

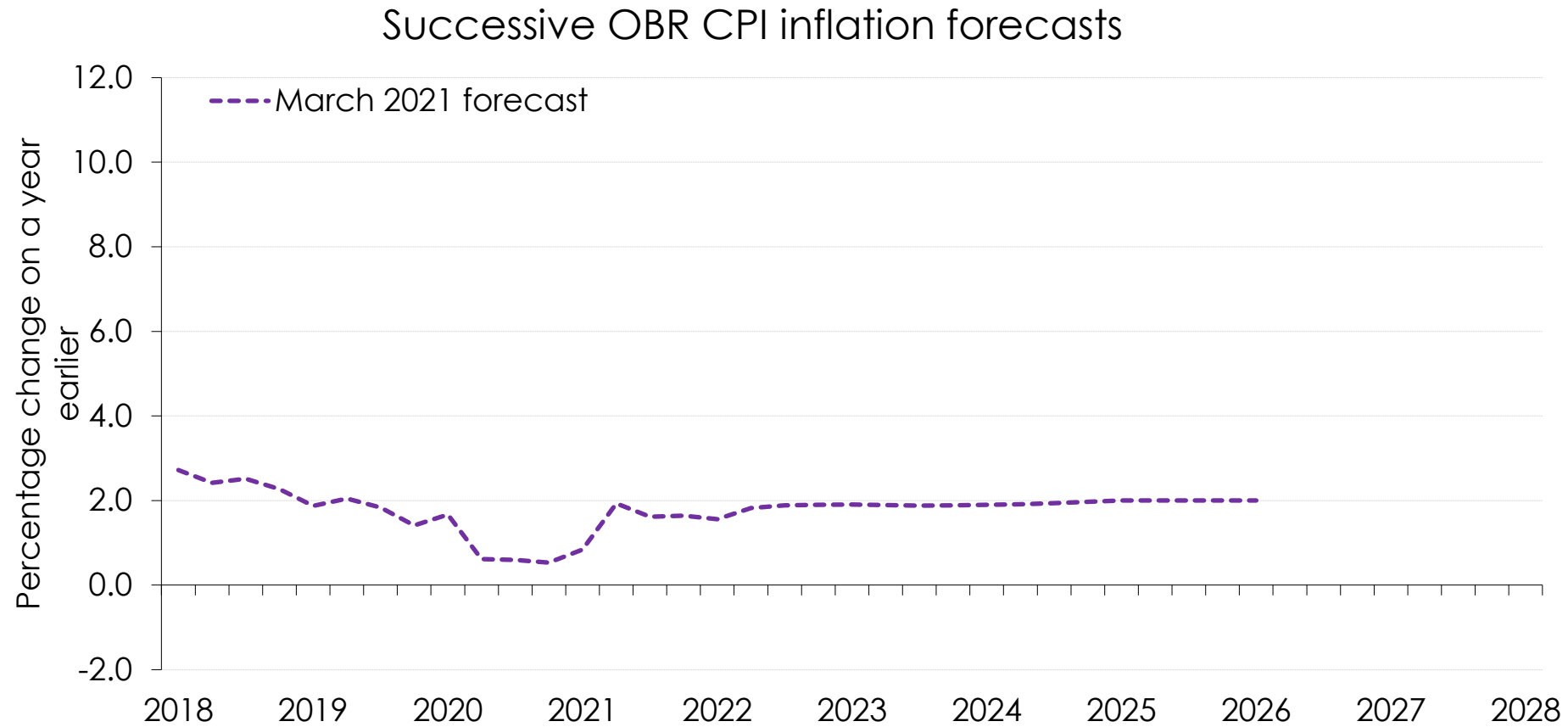
Office for
**Budget
Responsibility**

Inflation 2023: *How good