



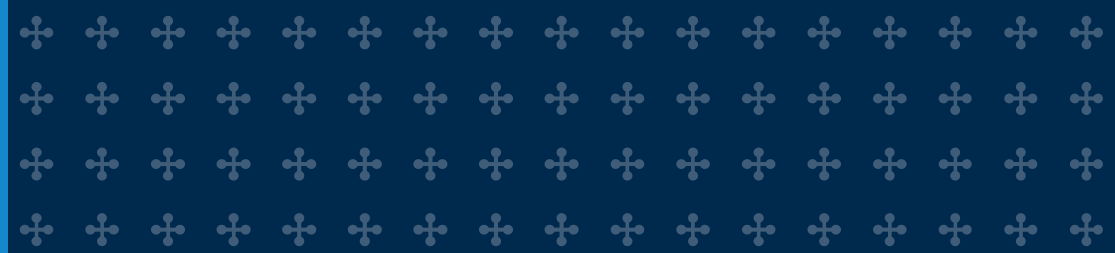
BANK OF ENGLAND



# Economic update

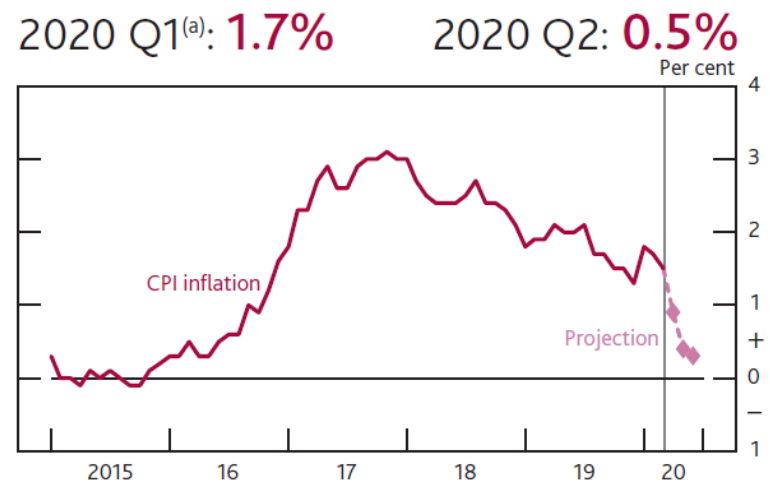
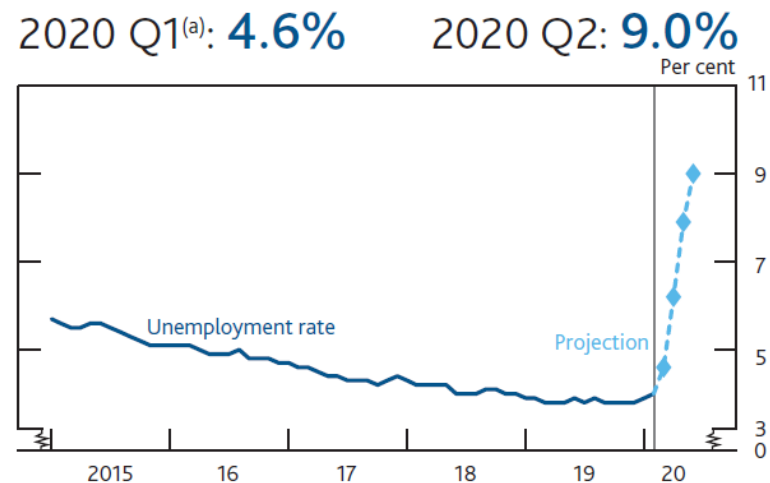
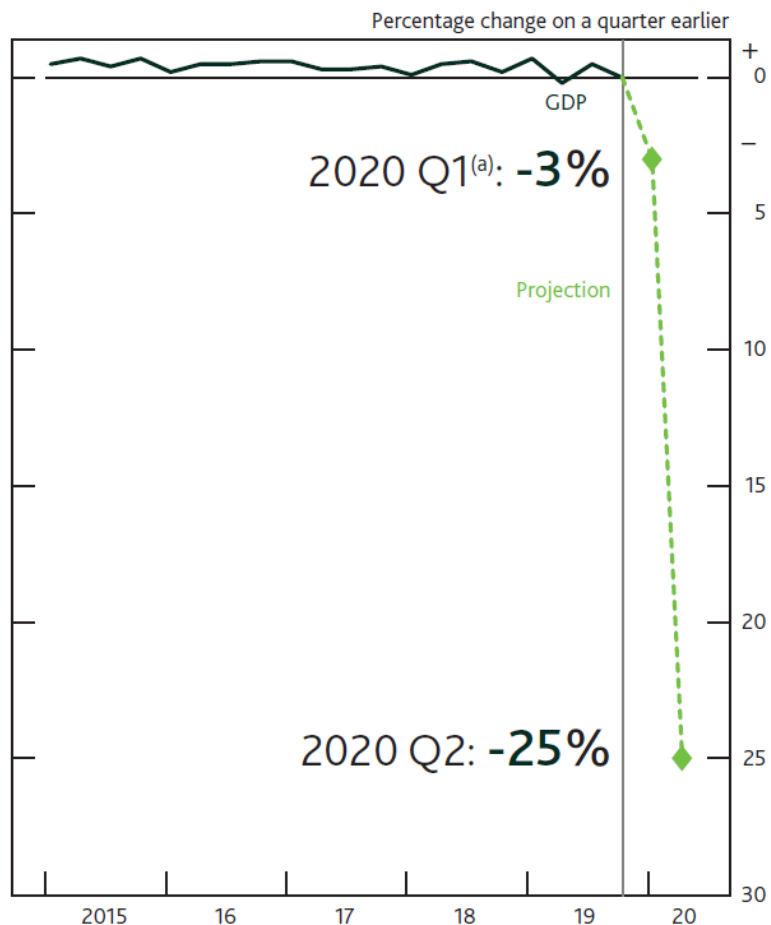
## 12 May 2020

