The Bank and recession

A few days ago the government celebrated news the UK unlike Germany has escaped recession so far, and welcomed IMF forecasts showing no recession ahead. Now a clumsy Bank of England has driven bond prices down so mortgage rates up as it needlessly threatens more bond sales at depressed prices. There is talk of needing a recession to control inflation.

This is dreadful continuing mismanagement. Why did the Bank carry on with bond buying at very inflated prices for so long? Why was it forecasting 2% inflation for now just two years ago? Why does it not study and comment on huge changes in money and credit which must have a bearing on inflation and output?

The Bank told us it got inflation wrong because it did not foresee the Ukraine war and spike in energy. But why was UK inflation at 5.5% before the war? Why did non energy prices take off? Why did Japanese and Chinese inflation stay low despite energy rises?

The Bank needs to revise its models and try to bring them more in line with what is actually happening to inflation and output. It should not respond too much too late every time, making the cycle worse.

Lecture on Central banks

Today I will give a public lecture at 11 am in All Souls High Street Oxford about Central banks.

I will ask why the Fed, Bank of England and European CB all got their forecasts hopelessly wrong and took inflation up to around 5 times target. I will ask why The Peoples Bank of China and the Bank of Japan presided over inflation that stayed around 2%.

I will ask why the Bank of England first blamed the Ukraine war for the inflation, when UK inflation had hit 5.5% before the war, and when the war’s impact on world energy prices did not cause the same problems in Japan and China.

I will ask why the Bank has more recently blamed bad weather affecting food crops yet they have no weather forecasting variable in their model, and when overall food commodity prices have actually fallen this year.

I will why the Bank’s model has produced such wrong forecasts of inflation yet the Bank does not change its model.

I will examine the bizarre notion that these Banks are independent, when they are important arms of their respective states controlled by national legislation and in four cases owned by the state. Their leaders are appointed by governments.

I will ask why the 3 Banks that got it so wrong do not tell us why and remedy their mistakes.

[My lecture on Sustainable Economic Growth at Reading University]

Please find the audio recording from my lecture on Sustainable Economic Growth, Public and Private Partnerships delivered to students at Reading University, Henley Business School.

It begins at 3:47.

http://johnredwoodsdiary.com/wp-content/uploads/2023/05/HBS-GT11_-Sir-John-Redwood-lecture_-_Economic-growth_.mp3

[My Interview with Jacob Rees Mogg on GB News]

Please find below my GB News interview with Jacob Rees Mogg where we discuss the International Monetary Fund's inaccurate economic forecasts, the Bank of England's policies and expanding capacity.

My Interview is between 6:43-13:26

[Levels of migration]

This week when we finally hear how many people came to UK over the last year we are warned the figure could be considerably higher than the 504,000 additional people when we saw the last annual figure. Some are saying it could rise as high as a million. Others think around 750,000, still well up on the previous high figure. In 2019 the Conservative Manifesto promised to take it down below a figure of under 250,000 which it was running at.

These figures are net. Numbers of people entering the UK has been running above 1 million, with leavers offsetting some arrivals. The incoming migrants are more likely to need subsidised housing, income top up and school places for children whilst those leaving are often older richer people with a home of their own.

I have long opposed the cheap labour model of inviting in many to do low paid jobs. What is cheap for the employer is dear for the taxpayer. Providing a home, school places, NHS capacity, utilities and public services is expensive. The City of Southampton has 250,000 people. If we invite in an extra 500,000 people we need to build two new Southamptons a year to house and service them. We are not building anything like that. No wonder we are so short of houses and no wonder they are so dear.

The EU used to say the set up costs for a migrant were 250,000 Euro to build a home and provide state services. It will be more now. If we took that low field figure of £250,000 that would mean the state spending £125 bn a year to provide capital for 500,000 low paid migrants. It makes the Treasury enthusiasm for more migrants to fill low paid jobs difficult to understand. The OBR model which likes more migrants to boost GDP needs to be recast to be more interested in GDP or national income per head. More low paid jobs do not help that.Migrants also need private sector shops, leisure facilities and the rest.

The Home Secretary wishes to reduce legal migration. The Chancellor should help her instead of thinking it is good for numbers. In his own terms it is bad, adding to pressure on deficits and state spending and helping fuel shortages which are inflationary.There are many sensible ways to cut legal migration starting with an increase in the pay you need to earn to take a job here with a permit.