are our forecasts?*

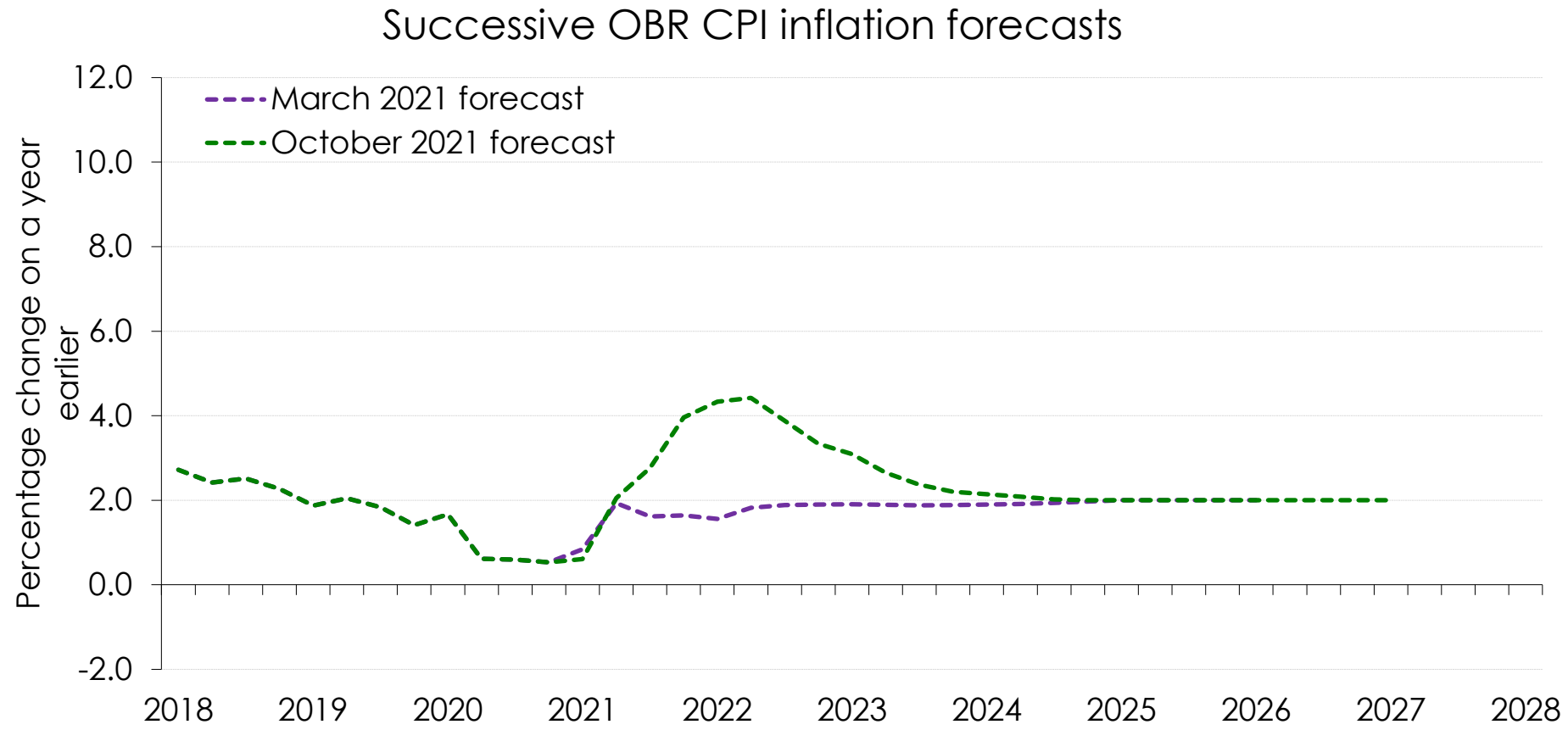
Steve Farrington
Chief of Staff

London
