to output.

Responding early to expected second-round effects also has potential costs, however. If second-round effects turn out smaller than anticipated, inflation may drop below the 2% target in the medium term as the energy shock fades and tight monetary policy overly suppresses demand.

Monetary policy makers have to balance these risks by monitoring indicators of potential second-round effects. They are required to judge continually whether sufficient evidence has accumulated to take action in order to prevent second-round effects from becoming entrenched (Monetary Policy Overview).

> **Monetary policy must consider how best to manage any trade-off between the speed with which inflation is returned to target and the consideration that should be placed on the variability of output.**

Energy shocks can generate second-round effects that increase inflationary pressures in the medium term, but they also weigh on demand, which can result in more slack in the economy and an increase in unemployment. This means that, subject to returning inflation to the 2% target in the medium term, monetary policy faces a trade-off: all else equal, higher inflationary pressures would require a tighter monetary policy stance, while more slack could motivate a looser monetary policy stance.

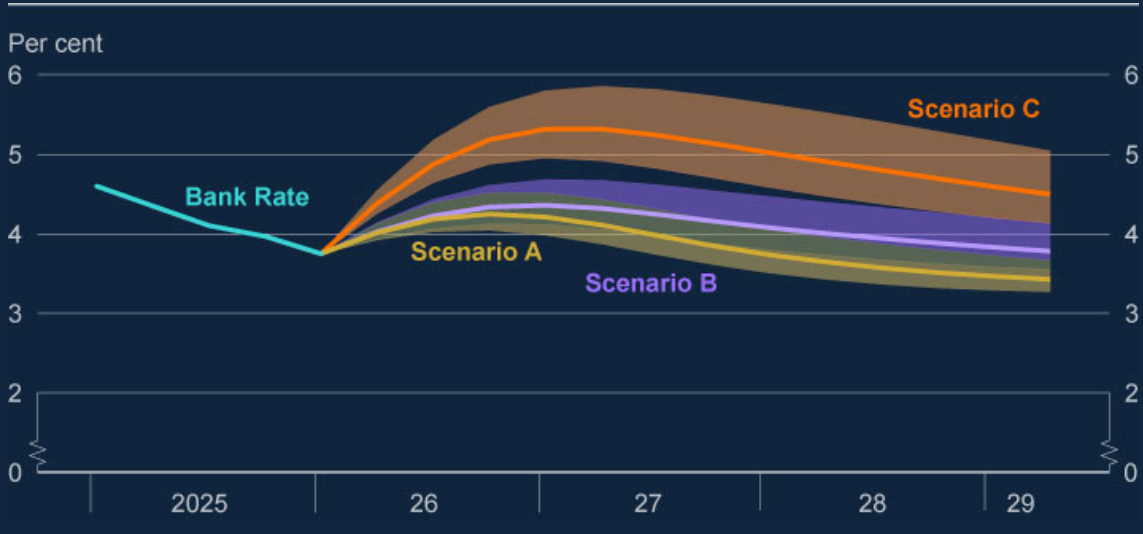
The size and persistence of an energy shock, the strength of any resulting second-round effects on inflation, and the response of demand to the shock will determine the severity of the trade-off that monetary policy faces. The three scenarios set out in Section 3 illustrate that a larger or more persistent increase in energy prices is likely to lead to both larger second-round effects and greater slack, making the trade-off more acute and long-lasting (Chart 3.2). But there are also uncertainties about the impact of other factors on the emergence of second-round effects, such as the starting point for inflation, households' and firms' recent inflation experience, the extent of slack in the economy, and beliefs about how monetary policy makers will react.

How monetary policy makers choose to manage this trade-off depends on the weight they place on the variability of output relative to the speed at which inflation is returned to the target. Some policymakers may want to provide more support to output than others, at the cost of returning inflation to target somewhat more slowly. Policymakers' preferences may also change over time, as economic developments can change the appropriate time over which inflation is returned to target. The weight placed on output stabilisation relative to inflation stabilisation is often captured in policy projections by the parameter 'lambda' (**Carney (2017)**): a lower lambda means that a policymaker is focused on returning inflation to target more quickly and is willing to tolerate more output variability to achieve this.