Rosie Smith, Agent for the East Midlands



# Economic activity has fallen sharply. Unemployment is expected to rise and inflation to fall below 1%.

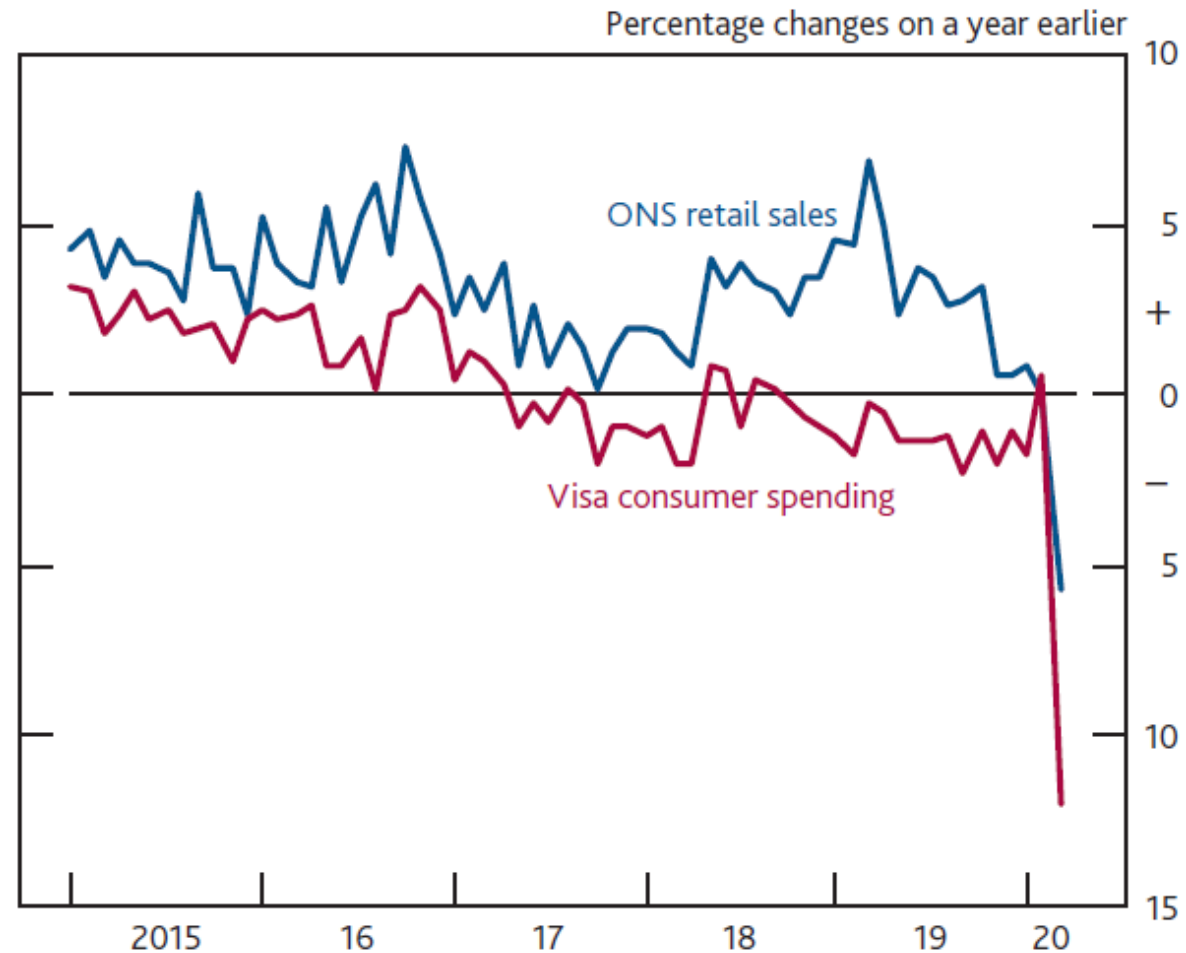
Near-term projections



Sources: ONS and Bank calculations.

