

Why is the Bank of England so mesmerised by Brexit?

The latest report from the MPC of the Bank is as muddled as ever. They record that their February forecast was too optimistic on growth, too pessimistic on unemployment, and got inflation wrong. This time they have boosted their ideas of UK growth next year and the year after to more realistic levels, but taken 0.1% off this year after big upwards revisions last time.

They keep referring to inflation going up thanks to lower sterling, and trying to find a Brexit related explanation to other changes. It's as if they forget we are in an active global economy with many linkages to the world. They did not ask themselves why UK inflation has gone up about the same as German and a bit less than the US. They forgot that dollar oil price rises underlay much of the US inflation, just as it underlay inflation in other countries that had not had a fall in their domestic currencies. They seemed to fail to make the link between weaker first quarter growth in the UK and also considerably weaker first quarter growth in the US where the currency has been strong and in most of the Euro area.

Weak first quarters on both sides of the Atlantic owed much to a mild winter hitting energy output and demand. Higher inflation in most places was related to the oil price and general commodities. This quarter oil and commodity prices have fallen, the pound has risen and in the UK the weather has been colder for the time of year. All this points to another change of direction for inflation and output. They asked if weak UK cars sales in April means weak consumer confidence. Surely it is instead the response to large rises in VED in the budget which may reduce sales for more than one month, just as Buy to Let taxes are still hitting the second hand homes market. It looks as if there will continue to be a synchronised recovery in the main economies. It is difficult to see much sterling effect on prices given the way UK inflation has moved as in other expanding economies with stronger currencies. It is also difficult to see why Brexit should have the impact on the Banks forecasts, as they helpfully assume a smooth Brexit as their base case.

I do agree with their decision to put up their output forecasts for the next two years, and their upward revision to employment.

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