Bank of England

June 2026

Sefton Economic Forum: Economic Update

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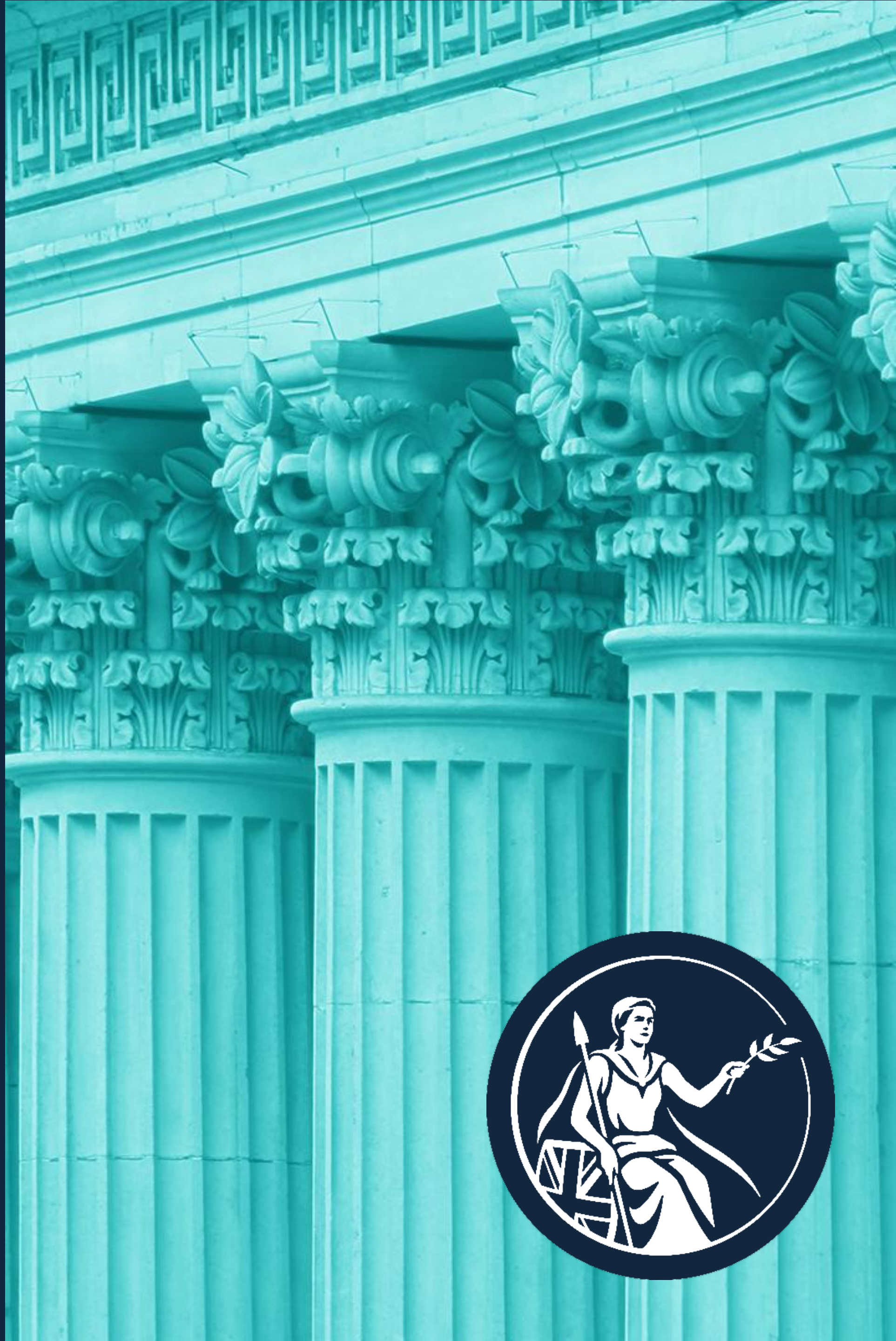
June 2026



Key Messages

Energy shock

Rising energy prices lift UK inflation due to Middle East conflict.

Outlook shifted

Economic outlook and policy path differs from February report

High uncertainty

Even in the near term

Holding Bank Rate

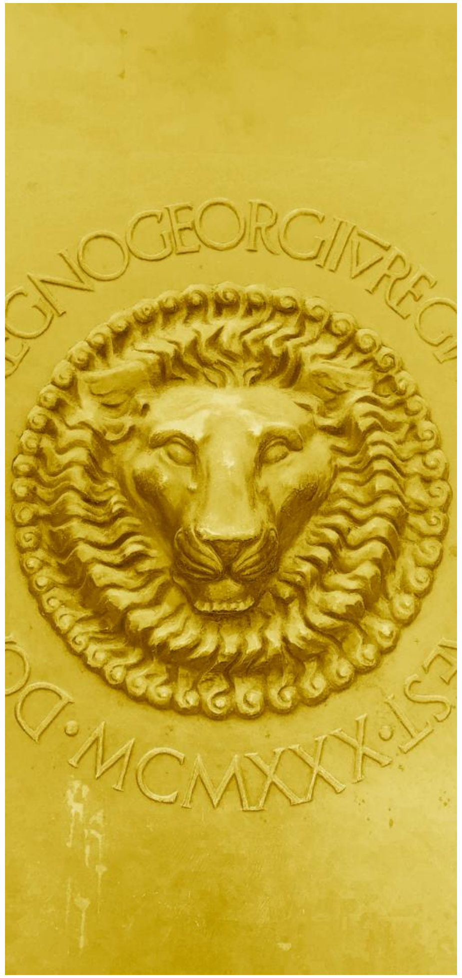
Active holds to guard against second-round effects

Watch variables

Conflict outcome + wage/price pass-through

To continue the conversation...