# Consumer spending fell sharply in March

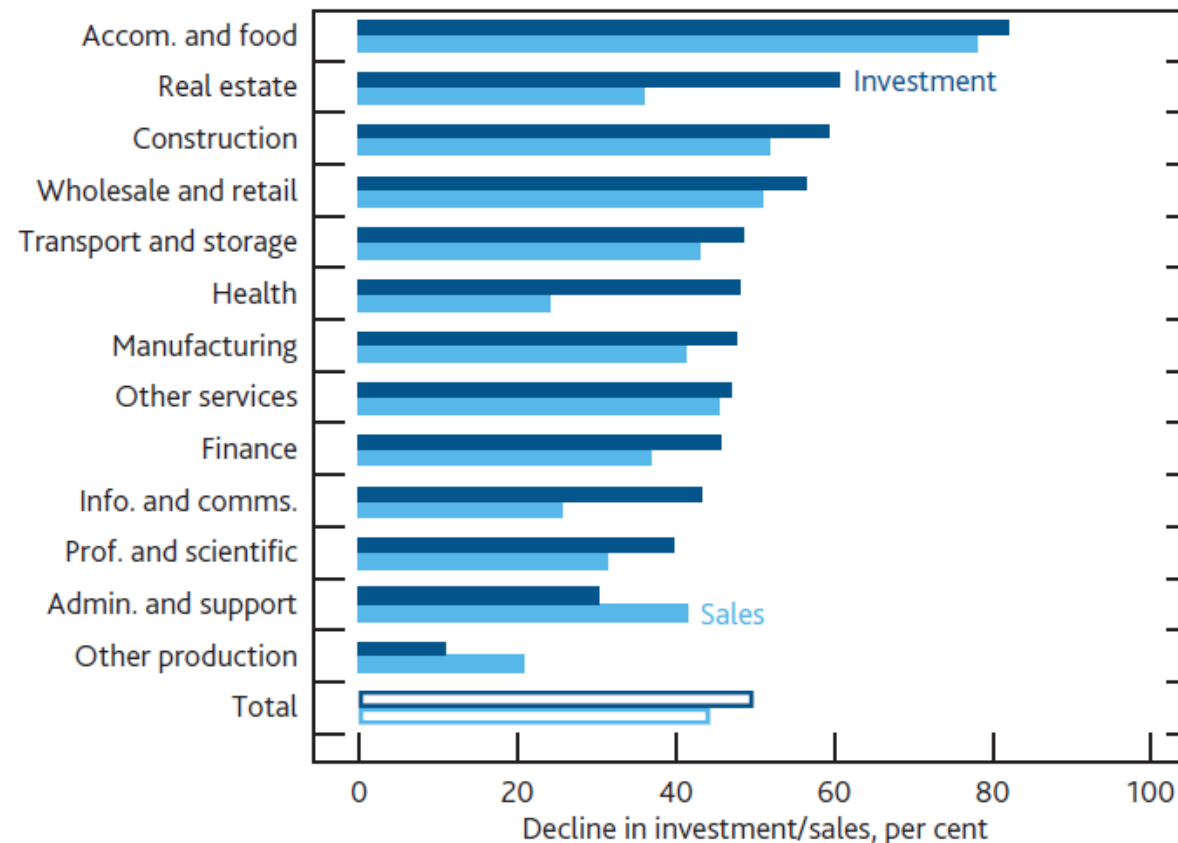
Indicators of consumer spending(a)



Sources: ONS and Visa.