Varying lambda in Bank staff's model-based projections illustrates that policymakers who broadly agree on the economic outlook may nevertheless prefer materially different policy stances if they have different views on how best to manage the trade-off. An illustrative exercise, shown in the swathes in Chart G.1, shows how Bank Rate could evolve in the three scenarios discussed in Section 3 depending on different policymaker preferences. The lower bound of each swathe traces a policy path for the scenario if the policymaker cares half as much about output stabilisation as they do about inflation's deviation from the target, while the upper bound is the path for a policymaker who only cares about stabilising inflation. These exercises suggest policy paths that differ from the market curve and do not necessarily reflect policymakers' assessment of the appropriate path of policy. Nevertheless, they illustrate that different preferences on how to manage trade-offs can lead to different policy paths: the swathes are between 50 basis points and 100 basis points wide across the scenarios. The swathe around Scenario C is wider than the swathes around Scenarios A and B, which reflects that the trade-off is more acute in the former than in the latter two scenarios.

Chart G.1: Policy decisions will be affected by policymakers' views on the trade-off between the speed with which inflation returns to target and output volatility

Illustrative model-based policy projections (a)



(a) Annex 1 provides additional detail on the definition of the illustrative model-based projections shown here and the equivalent paths for the output gap and inflation. These should not be interpreted as a prescription for how policy is likely to evolve. The solid lines are based on Bank staff's standard calibration with $\lambda = 0.25$, while the swathes around the solid lies are based on $\lambda = 0$ and $\lambda = 0.5$.

Evidence on whether the economy is evolving in line with any particular scenario or not will emerge only gradually. This means that it may not be appropriate to set policy with only one preferred scenario in mind. For example, a policymaker who expects Scenario A to unfold but places some weight on the risk of large second-round effects if Scenario C materialises might want to lean against that risk by setting somewhat tighter policy than their reaction function for Scenario A alone would suggest. In contrast, a policymaker who places little to no weight on this risk may not want to insure against it, but would need to stand ready to adjust policy quickly if needed.

Should clear signs emerge that an adverse energy shock is leading to large second-round effects, policy would have to be tightened materially. Given the primacy of price stability in the MPC's Remit, policymakers may choose to operate with a temporarily lower lambda, tolerating more output variability to ensure that inflation expectations remain anchored and inflation returns sustainably to the 2% target. A policymaker's lambda may be state-dependent.

Annex 1: Model-based policy simulations

Endogenous policy simulations are model-based exercises that account for systematic feedback between monetary policy and economic outcomes, in both directions. As described in **Alati et al (2025)**, Bank staff regularly analyse a range of endogenous policy simulations, drawing on simple illustrative policy rules and so-called optimal policy projections[1] (OPPs). These exercises show how alternative policy approaches affect the economic outcomes that can be achieved within a macroeconomic model and can assess how a given approach performs in alternative scenarios.

While a useful input to the monetary policy process, there is no mechanical link between endogenous policy simulations and real-world monetary policy decisions. The tools are stylised and simplified, so do not reflect the full set of information and uncertainties with which policymakers are faced.

Alternative approaches to endogenous policy

Bank staff typically consider two approaches to endogenous policy. Under simple policy rules, policy is set mechanically according to a reaction function that includes a small number of macroeconomic factors. Under OPPs, policy paths are constructed to minimise a loss function intended to capture policymakers' preferences over macroeconomic outcomes. Both approaches recognise the remit of the Bank of England. The two approaches have different merits and limitations, discussed further in **Alati et al (2025)**.

Table A1.A provides expressions for four simple policy rules, specified with Bank Rate and rates of inflation in annual terms. i_t denotes annualised nominal Bank Rate, averaged over quarter t. The right-hand side variables in the rules include: year-on-year CPI inflation in the current quarter and projections three and five quarters ahead π_t, $\pi_{t+3|t}$ and $\pi_{t+5|t}$; year-on-year CPI inflation minus the contribution of direct-energy components π_t^N; the output gap in the current quarter and five quarters ahead, y_t and $y_{t+5|t}$; and year-on-year GDP growth three quarters ahead $\Delta^4 GDP_{t+3|t}$. For these simulations, i^* is constant and assumed to be 3% annually, consistent with 2% annual CPI inflation (π^*) and an illustrative long-run trend equilibrium annual real rate of 1%.