18 May 2023

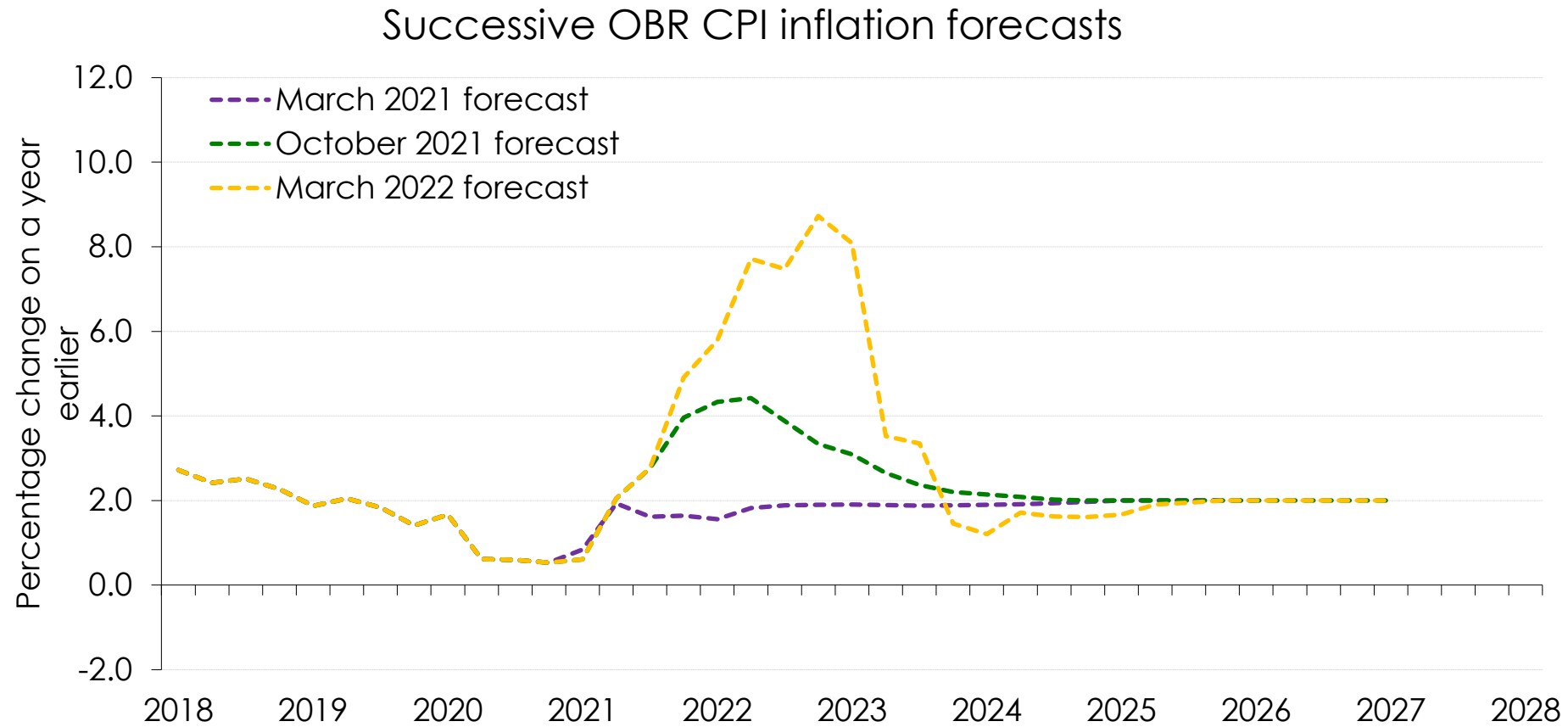
Inflation has significantly outpaced our forecasts