# Many firms expect Covid-19 will materially reduce their business investment and sales in Q2

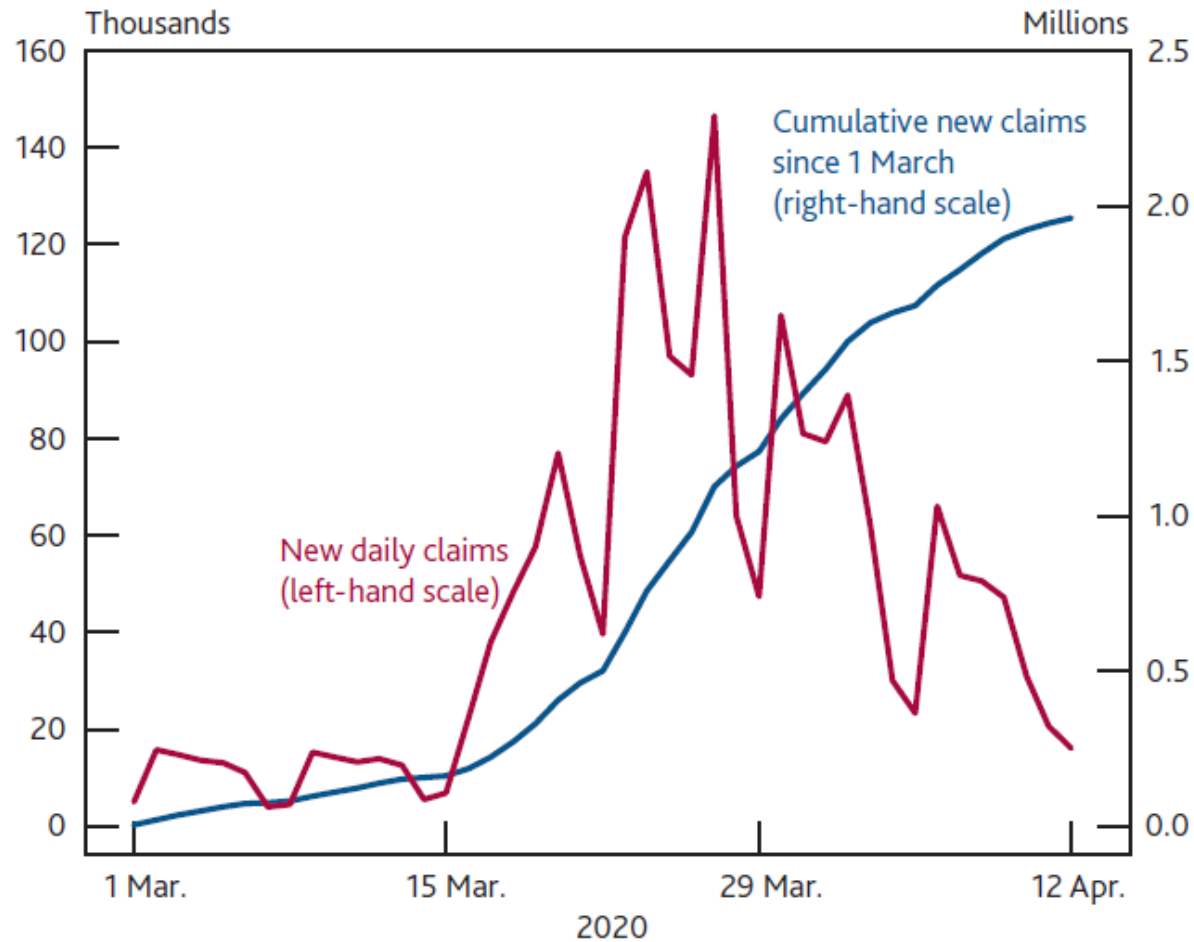
Average expected impact of Covid-19 on business investment and sales in 2020 Q2<sup>(a)</sup>



Sources: DMP Survey and Bank calculations.

# The number of people claiming Universal Credit has picked up since March

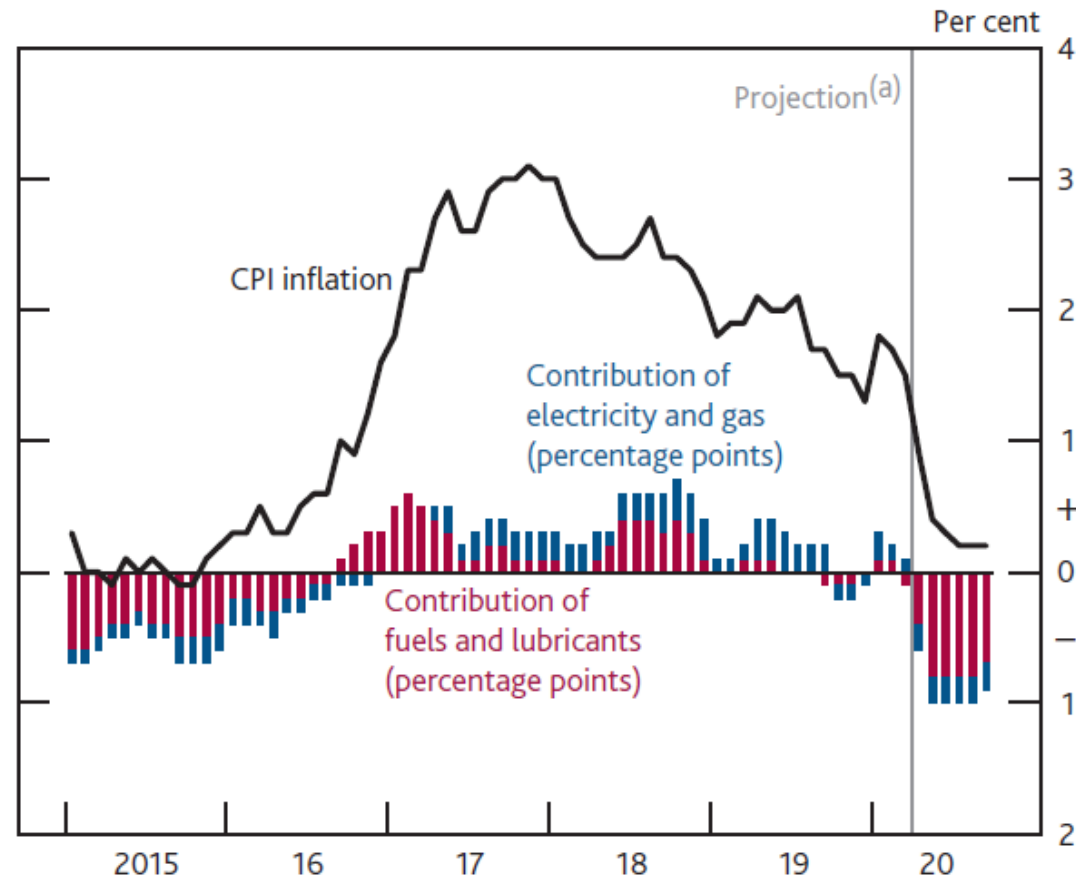
Universal Credit claims(a)