Table A1.A: Specification and calibration of simple policy rules in annualised terms

Policy rule	Specification
Contemporaneous Taylor-type rule (headline inflation)	$i_t = 0.85i_{t-1} + 0.15(i^* + 1.5(\pi_t - \pi^*) + 0.5y_t)$

[1] Elsewhere in the April 2026 Report, these are referred to as illustrative model-based projections to avoid the suggestion that they are preferable to any other endogenous policy simulations.

Policy rule	Specification
Contemporaneous Taylor-type rule (non-energy inflation)	$i_t = 0.85i_{t-1} + 0.15(i^* + 1.5(\pi_t^N - \pi^*) + 0.5y_t$
Forward-looking Taylor-type rule	$i_t = 0.85i_{t-1} + 0.15\big(i^* + 1.5(\pi_{t+5\|t} - \pi^*) + 0.5y_{t+5\|t}\big)$
Forward-looking first-difference rule	$\Delta i_t = 0.5\big(\pi_{t+3\|t} - \pi^*\big) + 0.5\Delta^4 GDP_{t+3\|t}$

The first two rules in Table A1.A are variants of the 'Taylor rule' (**Taylor (1993)** and **Taylor (1999)**). They relate the level of Bank Rate to the level of inflation (or its subcomponents) and the amount of excess supply or demand in the economy. The first rule considers headline annual CPI inflation and the second considers headline annual CPI inflation minus the contribution from direct energy components. The third rule is 'forward-looking', containing five-quarter-ahead projections of macroeconomic variables on the right-hand side, as in **Batini and Haldane (1999)**. The fourth rule in the table is a variant of a 'first-difference' rule (**Orphanides (2003)**). It relates the change in Bank Rate to changes in demand and deviations of inflation from target.

Staff have made changes to the specification and parametrisation of the rules shown in Table A1.A relative to the November 2025 and February 2026 Reports, as they adapt model-based inputs to policymaking. First, staff have added the contemporaneous Taylor-type rule with headline inflation to the set of rules. Comparing this to the contemporaneous Taylor-type rule with non-energy inflation can illustrate the macroeconomic implications of policy responding to different components of inflation. Second, in adding this rule – which is closer to the original **Taylor (1993)** specification – staff have lowered the coefficient on the output gap (from 2 to 0.5 in annualised space) to align more closely with the original parametrisation. This change has been applied to all Taylor-type rules for consistency. Third, staff have increased the coefficients in the forward-looking first-difference rule to explore more responsive paths for Bank Rate.

OPPs are simulated using a loss function that weighs up deviations of inflation from target, variation in the output gap and changes in interest rates. In this Report, the OPPs are calibrated with a weight on output-gap stabilisation relative to inflation stabilisation, λ, of 0.25 and a weight on interest-rate smoothing, δ, of 60. As **Alati et al (2025)** describe, Bank staff carry out endogenous policy simulations using a variant of COMPASS, the Bank's medium-scale DSGE model described in **Albuquerque et al (2025)**.[2]

[2] In addition to the variables entering the rules in quarterly terms, input data are transformed into 'model' variables via detrending (explained in Section 3.2 of **Albuquerque et al (2025)**), such that the rule strictly holds only for 'model' variables.

Illustrative endogenous paths for alternative projections

Section 3 of the Report discusses a subset of illustrative endogenous paths salient to the current conjuncture. Tables A1.B–D report illustrative paths for Bank Rate in the scenarios for the full range of endogenous policy approaches discussed in this Annex, alongside the market-implied path that underpins those scenarios. Tables A1.E–G and Tables A1.H–J report corresponding illustrative projections for seasonally adjusted annual CPI inflation and the output gap, respectively.