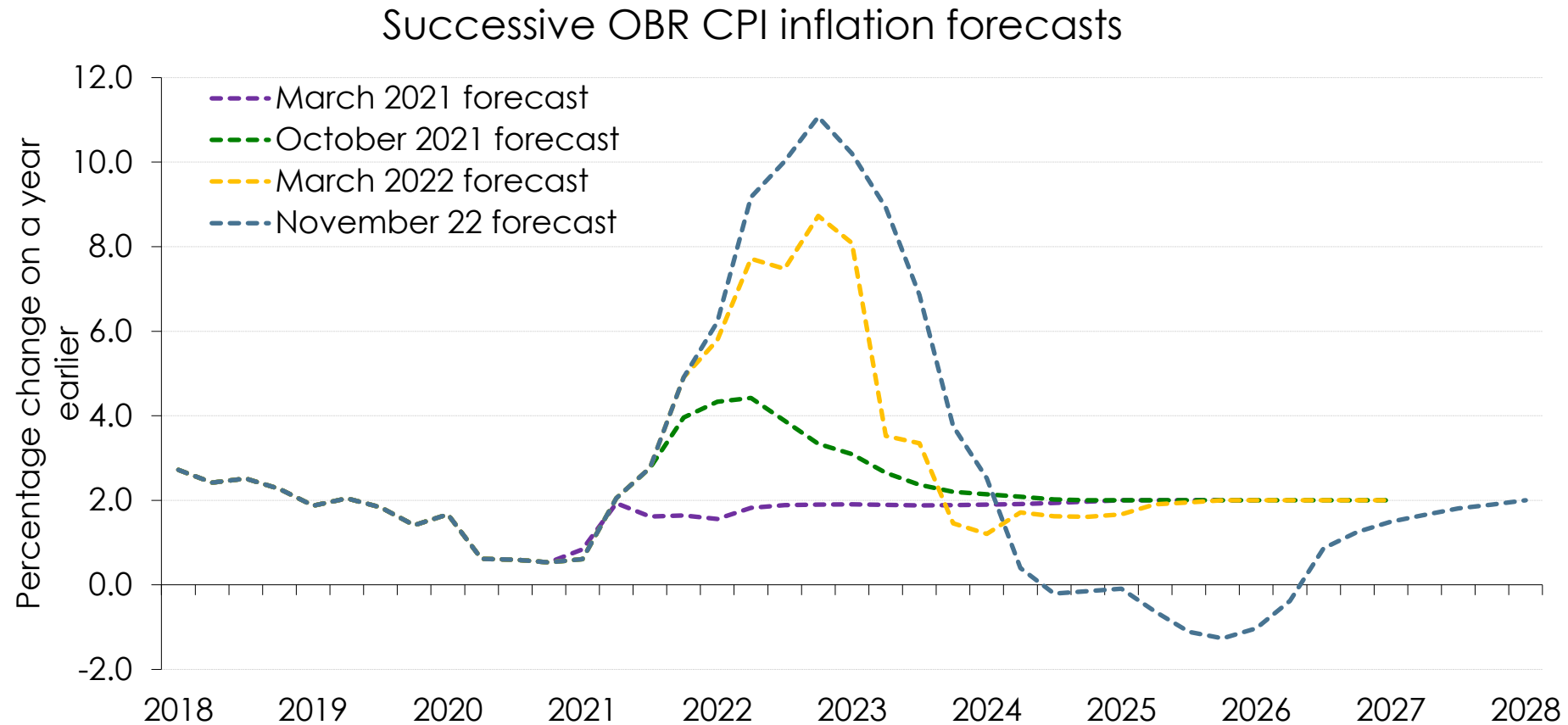
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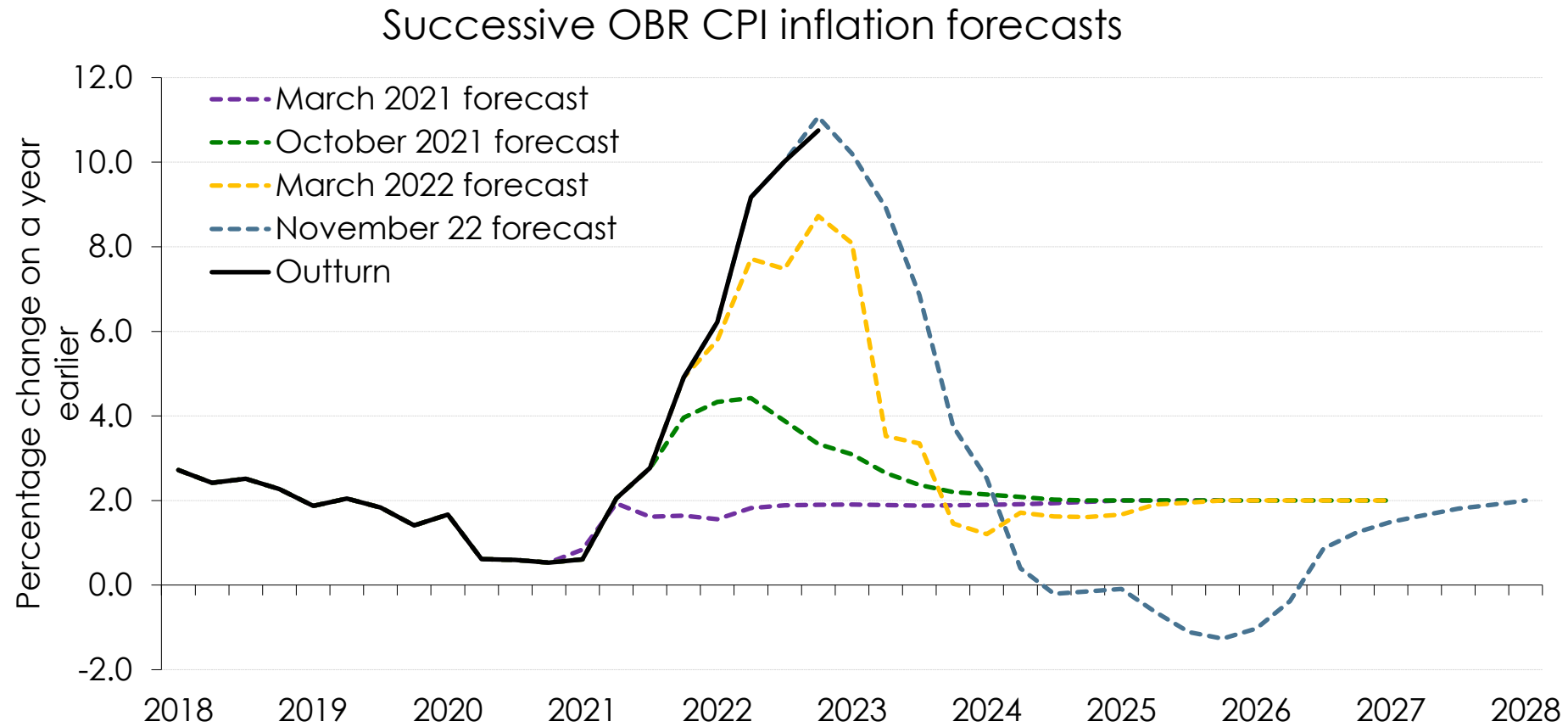