Outline



- The Backdrop
- The Near-Term Economic Outlook
- Alternative Scenarios
- MPC Perspective and Policy
- Q&A

The Backdrop

Backdrop

- The disruption the Middle East conflict has caused to energy supplies has led to a sharp rise in global energy prices and changed the outlook for UK inflation.

- The immediate effects are already being felt: CPI around 3% and is likely to rise in coming months.
  - Very different from February, when inflation was expected to fall back 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.

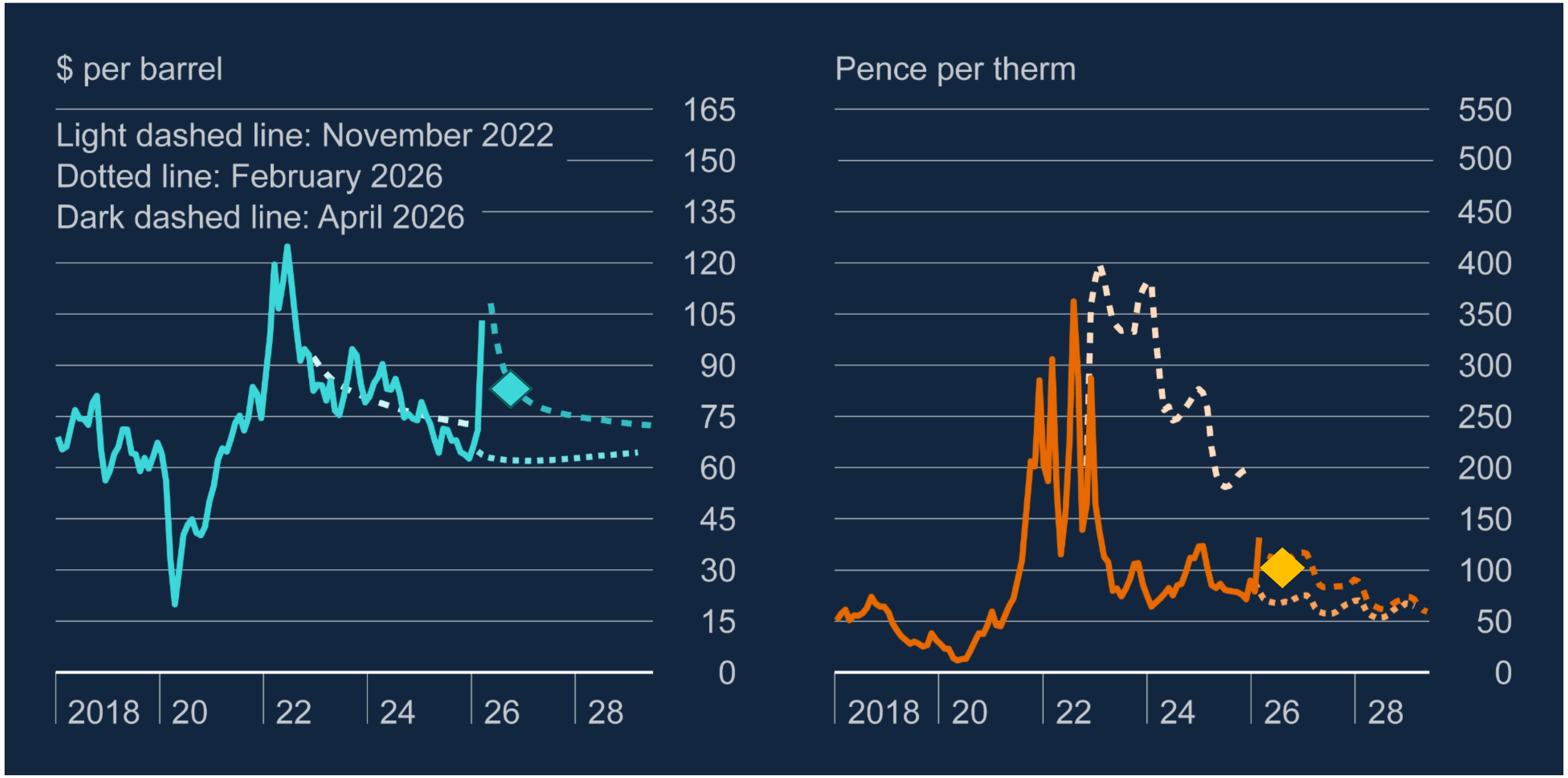
Table G.A: Global energy shocks can affect UK CPI inflation through several channels

