Interest rates now higher than at the time of Truss budget

The Bank of England has been up to its old tricks, hiking rates and selling bonds to hike mortgage rates some more. They think taking money away from mortgage holders will squeeze their ability to spend which will cut inflation by reducing demand.

Will it? The extra money mortgage holders pay in interest certainly cannot be spent any longer by them on goods and services. The money however does not disappear. Much of it is passed onto savers who have deposits in the banks that lend the money. They will have more income to spend. Some of the extra interest is extra bank profit, which leads to higher dividends so shareholders will have more money to spend.

Higher mortgage rates therefore will not limit demand for goods and services as much as the Bank seems to think. It is possible the savers will not spend all their extra interest income, whilst it is likely the mortgage holders would have spent more of the money they now have to pass to the lenders. This is however a matter of degree. It is also likely the savers who tend to be older may well pass some of their deposit interest gain onto their children with mortgages to help them out.

The further sell off in bonds underwrites my argument that the high mortgage rates come mainly from Bank of England rate hikes and bond sales.