

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 It perseveres with an out of date notion of national capacity, thinks it can judge where we are against it, and then threatens us with interest rate rises and more monetary tightening if it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 MPC 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.

[Gatt 24 and free trade](#)

The Governor of the Bank of England tells us we cannot escape tariffs by offering to negotiate a free trade agreement. If the EU agrees to free trade talks as we leave the EU then we can.

Gatt is a Treaty designed to promote ever freer trade. Article 24 allows members of Gatt – now the WTO – to negotiate free trade agreements with each other that go further than the trade liberalisation and tariff reduction offered to all other members by the states concerned. The two states must not seek to raise barriers with others as a result of proposing a Free Trade Agreement between themselves. The aim “should be to facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties with such countries”

The only requirement to gain GATT approval for having no tariffs on each other’s trade whilst in negotiation is that the two states or customs unions must agree “ a plan and a schedule for the foundation of such a free trade area within a reasonable length of time”.

[Boris Johnson speaks in the Wokingham constituency](#)

On Thursday night Boris came to dinner with Conservatives in the mid Berkshire area at a function organised by Reading West Conservatives and held in the Wokingham constituency.

He gave a wide ranging speech full of positives for our future once out of the EU which was well received by the Conservative members present from several local constituencies. He is keen to see better education from higher per pupil funding, faster broadband and better roads and railway investments.

[The Governor of the Bank is wrong on GATT and on UK money policy](#)

I have tweeted about this today and will write a considered piece for tomorrow.

[You read it here a long time ago – Johnson versus Hunt](#)



<https://johnredwoodsdiary.com/>

As predicted the Conservative party has a clear choice to make between the two remaining leadership contenders.

I am pleased it is Mr Hunt and not Mr Gove in the final. If it had been Mr Gove the media would have had a month of re running all that Mr Gove said and did to stop Mr Johnson running the previous time, trying to make it into a bitter personal feud whatever the candidates wanted. This would have got in the way of a serious debate about the future of our country and its democracy.

The Johnson campaign made clear yesterday to supporters like me it did not want Johnson voters voting tactically to influence who was second. I continued to vote for Boris.