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

Near-Term Outlook

Chart 1.5: Oil and gas prices up sharply but remain below 2022

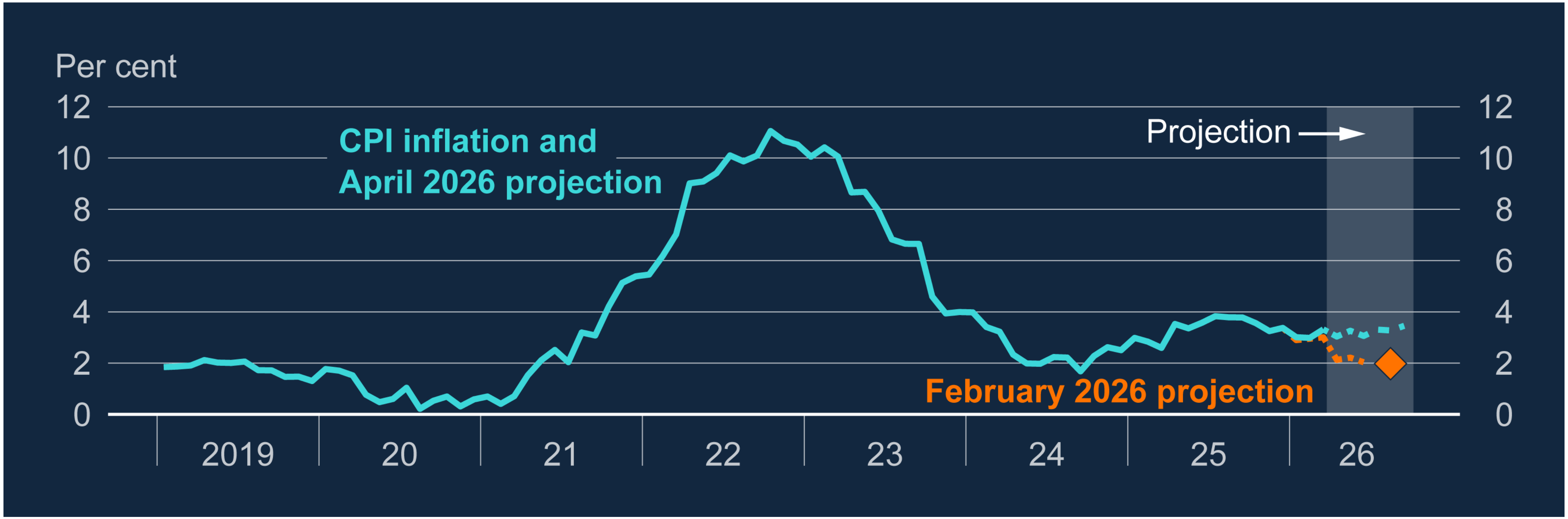
UK wholesale oil and gas prices



- Oil prices up sharply since the outbreak of the conflict and have been volatile (have moved higher since MPR closed on 22 April). Futures curve places weight on a reasonably rapid fall.
- Scale of the increase in gas prices is materially less than oil and materially less than in 2022.

Chart 1.2: Near-term CPI inflation is expected to be much stronger than in the February report

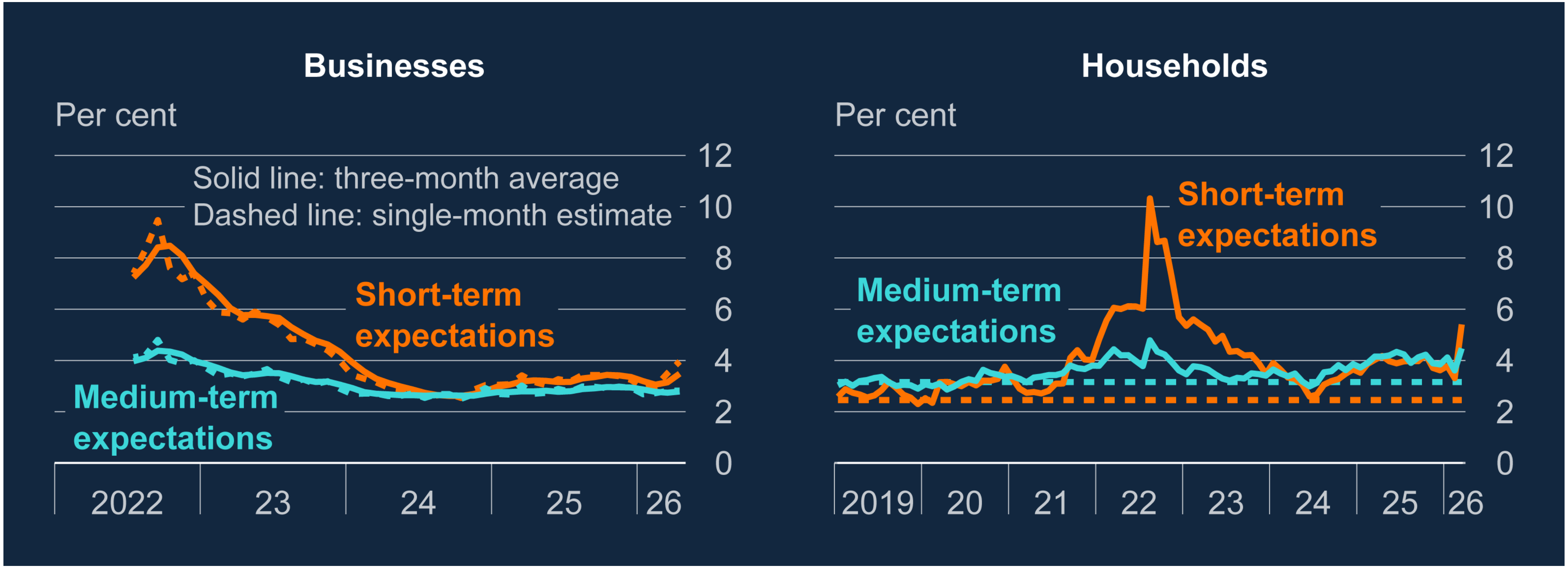
Annual CPI inflation



- Higher global energy prices pushed CPI inflation up to 3.3% in March and will keep it close to that rate out to Q3. In February, MPC had expected a return to 2%.