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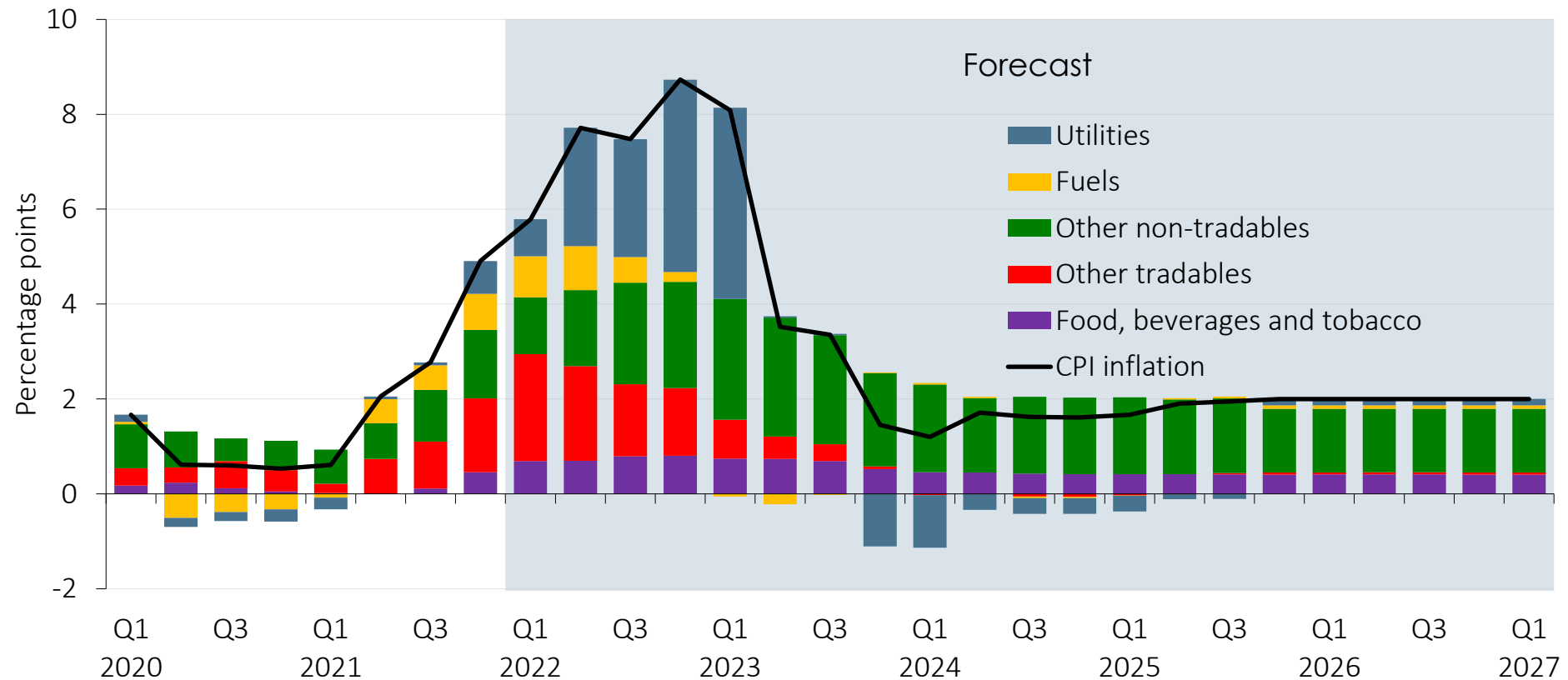