Table A1.B: Illustrative paths for Bank Rate in Scenario A (per cent)

	Scenario A (Bank Rate)					
	Contemporaneous Taylor-type rule (headline inflation)	Contemporaneous Taylor-type rule (non-energy inflation)	Forward-looking Taylor-type rule	Forward-looking first-difference rule	Optimal policy projection	Memo: under market path
2026 Q2	3.8	3.8	3.8	4.0	4.0	3.8
2026 Q3	4.0	3.9	3.7	4.2	4.2	4.0
2026 Q4	4.2	4.0	3.6	4.3	4.2	4.1
2027 Q1	4.3	4.2	3.5	4.2	4.2	4.2
2027 Q2	4.4	4.3	3.4	4.0	4.1	4.2
2027 Q3	4.3	4.3	3.3	3.9	4.0	4.2
2027 Q4	4.0	4.1	3.3	3.9	3.8	4.1
2028 Q1	3.8	3.9	3.2	3.9	3.7	4.1
2028 Q2	3.6	3.8	3.2	3.9	3.6	4.0
2028 Q3	3.5	3.7	3.2	3.9	3.6	4.0
2028 Q4	3.4	3.6	3.2	3.9	3.5	4.0
2029 Q1	3.3	3.5	3.2	4.0	3.5	4.0
2029 Q2	3.3	3.4	3.2	4.0	3.4	4.0

Table A1.C: Illustrative paths for Bank Rate in Scenario B (per cent)

	Scenario B (Bank Rate)					
	Contemporaneous Taylor-type rule (headline inflation)	Contemporaneous Taylor-type rule (non-energy inflation)	Forward-looking Taylor-type rule	Forward-looking first-difference rule	Optimal policy projection	Memo: under market path
2026 Q2	3.8	3.8	3.9	3.9	4.0	3.8
2026 Q3	3.9	3.8	3.9	4.1	4.2	4.0
2026 Q4	4.1	4.0	3.8	4.2	4.3	4.1
2027 Q1	4.3	4.1	3.7	4.2	4.4	4.2
2027 Q2	4.4	4.2	3.7	4.1	4.3	4.2
2027 Q3	4.3	4.3	3.6	4.1	4.2	4.2
2027 Q4	4.2	4.2	3.6	4.1	4.2	4.1
2028 Q1	4.0	4.0	3.5	4.1	4.1	4.1
2028 Q2	3.9	3.9	3.5	4.1	4.0	4.0
2028 Q3	3.8	3.8	3.4	4.2	3.9	4.0
2028 Q4	3.7	3.8	3.4	4.2	3.9	4.0
2029 Q1	3.6	3.7	3.4	4.3	3.8	4.0
2029 Q2	3.5	3.5	3.4	4.3	3.8	4.0

Table A1.D: Illustrative paths for Bank Rate in Scenario C (per cent)

	Scenario C (Bank Rate)					
	Contemporaneous Taylor-type rule (headline inflation)	Contemporaneous Taylor-type rule (non-energy inflation)	Forward-looking Taylor-type rule	Forward-looking first-difference rule	Optimal policy projection	Memo: under market path
2026 Q2	3.9	3.8	4.1	4.3	4.4	3.8
2026 Q3	4.3	4.0	4.2	4.7	4.9	4.0
2026 Q4	4.8	4.2	4.2	4.8	5.2	4.1
2027 Q1	5.2	4.4	4.2	4.8	5.3	4.2
2027 Q2	5.5	4.6	4.2	4.7	5.3	4.2
2027 Q3	5.4	4.7	4.1	4.7	5.2	4.2
2027 Q4	5.2	4.7	4.1	4.7	5.1	4.1
2028 Q1	4.9	4.6	4.0	4.8	5.0	4.1
2028 Q2	4.7	4.6	4.0	4.8	4.9	4.0
2028 Q3	4.5	4.5	3.9	4.9	4.8	4.0
2028 Q4	4.4	4.4	3.9	4.9	4.7	4.0
2029 Q1	4.2	4.3	3.9	5.0	4.6	4.0
2029 Q2	4.1	4.2	3.8	5.1	4.5	4.0

Table A1.E: Illustrative paths for four-quarter CPI inflation in Scenario A (per cent)