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

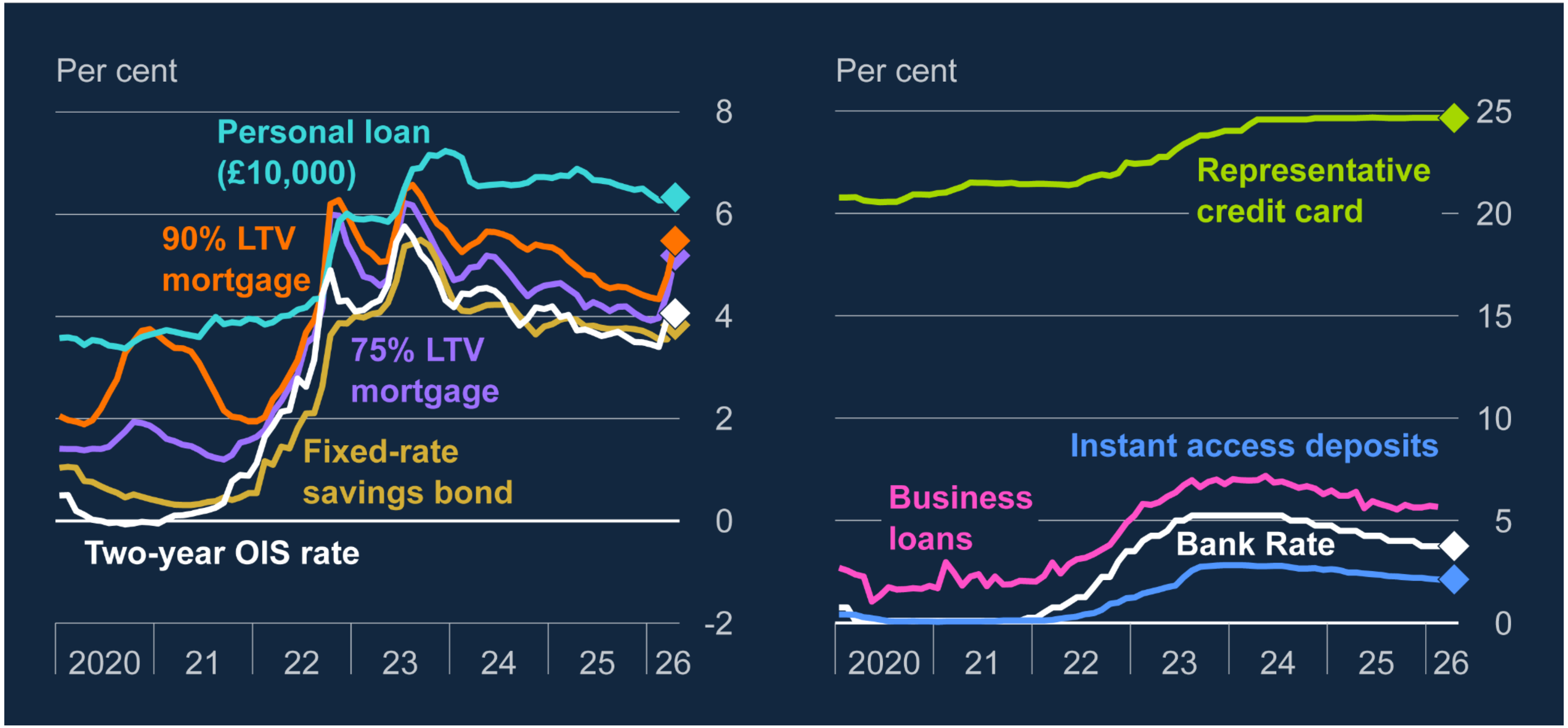
Survey-based measures of household (a) and business inflation expectations



- Some factors point to second round effects emerging: large increase in visible and salient price; recent experience of high inflation; wage and price setting hadn't fully normalised
- Notable increase in household inflation expectations

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

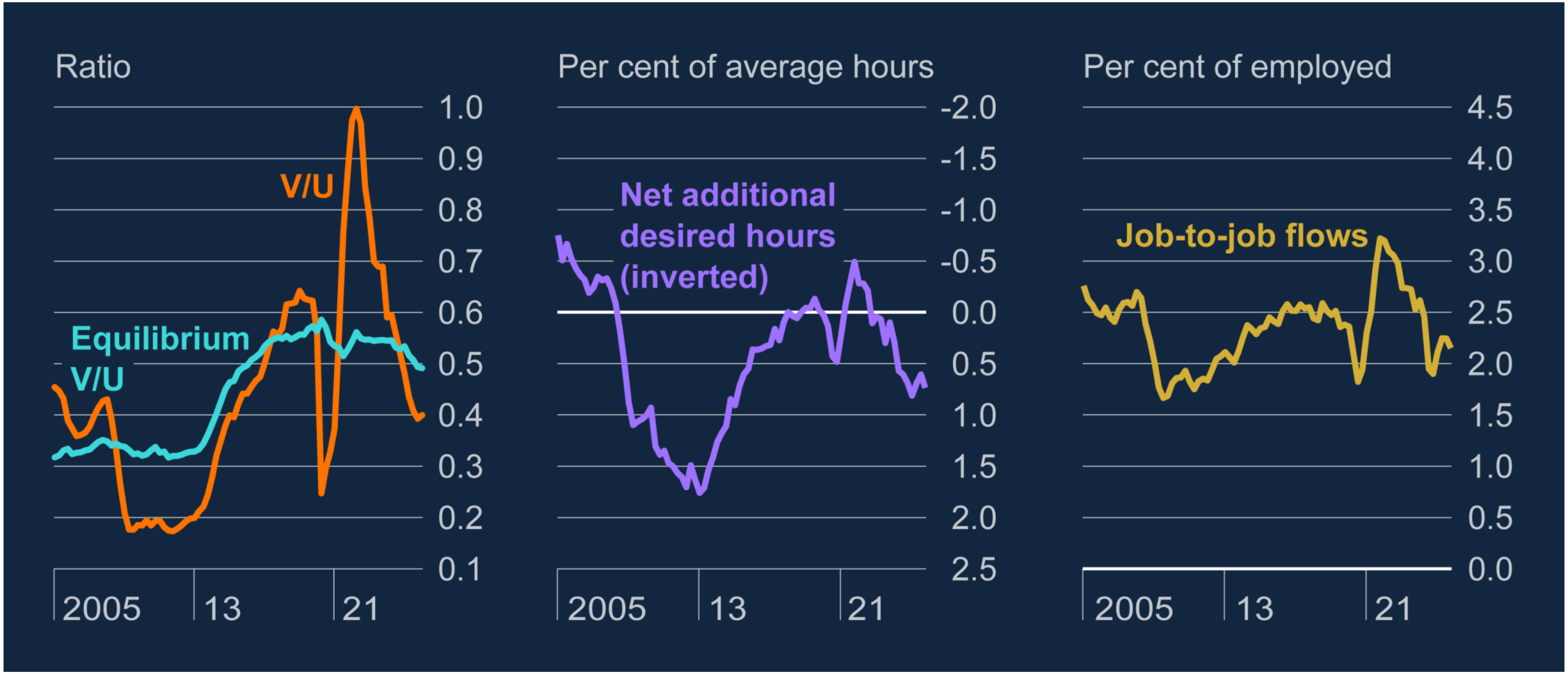
Household and corporate interest rates and their corresponding reference rates



- Set against that, monetary policy starts from a restrictive position and financial conditions have tightened…

Chart 1.13: Labour market conditions are looser than in 2022.