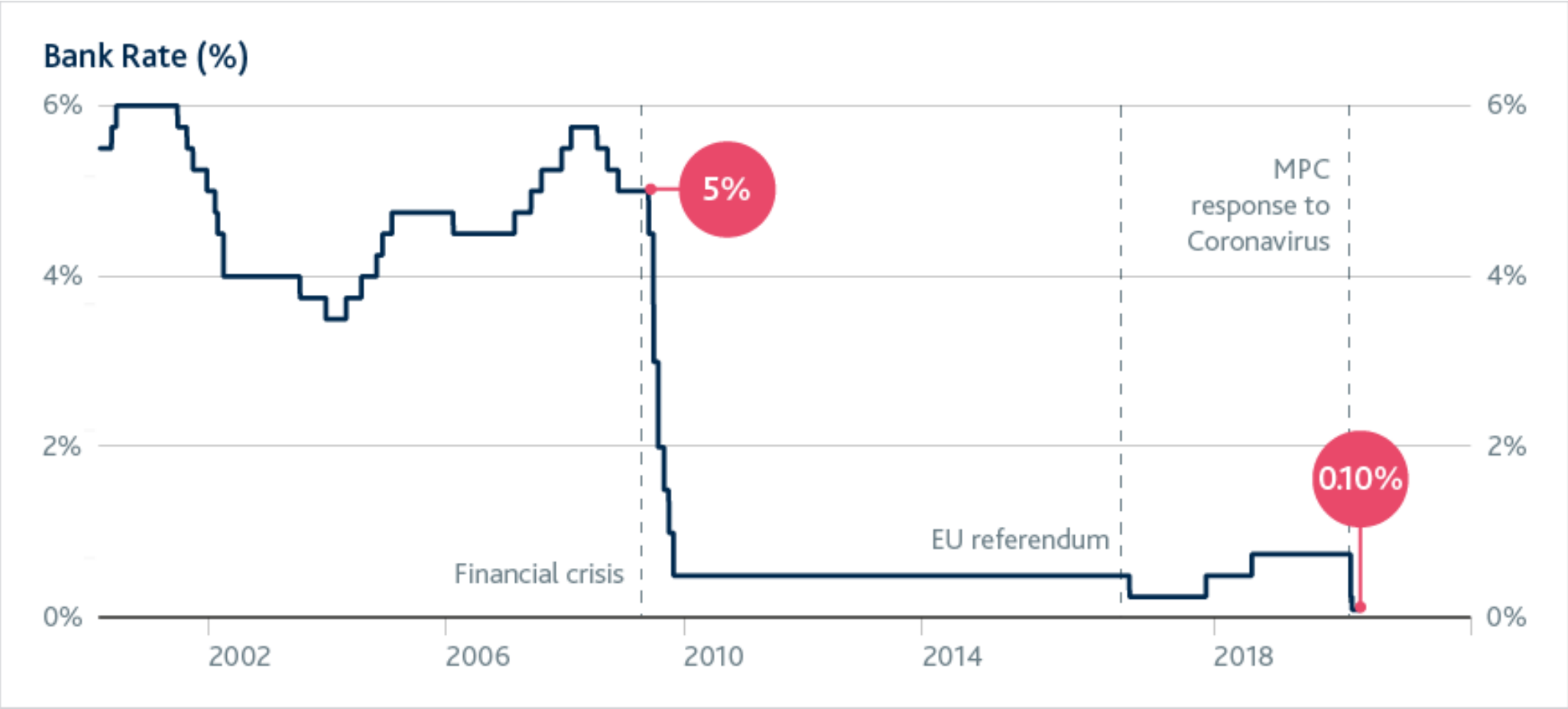
Sources: Department for Work and Pensions and Bank calculations.

