

The Bank of England gets it wrong again

On its own logic, model and data the Bank should have kept rates at 5.25%. The CPI they say is about to go up again from a brief encounter with its 2% target. It has fallen thanks to world prices, not thanks to domestic inflation. Energy prices will go up again.

Services inflation and wages came in higher at 5.7% and 5.6% implying more inflation above 2% to come. There was no mention of the consequences of the big inflation busting pay awards for the public sector which is a new inflationary force let loose. The Bank knew all about it as they say they were briefed by the government. There was no analysis of the lack of funding so far identified to pay for most of the planned multi billion increase in spending announced by the new government. Surely this is also a concern? The MPC failed to consider the impact of its damaging losses on bond sales, putting this off til their next meeting so they can carry on claiming huge taxpayer bail outs.

If the Bank believed inflation is a monetary phenomenon they could have made a case for easing. It would be best to do that by throttling back the bond sales they call QT. They are having to set up a generous reverse repo facility to deal with possible lack of money in the system brought on by QT. As they do not so believe they should be alarmed by the continued elevated level of pay growth unmatched by productivity and the way in which a big unfunded public sector pay rise could force more in the private sector to match the inflationary increases.

The MPC was split 5-4. The minority saw the illogicality of the majority and argued more the case I have set out above. The minority too ignored the QT bond sales and the liquidity squeeze in their minuted remarks.

Growing our food and farming industry

48 years in the Common Agricultural Policy did considerable damage to U.K. farming, and led to a sharp decline in the proportion of temperate food we grow for ourselves.

The BSE disease was used by the EU to help shrink our beef herds by prolonged bans after the disease had gone.

The U.K. was kept short of milk quota, forcing us to import milk or milk based value added products like yoghurt and cheese.

Grants were given to get the U.K. to grub up orchards to be replaced by French and Spanish imported fruit.

The Dutch flower industry had advantages which took out much U.K. production.

The Spanish vegetable industry took market shares away from U.K. market gardens.

Now we are out of the EU the U.K. could replicate some of the subsidies, favourable pricing, lower energy costs and regulations that have benefitted continental competitors to U.K. growers. The farming budget needs to be reorganised away from granting subsidies to landowners not to farm to rewarding and supporting those who will invest in more U.K. food production. Modern vegetable and fruit growing can be done in controlled conditions minimising water and feed inputs, and protecting crops from weather and insect and animal attacks. This takes investment which the agriculture budget could assist with.

Growing more at home should also satisfy the greens, as it will mean less CO₂ generated by all those transport movements to import bulky food items and keep much of it refrigerated on the journey. It would mean growing less in countries with bad water shortages.

Grow trees for timber as well as for the environment

The U.K. has a good climate and soils for growing timber. Despite this we end up importing many of our needs from northern softwood growing states where it takes longer for them to grow and adds cost and carbon generation to transport the wood to the U.K. We even import the wood to burn in the large Drax power station.

The state has made some attempts through the Forestry Commission to boost timber sales from domestic woods, but on a small scale. There have been some tax advantages given to woodland but not enough to generate large forestry businesses here.

Given government enthusiasm for more woods it would be a good idea to review the package of licences, tax breaks and help available. The U.K. needs more than lots of extra trees. It needs bigger scale forestry to back house building, furniture and other wood using industries and to power the Drax fires.

Economic inheritances

In 2010 when Labour left office the inflation rate was 5%, the deficit in the past year was 11% of GDP and unemployment was 7.9%.

In 2024 when the Conservatives left office inflation was 2%, the past year deficit 4.4% of GDP and unemployment 4.4%.

Growth in Q1 2024 was 0.7% after little change over a year. Growth in Q1 2010 was 0.2% after the Great Recession.

Which was the worse inheritance?

Saving the car industry

The UK and EU governments have launched an assault on domestic car manufacture. There need to be urgent changes to save what we have got.

The tax on producing too many petrol and diesel cars – or on producing too few electric ones- must be removed immediately. It is a great way to get people to close car plants here.

The subsidies for electric car and charger roll out should be removed. There needs to be further improvement in the technologies and products before urging people to own these vehicles. It may well be that a cheaper and better way of going to net zero for autos is to work with the aviation industry on carbon free synthetic fuels, or with the haulage and heavy plant people who are favouring hydrogen. Until we are much further advanced with these possibilities it is premature to force people into expensive and unpopular battery cars.

It is strange that green campaigners split transport and recommend syn fuel for planes, hydrogen for trucks and batteries for cars. There could be synergies and cost savings if a common set of answers was worked on to the issue of energy for propulsion. Instead governments rush to adopt answers that do not work well and are unpopular with those who need to buy them.

The UK is in danger of losing out badly in auto manufacture by creating such a hostile environment for petrol and diesel vehicles which remain popular and we have been good at.