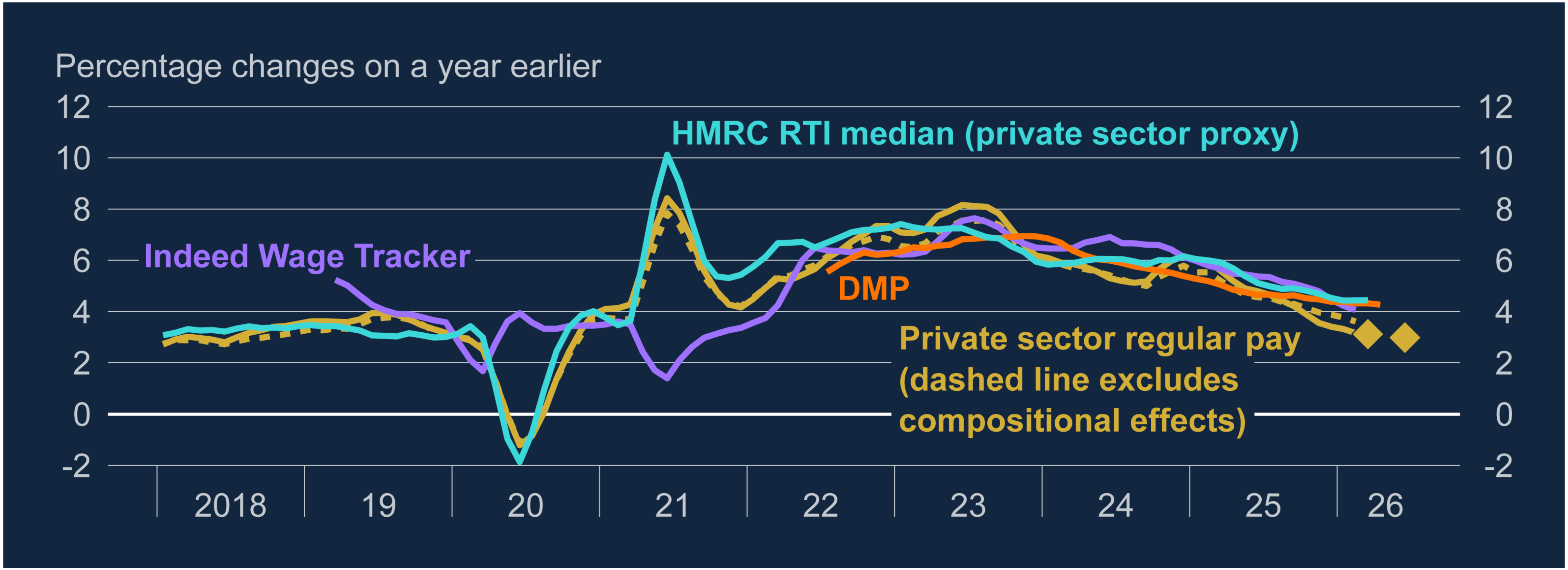
Indicators of labour market slack



- …and the labour market is considerably looser than in 2022. Looser labour market seems to have restrained second-round effects from energy shocks in the past (Box C).