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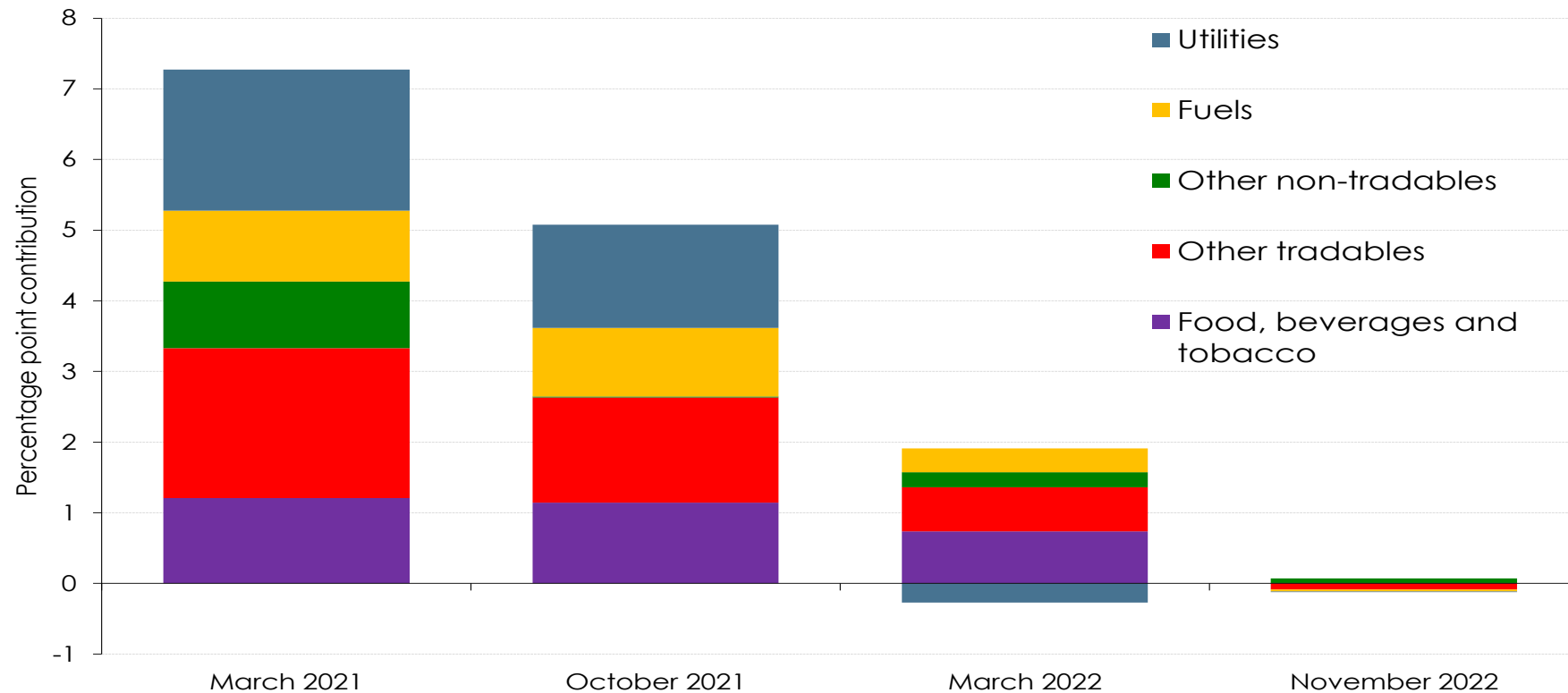
Our March 2022 forecast anticipated limited pass-through from energy to domestic price pressures

