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.