

The state of the economy and those official forecasts

Consumer confidence remains stuck at the ultra low level of minus 47 on the Gfk index. Retail sales fell again in September. The public sector borrowing figure came in at a hefty £20 bn for September, £5.2bn more than the OBR forecast. All this is proof of a weakening economy. So why do the Bank and some in the Treasury think we need to slow it down more? Can't they see that will increase the borrowing we need to do, as slowdown reduces tax revenue growth and increases benefits expenditure.

In the previous two years I had to disagree with the OBR stating they had greatly exaggerated the borrowing needed, as it turned out they had. This year I said I thought their forecast was too low. In the six months to September state net debt has risen by £44.7bn more than the OBR forecast. It reinforces my general point that their forecasting model does not seem to pick up the sensitivity of borrowing to the rate of growth in the economy. Speed it up as last year and revenues surge cutting borrowing needed. Slow the economy down as this year and the reverse happens. It was also clear there had to be policy change to spend more to offset the energy package as has happened.

Given the wonky way they account for interest charges there will be a big windfall decline in interest costs as soon as inflation comes down. Actual interest being paid as cash payments remains low and very affordable. There could be something like a £30bn fall in their stated interest part of total spending going forward from next year.

Meanwhile the mainstream media send out the misleading narrative that a few tax cuts-not the huge spending package on energy- sank the bond market They refuse to talk about The Bank selling bonds and deliberately driving rates higher. They ignore the bond sells in the USA and Europe. The Treasury and Bank establishment have lots of little helpers.