Bank of England turns gloomy again and tightens money policy to depress demand

Last year the Bank slashed its forecasts for growth for the year after the Brexit vote and then had to push them up again. Growth accelerated in the six months after the vote against their expectations of a sharp fall. Today the Bank has decided to cut its growth forecasts a little from the upward revisions it made to 2017 at the same time.

The Bank made an important policy statement. What it has decided to do is to tighten monetary conditions despite its own view of sluggish growth. Indeed, it maybe because it is tightening money that it has to cut its forecasts. The tightening occurs in two stated ways. The Financial Policy Committee is reining in both mortgage loans and car loans, whilst issuing general warnings against more consumer debt. This reinforces the contractionary policies being pursued by the Treasury with its big tax hit to Buy to let and dearer properties through higher Stamp Duties made in the April 2016 budget, and its decision to cut back the number of dearer cars sold on the new car market through much higher VED on dearer vehicles. The Bank has also confirmed the end to its Term Lending Facility for commercial banks in February which will soon start to affect their behaviour, reining in credit.

The Bank has confirmed that "much of the weakness in housing market activity over the last eighteen months reflects a fall in the number of buy to let property transactions following introduction of the Stamp Duty change" and confirms that new housing for sale has been growing strongly, with starts up 26% on the year to Q1 2017. Capital investment has disappointed the Bank, though the shortfall is more noticeable in the public sector.

The Bank makes a great deal of the impact of Brexit, blaming Brexit for the fall in the exchange rate. Understanding that it needs to be consistent it has to explain why the Stock market has taken such a positive view since June 24 2016. It decides to say the market has risen because earnings and profits have been good. It then tries to suggest that this is down to sterling, whereas the FTSE 250 Index with more domestic companies and activity has also done well. The FTSE 100 is up 22% since June 24th, whilst the FTSE 250 is up 24%.

The Bank takes the fall in the pound from the pre vote high. The pound reached a 5 year high of $1.71 on 11 July 2014. It fell fairly consistently for 2 years to a low of $1.42 on 16 June, rallied briefly, and then fell away to today's $1.32. Today's level is 10% higher than the post vote low which the Bank does not mention. It is difficult to see why the Bank thinks all the fall since the vote is down to Brexit, but none of the rally is down to Brexit. It also leaves them having to explain what moved the pound down so much prior to the vote and why this influence ceased on the day of the vote. Remember quite a bit of the fall occurred long before we decide to have a vote, and then during a long period when markets were sure Remain would win. Much of the fall was about interest rate differentials at a time of rumoured or actual rate rises in the USA.

The Bank regards the rise in inflation as resulting from sterling, ignoring similar rises in inflation earlier this year in the USA, Germany and others owing to the higher oil price. UK shop prices were 0.3% lower in June 2017 than a year earlier, showing how lower sterling has been absorbed by importers and retailers.

The UK economy generated 324,000 extra jobs over the last year and now has 32 million people in work, with unemployment at 4.5%. the Bank accepts that there will be more good news on employment over the rest of the year. The Bank is being too gloomy again, but this time is tightening money so the economy may well be a bit slower as a result.

Aviva confirm their support for the UK and the City

Announcing good results for their financial service business in the UK, Aviva confirmed their wish to develop and invest in the UK. At the same time they said "In line with our "Not everywhere" strategy we have continued to reallocate capital….we completed the sale of Antarius in France and recently announced the disposals of the majority of our Spanish business as well as Friends Provident International…meanwhile we have invested in Viet Nam" and announced a new joint venture in the UK.

When interviewed by the BBC Today programme the interviewer moved rapidly on when told about their positive approach to the UK! No questions about Brexit – they switched to executive pay instead.

Labour's silence on Venezuela

The sound of silence can be deafening. The Labour leadership has gone quiet when it comes to praising the Chavistas of Venezuela, who they used to tell us had got it right. The Chavez model of giving more and more to the poor was popular and worked for a bit, until the state ran out of money to give. Under Mr Maduro they have resorted to the printing presses to increase benefits, with the result that they have triggered a massive inflation and a collapse of the currency. Venezuela is very dependent on imports for food, medicines and other essentials. It now suffers chronic shortages of basic goods owing to the shortage of hard currency to buy what is needed. It is often the poor who suffer most from the shortages, as they cannot afford the very high black market prices that are the alternative.