# Inflation is expected to fall well below 1% over the next 6 months, driven by fuel & energy prices

CPI inflation and the contribution of energy



Sources: Bloomberg Finance L.P., Department for Business, Energy and Industrial Strategy, ONS and Bank calculations.



## Also:

- Term Funding Scheme – with additional incentives for SME lending
- Countercyclical buffer for banks reduced from 1% to 0%
- Covid Corporate Financing Facility (CCFF)
- Increase of £200bn in asset purchases to £645bn



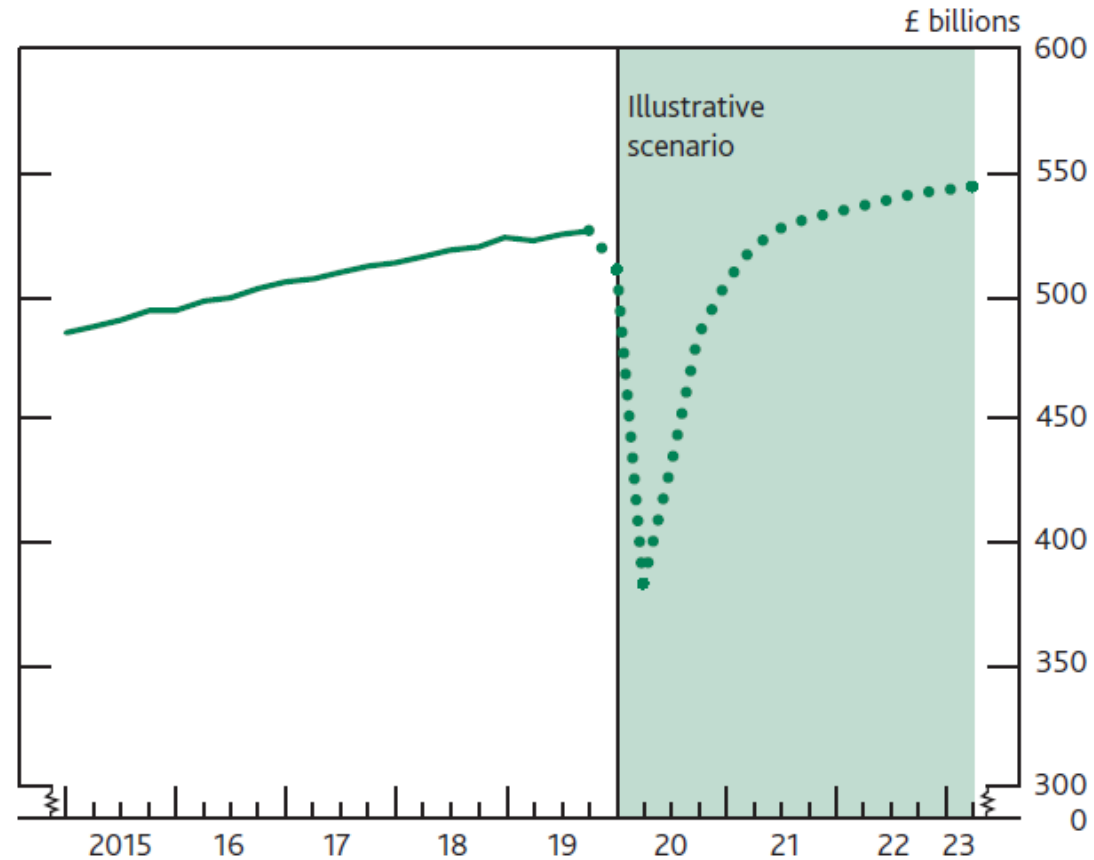


A scenario of what could happen next



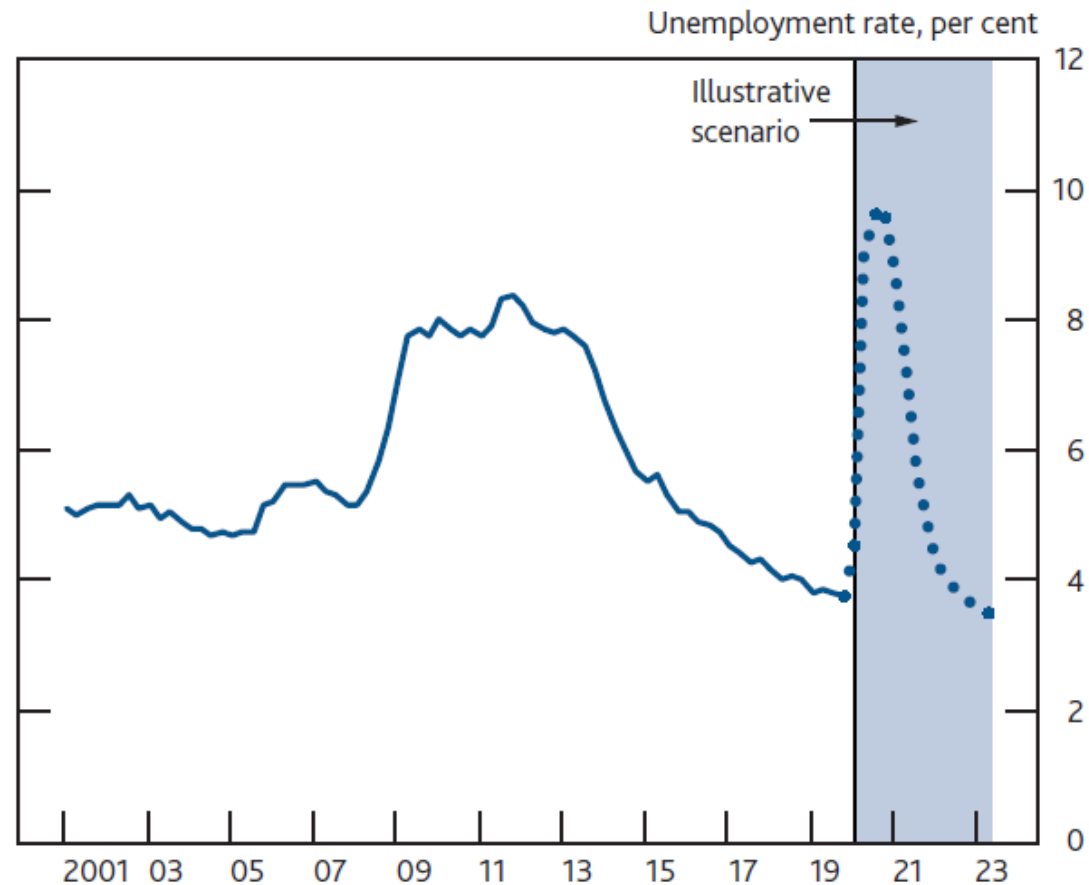
# GDP picks up relatively rapidly in 2020 H2 in the scenario, although it takes some time to recover towards its previous path

GDP scenario(a)(b)



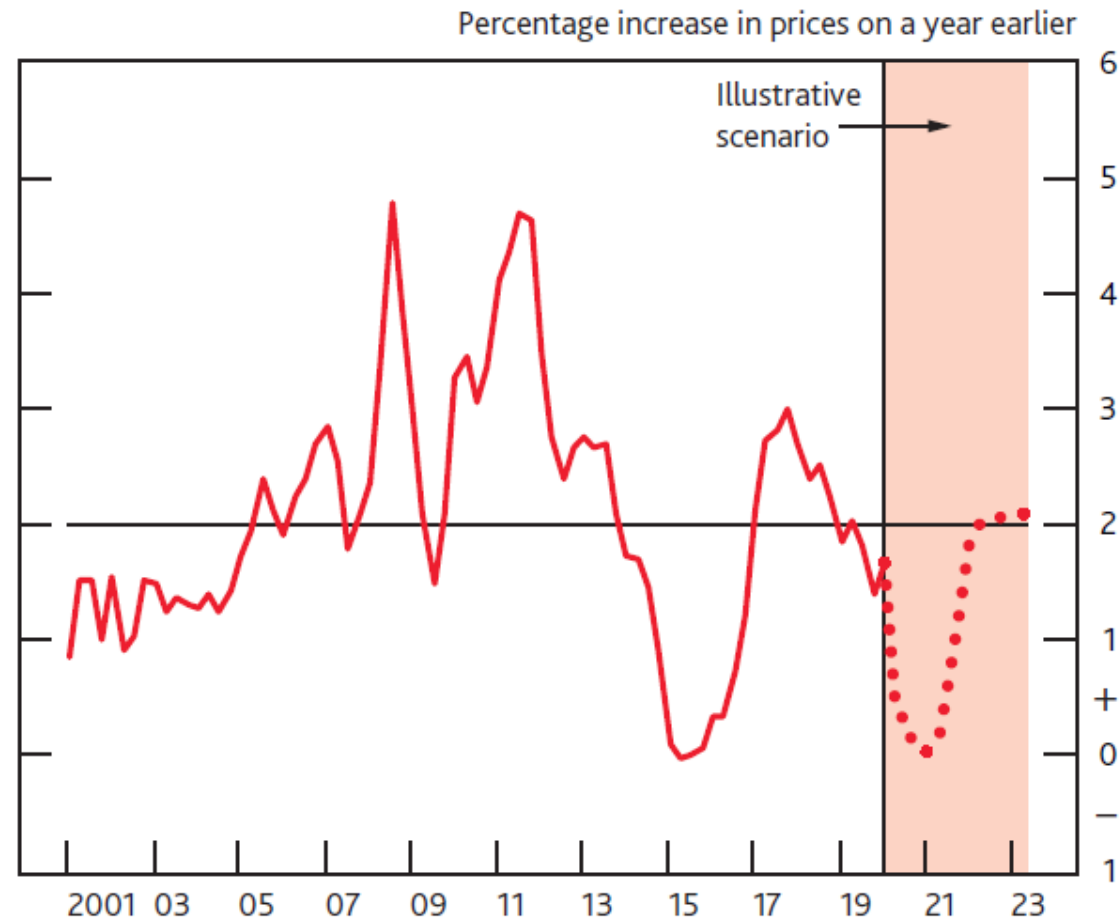
# Unemployment rises sharply, before falling back gradually in the illustrative scenario

