

Inflation

The Bank of England did a great job with the Treasury in creating plenty of money and offering substantial stimulus to the economy to offset the worst effects of the anti virus policies introduced in March 2020. It was right to continue those into 2021, but it failed to rein them in as the recovery accelerated last year. It has been driving whilst looking in the rear view mirror. A year ago they did not see the big inflation coming even though their extra loose monetary policies in the second half of 2021 were bound to fuel it. Now they can see the inflation in full flood they wish to do something about it. We have had the third interest rate rise in quick succession.

The policies we followed in the EU of encouraging us to sacrifice national capacity in a wide range of areas from energy, through energy consuming industry to food and fishing on the grounds we could buy all that from the continent has left us very vulnerable to the supply chain and trade disruptions world politics is creating. Instead of having our own lower domestic gas price like the USA by producing enough of our own we are hitched to ultra high spot European gas prices. Instead of having enough of our own aluminium, steel, ceramics, glass and the rest we need to import ever dearer product at high marginal prices. Instead of growing most of our own temperate and glasshouse food we are over dependent on what can become stretched supply chains with rising prices.

The Bank of England needs to be careful in its new found ardour to control inflation. The big impact of rising domestic heating bills, fuel bills at the pumps, food costs in the supermarkets and rising mortgage rates is going to take a lot of spending power out of the economy. It looks likely as if the Treasury will make the hit worse with its tax rises. The Bank should pause to see what impact the cruelties of April have on growth and activity as many people struggle with their bills. The Bank needs to keep an eye looking ahead out of the windscreen at what comes next as well as checking the rear view mirror. They cannot stop the current inflation they helped create with too much money and credit. They need to worry about the balance between growth and price rises going forward where there are now big headwinds against growth.