[The Bank of England gets it wrong again]

The Monetary Policy Committee is struggling. It perseveres with an out of date notion of national capacity, thinks it can judge where we are against it, and then threatens us with interest rate rises and more monetary tightening if it thinks we are at or near capacity. They have been saying for some time that we will get too close to capacity within the next two years and that therefore they need to tighten money to avoid too large an increase in wages and prices. They point towards a further 25bp rate rise after the two so far since the low point.

This month they accept that they have slowed the economy more than their previous forecast, and they accept we may stay below their idea of capacity going forward. Despite this they say they want to tighten consumer credit more, and think the next change in rates will be upwards. This comes at a time of world slowdown, with a nasty manufacturing recession on the continent and elsewhere. The Fed, the ECB and the Chinese Central Bank are all talking of relaxation or additional stimulus owing to the world slowdown and car industry meltdown.

The old Bank of England forecast said they wanted “an ongoing tightening of monetary policy over the forecast period”. The slightly lower forecast of growth this time round makes that less clear. Core inflation was just 1.7% in May, below the symmetric 2% target. They have halved the rate of consumer credit growth since 2016 by FPC action, hitting car loans hard and now wanting to curb credit card debt more as well. They now say 2019 growth could be ” a little below its potential” yet want to do nothing to correct that.

It appears the Bank is out of step with the rest of the world and the reality of the world economy and markets. The Bank says it stands ready to move rates either way in the event of a kind of Brexit it does not expect. None of this is quantified or precise and seems to be another case of the Bank adopting a stance from a pro Remain standpoint, like all those wildly too pessimistic forecasts it made for 2016 – 18 prior to the referendum vote.

UK capacity is augmented daily by big imports of things we cannot make or grow for ourselves, and our workforce is constantly being increased by inward migration. The Bank’s forecasting model needs to take better account of that. Many in the markets do not believe the UK can hike rates when the rest of the advanced world is going the other way. The Fed had a row with the market view that rates had to come down late last year, and lost.