

Economics Group

Special Commentary

Nick Bennenbroek, International Economist
nicholas.bennenbroek@wellsfargo.com • (212) 214-5636
 Jen Licsis, Economic Analyst
jennifer.licis@wellsfargo.com • (704) 410-1309

Another Policy Dose for the U.K. Economy

Executive Summary

The Bank of England (BoE) eased monetary policy further at today's announcement, expanding its asset purchase program by a larger-than-expected £150B, in an effort to support economic activity amid the re-imposition of COVID restrictions. Separately, U.K. Chancellor Sunak announced an extension of the government's salary support program until the end of March 2021, as well as measures for the self-employed and local businesses. Although our base case at this time is for no further easing from the Bank of England, we acknowledge that the risks are still tilted to further policy action.

Bank of England Expands Asset Purchases Further

U.K. policymakers announced further stimulus measures today to support the economy, amidst the re-imposition of COVID restrictions that will weigh on economic growth. Most notably, ***the Bank of England (BoE) announced a £150B increase in its asset purchase target to £895B. Those additional bond purchases are expected to begin in January and continue until the end of 2021.*** The increase was larger than the £100B both we and the consensus had expected. Separately, the BoE kept its policy interest rate unchanged at 0.10%.

The BoE announced a £150B increase in its asset purchase target.

Figure 1

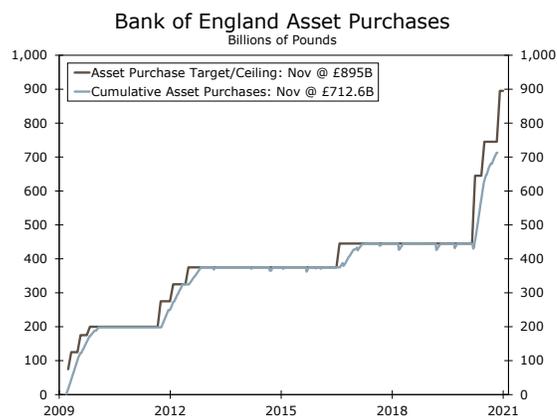
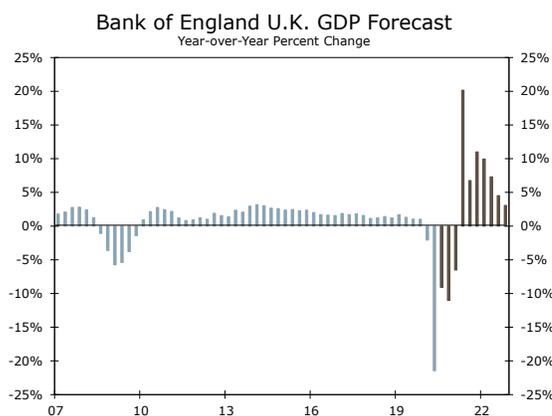


Figure 2



Source: Bloomberg LP, Datastream, Bank of England and Wells Fargo Securities

The central bank also provided an updated economic outlook with today's announcement, lowering its growth forecast compared to its previous projections. For Q3-2020, the BoE expects GDP to rebound around 16% quarter-over-quarter, down from a previously forecast gain of 18% quarter-over-quarter, while in Q4 the central bank now anticipates U.K. GDP to register a renewed 2% quarter-over-quarter decline. For full-year 2020, the BoE expects the economy to contract 10.9%, while for full-year 2021 the central bank expects growth of 7.1%.

With respect to fiscal policy, U.K. Chancellor Sunak today also announced an extension of the salary support program in the wake of the government's renewed COVID restrictions. The program, which sees the government pay 80% of wages for workers that are retained rather than made redundant,

had been scheduled to run until at least December 2. That program is now scheduled to run through until the end of March 2021. The government also announced some additional help for the self-employed and local businesses. The estimated additional cost of these fiscal measures was not immediately available. However, it comes on top of what the International Monetary Fund estimates is already 9.2% of GDP in extra spending or foregone revenues from the U.K. government in response to COVID.

Looking forward, ***at this time our base case does not envisage any further monetary policy easing from the Bank of England.*** We acknowledge that the risks remain clearly tilted toward the possibility of further action, given the subdued growth outlook and Brexit risks not yet fully resolved. Still, the growth supportive effects of today's policy actions and bond purchases that are already set to run through all of 2021, lessens the need for further action in our view. With no *future* policy implications from today's announcements, our outlook for a gradual rise in the pound versus the U.S. dollar over time is also broadly unchanged.

We do not look for any further BoE easing.

Wells Fargo Securities Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	International Economist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Azhar Iqbal	Econometrician	(212) 214-2029	azhar.iqbal@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Brendan McKenna	International Economist	(212) 214-5637	brendan.mckenna@wellsfargo.com
Shannon Seery	Economist	(704) 410-1681	shannon.seery@wellsfargo.com
Jen Licis	Economic Analyst	(704) 410-1309	jennifer.licis@wellsfargo.com
Hop Mathews	Economic Analyst	(704) 383-5312	hop.mathews@wellsfargo.com
Nicole Cervi	Economic Analyst	(704) 410-3059	nicole.cervi@wellsfargo.com
Sara Cotsakis	Economic Analyst	(704) 410-1437	sara.cotsakis@wellsfargo.com
Coren Burton	Administrative Assistant	(704) 410-6010	coren.burton@wellsfargo.com

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