	Scenario A (CPI inflation)					
	Contemporaneous Taylor-type rule (headline inflation)	Contemporaneous Taylor-type rule (non-energy inflation)	Forward-looking Taylor-type rule	Forward-looking first-difference rule	Optimal policy projection	Memo: under market path
2026 Q2	3.2	3.2	3.3	3.1	3.2	3.1
2026 Q3	3.5	3.5	3.7	3.4	3.5	3.3
2026 Q4	3.9	3.9	4.2	3.7	3.9	3.6
2027 Q1	3.8	3.8	4.1	3.5	3.8	3.4
2027 Q2	3.3	3.3	3.6	3.0	3.2	2.9
2027 Q3	2.7	2.7	3.0	2.4	2.7	2.3
2027 Q4	2.2	2.1	2.3	1.8	2.1	1.7
2028 Q1	1.9	1.8	2.0	1.6	1.8	1.4
2028 Q2	1.9	1.9	2.0	1.6	1.8	1.5
2028 Q3	2.0	2.0	2.0	1.7	1.9	1.6
2028 Q4	2.0	2.0	2.1	1.7	1.9	1.6
2029 Q1	2.1	2.0	2.1	1.8	2.0	1.7
2029 Q2	2.0	2.0	2.0	1.7	1.9	1.7

Table A1.F: Illustrative paths for four-quarter CPI inflation in Scenario B (per cent)

	Scenario B (CPI inflation)					
	Contemporaneous Taylor-type rule (headline inflation)	Contemporaneous Taylor-type rule (non-energy inflation)	Forward-looking Taylor-type rule	Forward-looking first-difference rule	Optimal policy projection	Memo: under market path
2026 Q2	3.2	3.2	3.2	3.1	3.1	3.1
2026 Q3	3.4	3.5	3.6	3.2	3.3	3.3
2026 Q4	3.9	3.9	4.1	3.6	3.7	3.7
2027 Q1	3.8	3.9	4.1	3.4	3.7	3.6
2027 Q2	3.5	3.5	3.7	3.0	3.3	3.2
2027 Q3	3.1	3.1	3.3	2.6	2.9	2.8
2027 Q4	2.6	2.5	2.7	2.1	2.4	2.3
2028 Q1	2.3	2.3	2.4	1.8	2.1	2.0
2028 Q2	2.3	2.3	2.4	1.8	2.1	2.0
2028 Q3	2.3	2.3	2.4	1.9	2.1	2.0
2028 Q4	2.3	2.3	2.4	1.9	2.1	2.0
2029 Q1	2.3	2.3	2.3	1.9	2.1	2.0
2029 Q2	2.2	2.2	2.2	1.9	2.1	2.0

Table A1.G: Illustrative paths for four-quarter CPI inflation in Scenario C (per cent)

	Scenario C (CPI inflation)					
	Contemporaneous Taylor-type rule (headline inflation)	Contemporaneous Taylor-type rule (non-energy inflation)	Forward-looking Taylor-type rule	Forward-looking first-difference rule	Optimal policy projection	Memo: under market path
2026 Q2	3.4	3.5	3.6	3.3	3.4	3.6
2026 Q3	4.9	5.0	5.2	4.6	4.7	5.2
2026 Q4	5.6	5.7	6.0	5.0	5.3	6.0
2027 Q1	5.7	5.8	6.3	5.0	5.3	6.2
2027 Q2	5.2	5.3	5.7	4.5	4.9	5.6
2027 Q3	3.8	3.9	4.3	3.0	3.5	4.1
2027 Q4	3.2	3.3	3.6	2.5	2.9	3.5
2028 Q1	2.9	2.9	3.2	2.1	2.5	3.0
2028 Q2	2.8	2.8	3.1	2.0	2.5	2.9
2028 Q3	2.8	2.7	3.0	1.9	2.5	2.8
2028 Q4	2.7	2.6	2.9	1.8	2.4	2.7
2029 Q1	2.6	2.6	2.8	1.8	2.3	2.6
2029 Q2	2.6	2.6	2.8	1.8	2.3	2.6