Chart 1.8: Wage growth has continued to slow

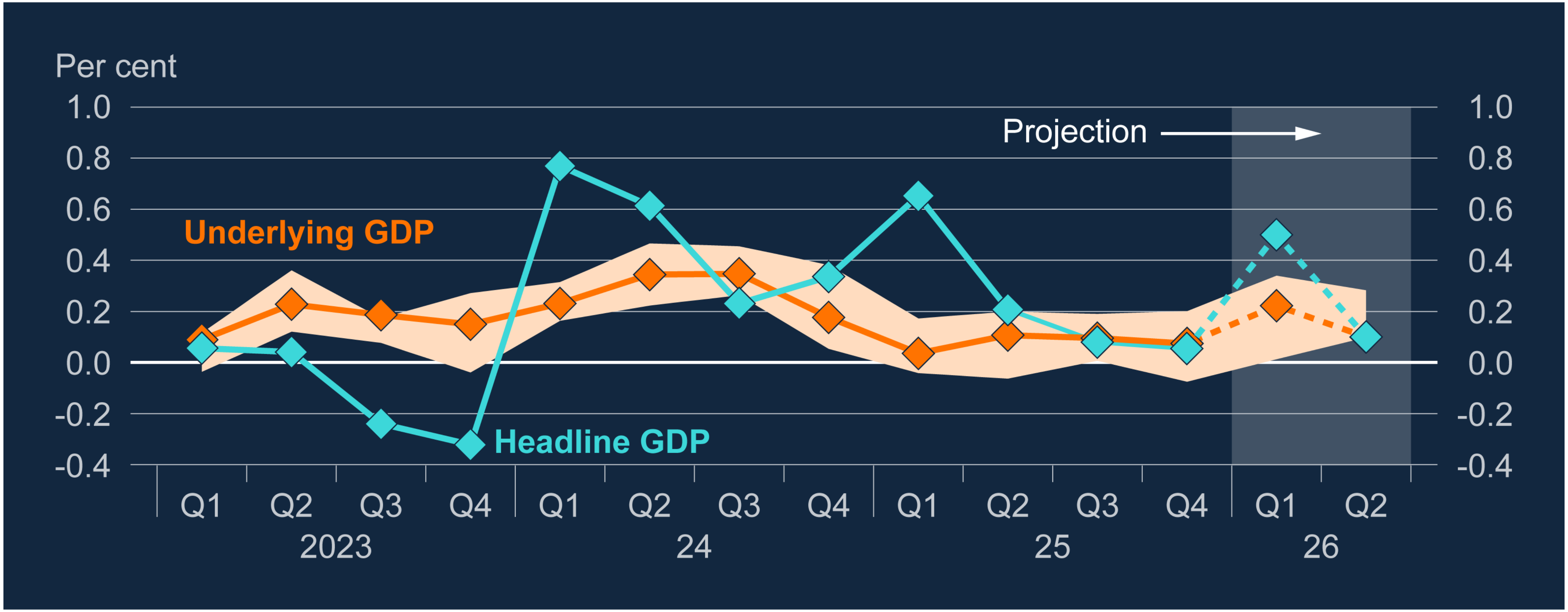
Measures of private sector wage growth



- Wage growth has been falling towards target consistent rates
- Most wage settlements for 2026 have already been implemented

Chart 1.9: Underlying GDP growth is expected to remain subdued

Quarterly growth in headline GDP and underlying growth implied by business surveys



- Higher energy prices will also have an impact on demand. Activity growth starts from a relatively muted position, despite stronger headline February outturn for GDP.

Alternative Scenarios

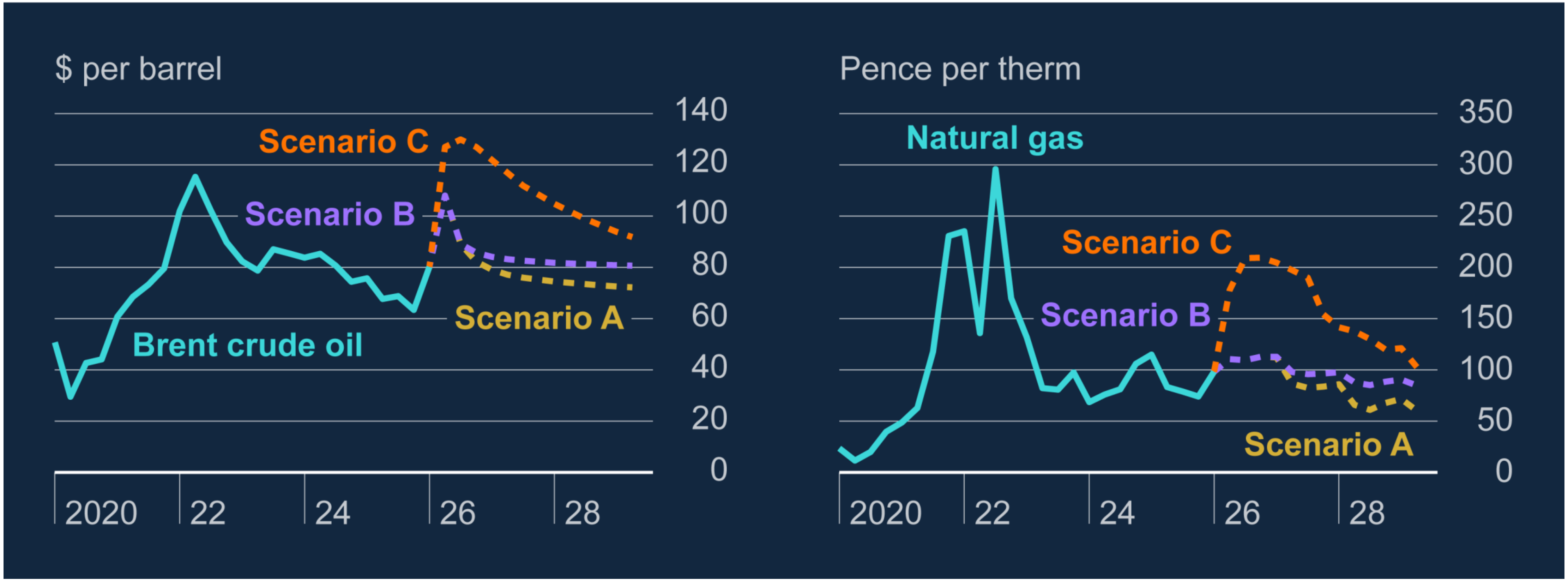
Table 3.A: Key assumptions and judgements in scenarios

	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 due 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 wage effects from the scale of the energy shock.	Stronger and more persistent additional second-round effects, relative to the other scenarios stemming from greater effect of the energy shock to inflation expectations and wages and prices.

- Three scenarios – not designed to cover the full spectrum of possibilities, but useful inputs to the decision.
- Different members put different weights on each scenario. Some thought C less likely, some thought A less likely

