

Inflation is not a problem

The small spike upwards in inflation last month is likely to be temporary. Inflation remains below the 2% target. The recent 20% fall in the oil price, and the fall in a range of other raw materials is likely to push the CPI figure back down again.

In the Euro area and in Japan the authorities are desperate to get inflation up a bit. The general disinflationary and deflationary forces worldwide remain a worry. The virus has struck China and made a temporary hole in her output. It has also hit international travel and tourism. Japan reported a fall in GDP in the last quarter of 2019 owing to her tax rise and is still weak owing to the effects of the epidemic. The car industry everywhere is reeling from the tax and regulatory attacks on diesel and petrol vehicles. US GDP is losing important output from Boeing with the current cessation of manufacture of what was the firm's best selling plane, the 737 Max.

Meanwhile the media that spent three years boring us rigid with silly false scare stories about supply chains after Brexit say very little about the genuine threat to our supply chains from the big decrease in Chinese production this month. We are currently living on product made before the Chinese New Year, as it takes a month for product to reach us by ship. What happens next month?

The Bank of England will doubtless use the uptick in inflation and the stirrings in the housing market as an excuse to do nothing. The rest of the world is busy fighting the downturn with monetary as well as fiscal action. The Bank should join in. The government may face pessimistic OBR forecasts of the kind they specialise in. To the extent that they are sensible, based on the big world slowdown, the problems in the car industry and the effects of the virus, they need to be offset by positive action.

One of the follies of the UK system is it is usually pro cyclical. When a downturn or slowdown hits, forecasts show revenues falling and spending rising, so the demand goes up for spending cuts and tax rises. Instead policy needs to seek to offset any slide to low growth or no growth.