Component contributions to CPI inflation



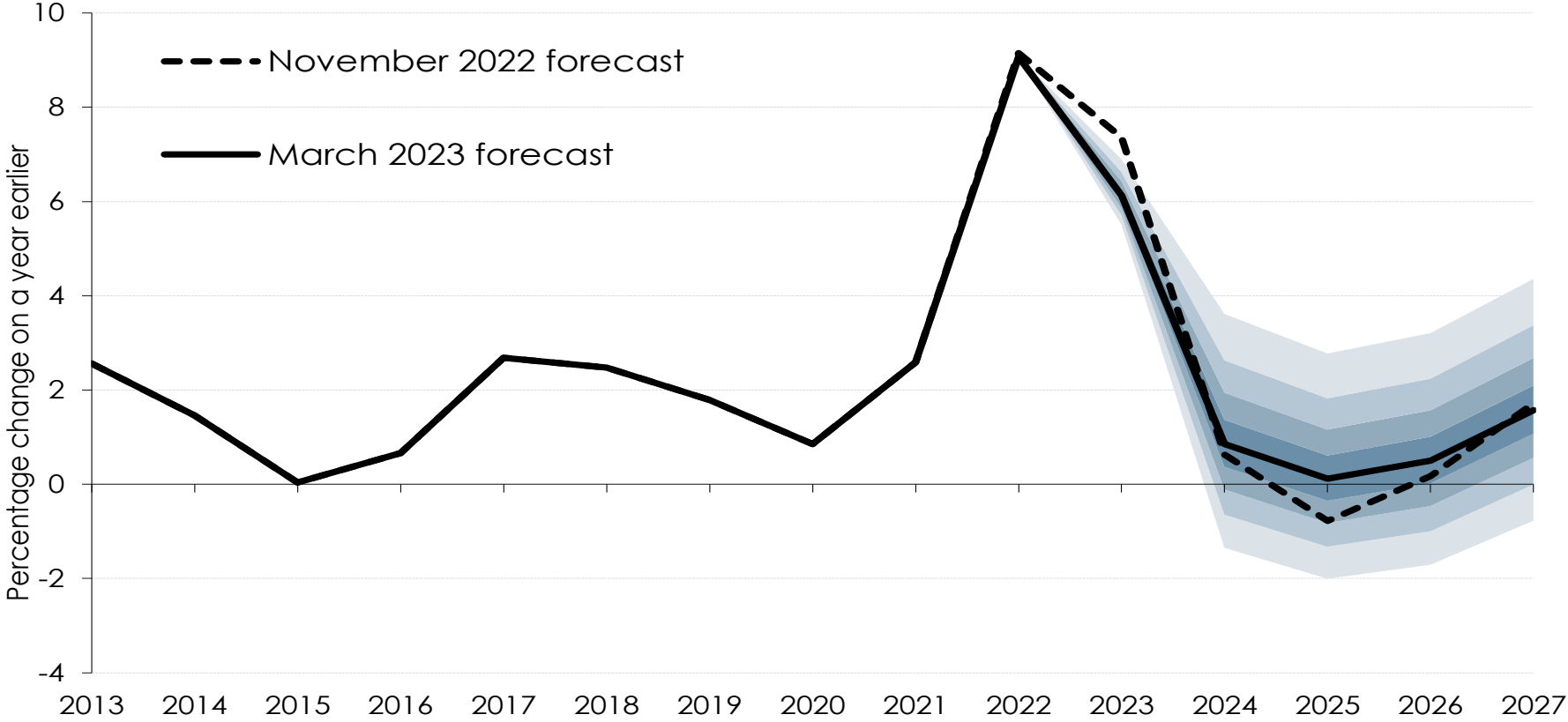
But after initial rise in global energy prices, pass-through to domestic price pressures has been stronger than expected