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

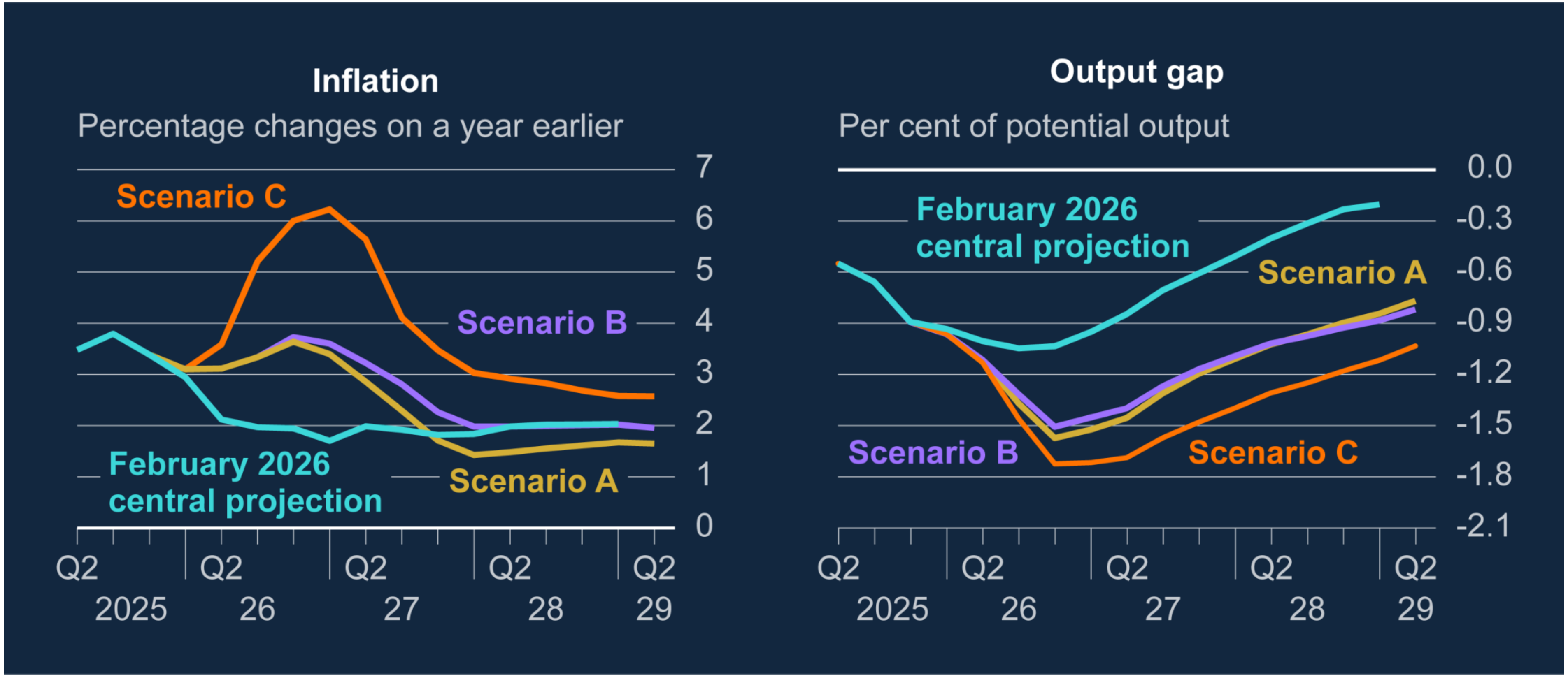
Brent crude oil and natural gas price paths in Scenarios A, B and C



- Scenario A has energy prices falling back in line with futures curves in 15 days to 22 April. Slower fall back in B. Further and prolonged increase under C.
- Since 22 April oil prices have been volatile and moved higher; smaller increase in gas prices.

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

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



- Assuming Bank Rate follows the market curve, inflation would peak at around 3¾% in A and B. Falls back below target under A, more slowly in B.
- Inflation would rise above 6% in C with a more negative output gap.

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 and the unemployment rate in Scenarios A, B and C [(a)]