Table A1.H: Illustrative paths for the output gap in Scenario A (per cent)

	Scenario A (output gap)					
	Contemporaneous Taylor-type rule (headline inflation)	Contemporaneous Taylor-type rule (non-energy inflation)	Forward-looking Taylor-type rule	Forward-looking first-difference rule	Optimal policy projection	Memo: under market path
2026 Q2	-1.0	-1.0	-0.9	-1.1	-1.0	-1.1
2026 Q3	-1.2	-1.2	-1.0	-1.3	-1.2	-1.4
2026 Q4	-1.3	-1.3	-1.0	-1.5	-1.3	-1.6
2027 Q1	-1.2	-1.2	-0.9	-1.4	-1.2	-1.5
2027 Q2	-1.1	-1.1	-0.8	-1.3	-1.1	-1.5
2027 Q3	-0.9	-1.0	-0.6	-1.2	-1.0	-1.3
2027 Q4	-0.8	-0.8	-0.5	-1.1	-0.8	-1.2
2028 Q1	-0.6	-0.7	-0.4	-1.0	-0.7	-1.1
2028 Q2	-0.5	-0.6	-0.3	-0.9	-0.6	-1.0
2028 Q3	-0.4	-0.5	-0.3	-0.8	-0.5	-1.0
2028 Q4	-0.4	-0.4	-0.2	-0.8	-0.5	-0.9
2029 Q1	-0.3	-0.4	-0.2	-0.7	-0.4	-0.8
2029 Q2	-0.2	-0.3	-0.2	-0.7	-0.4	-0.8

Table A1.I: Illustrative paths for the output gap in Scenario B (per cent)

	Scenario B (output gap)					
	Contemporaneous Taylor-type rule (headline)	Contemporaneous Taylor-type rule (non-energy)	Forward-looking Taylor-type rule	Forward-looking first-difference rule	Optimal policy projection	Memo: under market path
2026 Q2	-1.0	-1.0	-0.9	-1.2	-1.1	-1.1
2026 Q3	-1.2	-1.2	-1.0	-1.4	-1.3	-1.3
2026 Q4	-1.4	-1.3	-1.1	-1.6	-1.5	-1.5
2027 Q1	-1.3	-1.3	-1.0	-1.6	-1.4	-1.4
2027 Q2	-1.2	-1.2	-0.9	-1.5	-1.3	-1.4
2027 Q3	-1.0	-1.0	-0.8	-1.4	-1.2	-1.3
2027 Q4	-0.9	-0.9	-0.7	-1.3	-1.1	-1.2
2028 Q1	-0.8	-0.8	-0.6	-1.2	-1.0	-1.1
2028 Q2	-0.7	-0.7	-0.5	-1.2	-0.9	-1.0
2028 Q3	-0.6	-0.6	-0.5	-1.1	-0.8	-1.0
2028 Q4	-0.6	-0.6	-0.4	-1.1	-0.8	-0.9
2029 Q1	-0.5	-0.5	-0.4	-1.1	-0.7	-0.9
2029 Q2	-0.5	-0.5	-0.3	-1.0	-0.7	-0.8

Table A1.J: Illustrative paths for the output gap in Scenario C (per cent)

	Scenario C (output gap)					
	Contemporaneous Taylor-type rule (headline)	Contemporaneous Taylor-type rule (non-energy)	Forward-looking Taylor-type rule	Forward-looking first-difference rule	Optimal policy projection	Memo: under market path
2026 Q2	-1.3	-1.2	-1.1	-1.5	-1.4	-1.1
2026 Q3	-1.7	-1.6	-1.4	-2.0	-1.9	-1.5
2026 Q4	-2.0	-1.9	-1.6	-2.4	-2.3	-1.7
2027 Q1	-2.1	-1.9	-1.6	-2.5	-2.3	-1.7
2027 Q2	-2.1	-1.9	-1.5	-2.5	-2.3	-1.7
2027 Q3	-1.9	-1.8	-1.4	-2.5	-2.2	-1.6
2027 Q4	-1.8	-1.7	-1.3	-2.4	-2.1	-1.5
2028 Q1	-1.6	-1.6	-1.2	-2.4	-2.0	-1.4
2028 Q2	-1.5	-1.5	-1.1	-2.3	-1.8	-1.3
2028 Q3	-1.4	-1.4	-1.0	-2.2	-1.7	-1.2
2028 Q4	-1.3	-1.3	-1.0	-2.1	-1.6	-1.2
2029 Q1	-1.1	-1.2	-0.9	-2.1	-1.5	-1.1
2029 Q2	-1.0	-1.1	-0.8	-2.0	-1.4	-1.0

