

Will the Bank now relent as the economy slows?

The Bank of England's way of fighting its inflationary mistakes of 2021 is to slow or stall the economy. They want to stop price rises by ensuring people cannot afford to buy so much, and to stop wage rises by increasing unemployment. This is all most unpleasant.

I have often pointed out it ignores two ways of sorting out inflation. The first is to avoid excessive money and credit growth. It is true the Bank without saying so has now flipped from monetary excess to monetary tightness. The second is to promote more supply, which the Bank and government working together could and should do.

Yesterday the updated survey of UK business found that the average figure had fallen to 47.9 where 50 is the tipping point from no growth to growth. Services were at 48.7 and manufacturing at 43.3, so both sectors are now in retreat. This mirrored the Euro area whose Central Bank made the same mistakes in 2021. Their overall figure is 47, with services at 48.3 and manufacturing at 43.7.

Euro area interest rates have been held lower than ours and their Bank is not selling bonds off in the market at huge losses. When will the Bank of England get the message that it may now be lurching to too tough? It needs to get better at forecasting inflation and to build a model which reflects the realities of the lag between raising rates and the impact on jobs and activity.