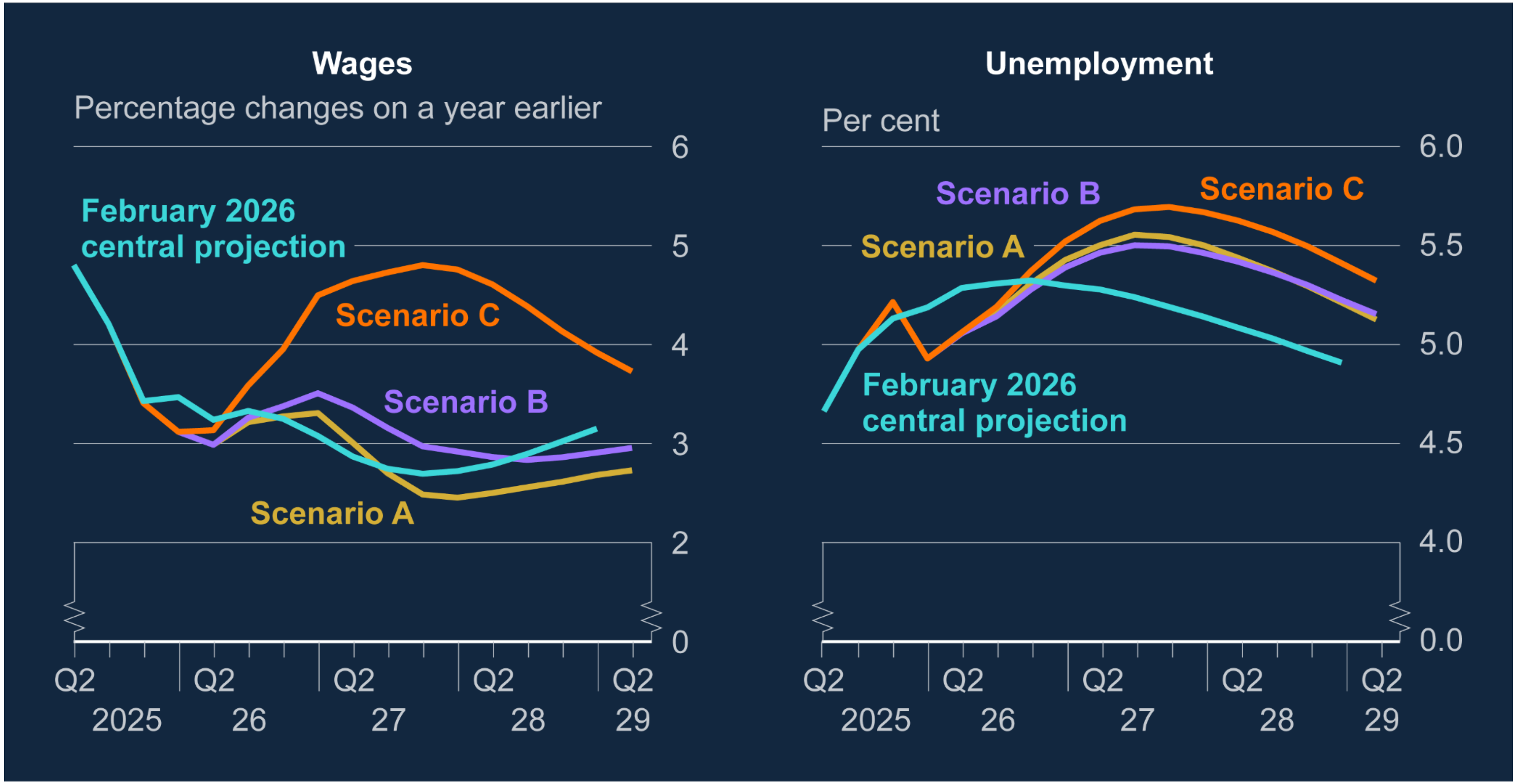
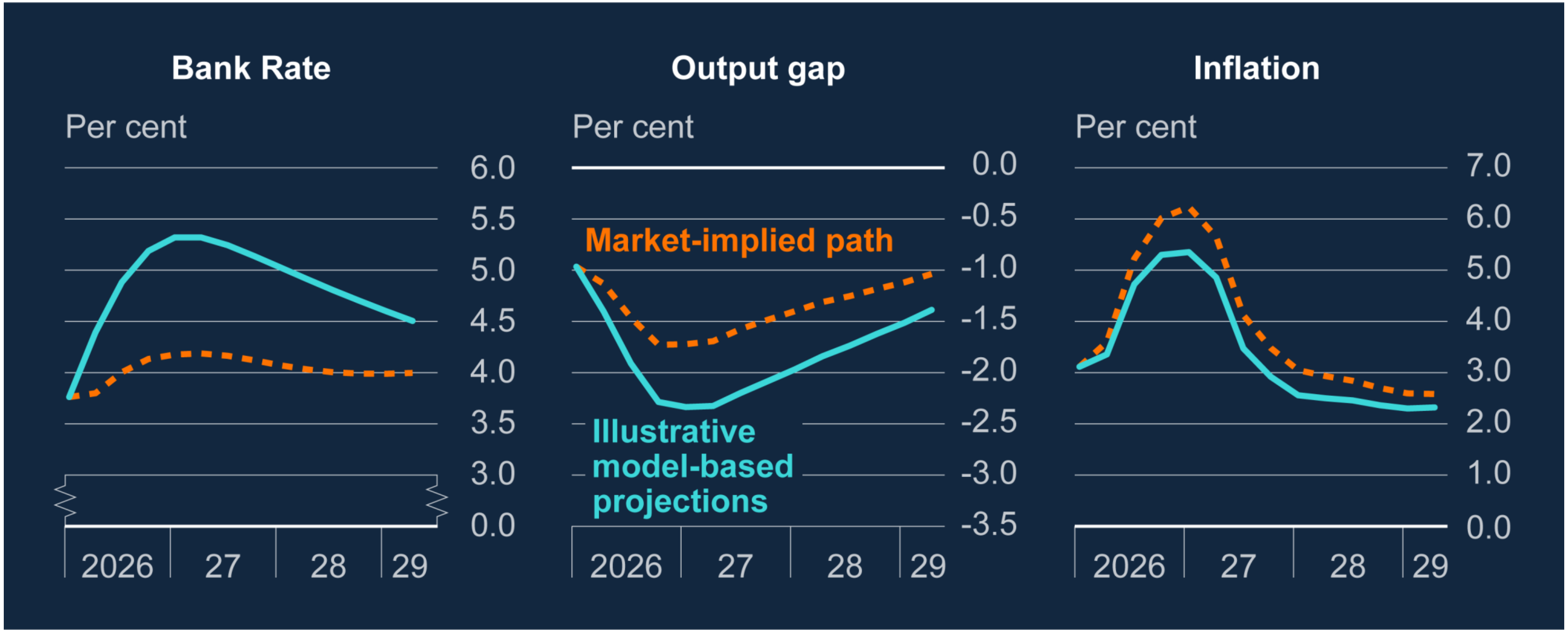


Chart 3.6: Bank Rate may need to rise materially in Scenario C to ensure that inflation returns to the 2% target in the medium term

Scenario C under the market-implied path for Bank Rate and staff's optimal policy projections



- Model-based simulations would suggest Bank Rate would need to be materially tighter than the market curve under Scenario C
- Would deliver lower inflation in the medium term and a more negative output gap

MPC perspective and policy

Current approach to setting policy is based on two key policy 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.

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.
- MPC has judged twice now that it was appropriate to maintain Bank Rate at 3.75%.

Monetary Policy Outlook

- At its June vote the MPC voted 7-2 to hold rates again at 3.75%
- For the majority: “[R]ecent data outturns provided some further evidence that underlying disinflation had been on track pre-conflict. Upside risks to energy prices had receded, although they remained. The higher interest rates facing households and businesses were already acting to reduce inflation over time and therefore a hold in Bank Rate at this meeting was appropriate.”
- Two members “were more concerned that households’ and firms’ greater attention to inflation outturns than in the past would lead to larger second-round effects for a given energy price profile. And they noted that the tightening in financial conditions could reverse in the absence of an increase in Bank Rate. Given significant uncertainty about the extent of second-round effects, they preferred to raise rates as part of a risk management strategy”.
- Governor’s view: “Given the context at present of softness in the real economy and uncertainty around the scale and duration of the shock to energy prices, tolerating temporarily above-target inflation as part of a return to target is an appropriate way to approach the trade-off, providing inflation expectations remain contained.” “I would respond promptly to any signals that an extended period of elevated energy prices could be leading to stronger possible second-round effects.

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