CPI component contributions to 2022 CPI inflation forecast error



We try to emphasis the uncertainty around our forecasts

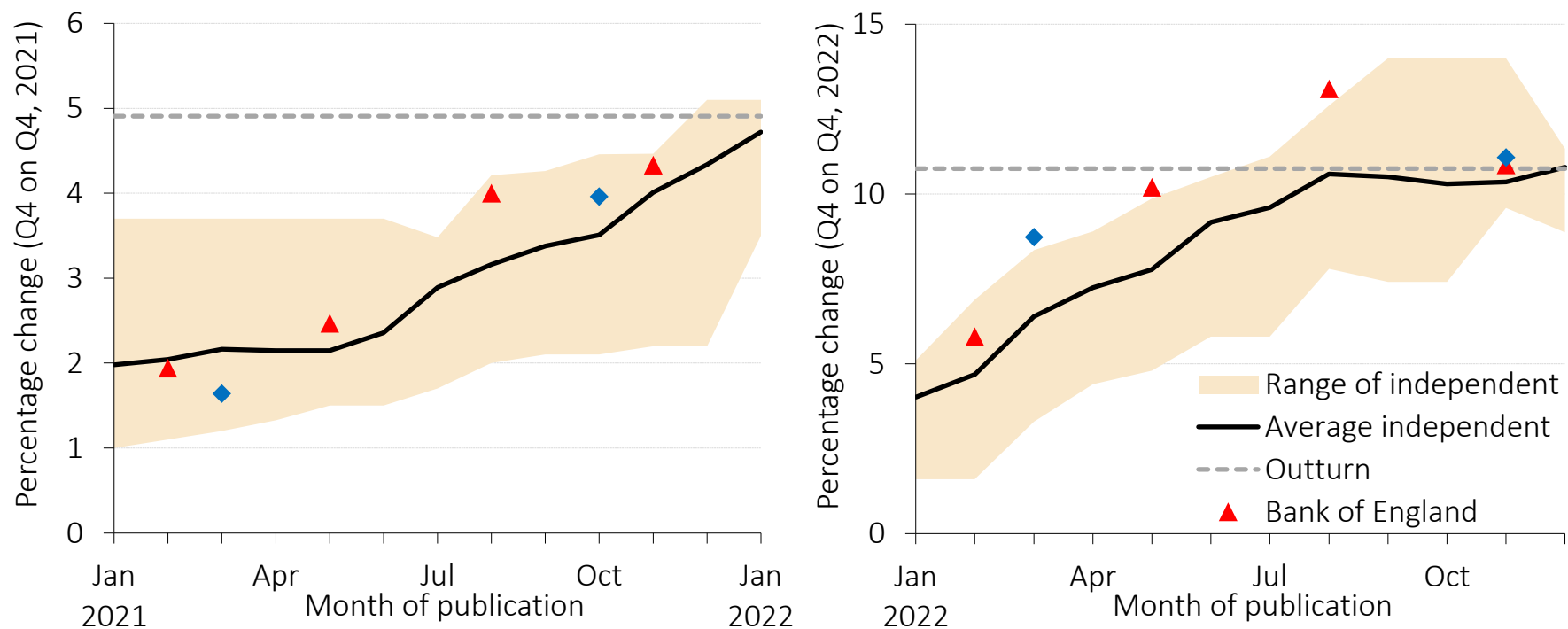
CPI inflation fan chart



Note: Successive pairs of lighter-shaded areas around our baseline forecast (black line) represent 20 per cent

The OBR was not alone in underestimating the build-up in inflationary pressures

Range of forecasts for CPI inflation in 2021 and 2022



Note: Range of independent forecasts pooled over previous 3 months.
Source: Bank of England, HM Treasury, OBR

Conclusions

Inflation has significantly outpaced recent OBR forecasts. It has been driven by several causes:

- Rising energy costs
- An unexpectedly strong recovery in demand in advanced economies
- Persistent supply and logistics bottlenecks, especially in emerging economies in Asia.
- A tighter-than-expected domestic labour market in the wake of the pandemic.

ANNEX

And official UK inflation forecast errors have typically been smaller than our EU counterparts