Unemployment scenario(a)(b)



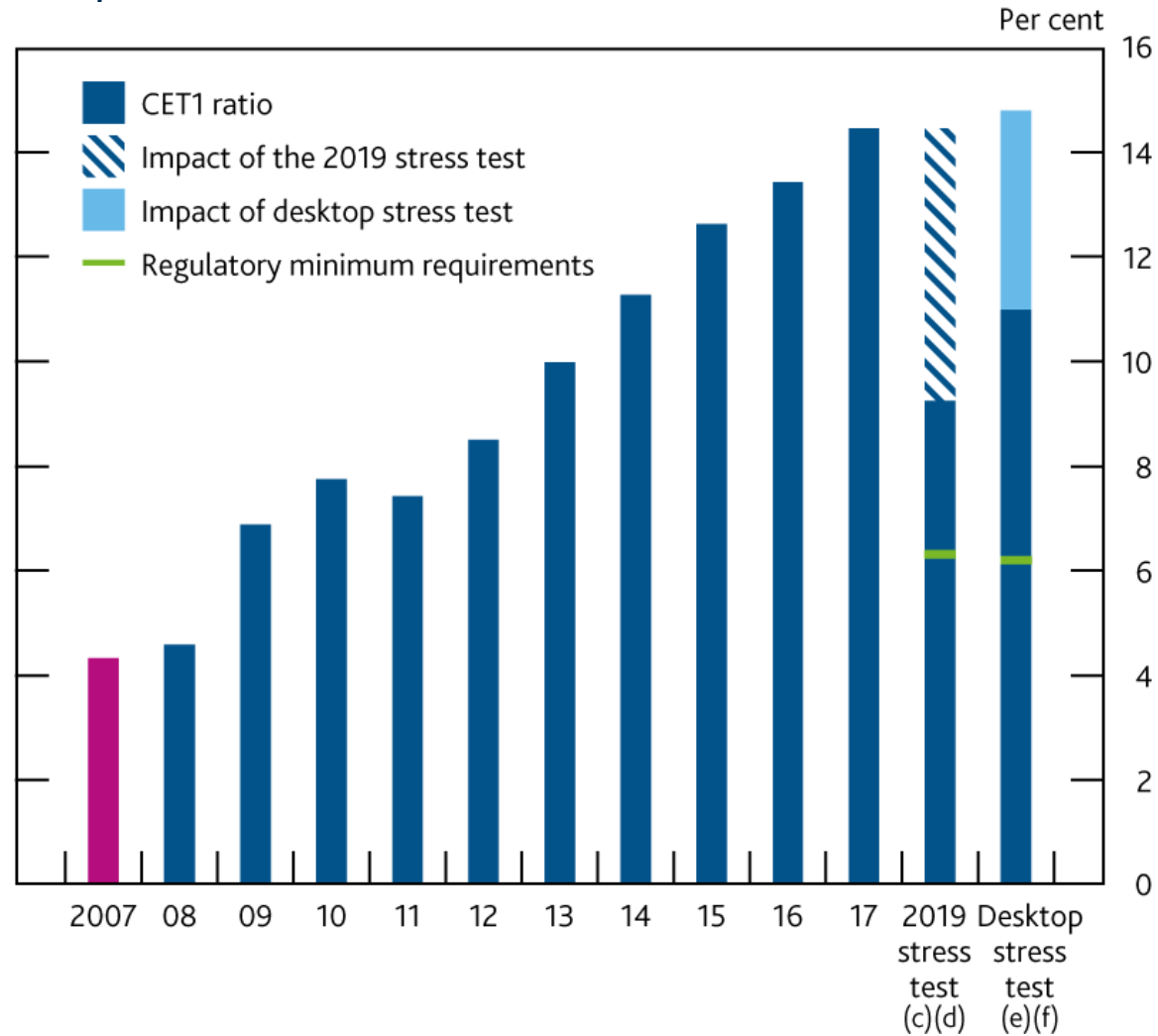
# CPI inflation falls in the near term partly due to the oil price, but rises further out in the scenario

CPI inflation scenario(a)(b)



# Banks' capital positions remain sufficient to withstand the stress

Aggregate CET1 capital ratio of major UK banks since the financial crisis<sup>(a)(b)</sup>



Sources: Participating banks' Stress Testing Data Framework data submissions, PRA regulatory returns, published accounts, Bank analysis and calculations.:



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