Venezuela was once a rich country, and should be so again given its huge oil reserves. Mr Chavez purged the state oil company of skilled managers and executives, replacing them with his supporters. He took large sums out of the state oil company revenues for social purposes, leaving the business starved of cash and talent to maintain and develop the assets. When the lower oil price hit the company was already struggling. Venezuela was 95% dependent on oil for its export revenues, leaving it badly stretched when oil output and the value of the turnover fell.

Like many such regimes the Venezuelan government blames everyone but itself for its plight. It blames the USA, who under President Obama imposed sanctions on the country and saw it as a threat to US policy. It blames the Opposition, who have at times pursued their cause with violence though they would say it is the regime's friends amongst the security forces and colectivos who drag them into fights. It blames the rich for pre-empting too much of the economic activity, whilst often seeking to enrich its own supporters. It blames private sector companies, alleging they hoard goods to create scarcity and higher prices.

The government thinks the answer is political. They see the way forward as the elimination of opposition. They have arrested two of the Opposition leaders. They are seeking ways to shut down or undermine the Opposition led National Assembly. They have elected a Constituent Assembly against the wishes of the Opposition to draw up changes to the constitution, which many suspect will be used as a means of delaying the next Presidential and other elections, and will be looking for ways to eclipse the opposition.

None of this will change the fundamental problems of too much created money chasing too few goods, and the lack of international confidence in the domestic Venezuelan currency. Venezuela's economic model is badly broken. They have demonstrated for all the world to see that printing too much money causes hyperinflation. Taxing and controlling the rich and the private sector too much stifles investment and drives it away from the country. Preferring unaccountable and absolute power over democratic and accountable power leads to violence, a bitterly divided society, and a rolling political crisis.

Does Labour still think this is the good alternative model we should be following?

Overseas firms back City by signing

for new offices

Deutsche bank have confirmed they are taking a 25 year lease on at least 469.000 square feet of the new 21 Moorfields building in the City. They were one of the banks saying they were very negative about Brexit.

Ion Pacific, a Honk Kong financial group, have just chosen London as the place for their European headquarters.

Have the gloomy pundits of Remain any explanations for this good news?

Rising energy costs

Centrica have rounded off the season for the Big six energy companies to increase prices with a substantial inflation busting rise of its own. This is bad news for consumers, and will sustain a higher inflation rate than is welcome for a bit longer following the impact of higher oil prices on our inflation earlier this year.

There is general agreement amongst political parties that these increases are undesirable. There is also some measure of agreement that the companies need to be made to try harder to keep the costs under control, with continuing discussion of regulatory action to sharpen competition or to broaden the scope of price controls or caps.

What is less discussed by the politicians is the impact of their own policies and actions on domestic energy bills. The main rises this year have come on the electricity part of dual fuel bills. According to Ofgem 14.9% of the typical electricity bill is now to pay for environmental and social costs imposed by the EU and UK government. There is the renewables obligation, the energy Green deal, EU targets, the carbon floor, the Warm homes scheme, feed in tariffs and smart meter promotion costs, adding up to a substantial sum. As more and more of our power is generated from renewables with the necessary back up we should also expect wholesale electricity prices to rise.

The government has passed the issue over to the Regulator, pointing out that they have powers to control prices or stimulate competition. The Regulator has rightly warned that introducing a general price cap might lead to a reduction in investment at a time when we need to expand our potential electricity capacity. Threats of price caps tend to encourage companies to raise their prices as much as possible in advance of the imposition of one, and have led to sharp increases in prices in some countries that have tried them when they have been removed.

The new team at the Energy and climate change department need to think through with the electricity industry our needs and the impact of both government and company policies on prices. As readers of this site will know I want to see more and cheaper energy, both for domestic consumers and for industry. The most important thing the government could do for an Industrial strategy would be to pursue a policy of cheaper energy that requires rethinking much of the present complex energy policy, which contains so many interventions, some now seeking to offset other interventions.