Annex 2: Monetary policy since the February 2026 Report

At its meeting ending on 18 March 2026, the Monetary Policy Committee (MPC) voted unanimously to maintain Bank Rate at 3.75%.

Conflict in the Middle East had caused a significant increase in global energy and other commodity prices, which would affect households' fuel and utility prices and have indirect effects via businesses' costs. Prior to this, there had been continued disinflation in domestic prices and wages. CPI inflation would be higher in the near term as a result of the new shock to the economy.

Monetary policy could not influence global energy prices but aimed to ensure that the economic adjustment to them occurred in a way that achieved the 2% target sustainably. The MPC was alert to the increased risk of domestic inflationary pressures through second-round effects in wage and price-setting, the risk of which would be greater the longer higher energy prices persisted. The MPC was also assessing the implications for inflation of the weakening in economic activity that was likely to result from higher energy costs.

The Committee would continue to monitor closely the situation in the Middle East and its impact on global energy supply and energy prices. It stood ready to act as necessary to ensure that CPI inflation remained on track to meet the 2% target in the medium term.

Glossary and other information

Glossary of selected data and instruments

ASBC – Agents' summary of business conditions.

AWE – average weekly earnings.

BICS – Business Insights and Conditions Survey.

CCS – Credit Conditions Survey.

COMPASS – Central Organising Model for Projection Analysis and Scenario Simulation.

CPI – consumer prices index.

CPI inflation – inflation measured by the consumer prices index.

DMP – Decision Maker Panel.

ERI – excess reportable income.

GDP – gross domestic product.

LFS – Labour Force Survey.

MaPS – Market Participants Survey.

OIS – overnight index swap.

PMI – purchasing managers' index.

PSD – product sales data.

SONIA – Sterling Overnight Index Average.

Abbreviations

AI – artificial intelligence.

ASEAN – Association of Southeast Asian Nations.

BCC – British Chambers of Commerce.

CBI – Confederation of British Industry.

CFO – chief financial officer.

DESNZ – Department for Energy Security and Net Zero.

ECB – European Central Bank.

EPG – Energy Price Guarantee.

EU – European Union.

FCA – Financial Conduct Authority.

FNAB – food and non-alcoholic beverages.

GfK – Gesellschaft für Konsumforschung, Great Britain Ltd.

GIRFs – Generalised impulse response functions.

HMRC – His Majesty's Revenue and Customs.

ILO – International Labour Organization.

LNG – liquefied natural gas.

LTV – loan to value.

MIDAS – mixed-data sampling.

MPC – Monetary Policy Committee.

NAIRU – non-accelerating inflation rate of unemployment.

NICs – National Insurance contributions.

NLW – National Living Wage.

Ofgem – Office of Gas and Electricity Markets.

ONS – Office for National Statistics.

ONS SIC – ONS Standard Industrial Classification.

OPP – optimal policy projection.

REC – Recruitment and Employment Confederation.

RoW – rest of the world.

RTI – Real-Time Information.

S&P – Standard & Poor's.

SET-BVAR – self-exciting threshold Bayesian vector autoregression.

V/U – vacancies to unemployment.

Symbols and conventions

Except where otherwise stated, the source of the data used in charts and tables is the Bank of England or the Office for National Statistics (ONS) and all data, apart from financial markets data and results from the Decision Maker Panel (DMP) survey, are seasonally adjusted.

n.a. = not available.

Because of rounding, the sum of the separate items may sometimes differ from the total shown.

On the horizontal axes of graphs, larger ticks denote the first observation within the relevant period, eg data for the first quarter of the year.