

The Bank tries various sets of forecasts

After the collapse of its famous 2% inflation forecast for this year the Bank has gone over to providing a range of forecasts. These at least accept the uncertainties of the world and the difficulties of accurate spot forecasts. On one of their scenarios inflation tumbles well below target over the next two years and on their base case after inflation yet again higher for longer than past estimates, it too subsides to target in two years. On all of the scenarios there is a big hit to real incomes and GDP from the fourth quarter of this year.

The Bank makes it more difficult for itself in forecasting by assuming no fiscal policy changes and assuming no new shocks in either direction. The Bank's mandate is primarily to keep inflation around the 2% CPI target, but it also is required to take growth and employment into account. The Bank's rationale for tightening money policy so much that a recession is likely is that they need to stamp hard on the inflation now to stop it running away with them. They are right to want to arrest any wage/price spiral. If they look at the data there is no sign of that happening, with wages lagging prices by a wide margin leaving many more people worse off. This is likely to be followed by falls in inflation as a result. The inflation in the UK has been delayed and extended by the energy price controls which mean there is more bad news to come this autumn when the price cap is lifted again.

Markets expect the Bank to carry on increasing rates this year all the time there is still plenty of inflation around, but expect them to have to cut again next year as recession sets in. It is a depressing boom/bust policy all over again. The Bank fails to forecast big issues ahead, follows the wrong path, then corrects retrospectively. It should instead be looking ahead more. The main problem is shifting from inflation to recession at the very moment the Bank wakes up fully to the inflation.

In May 2021 the Bank forecast 2.3% inflation for Q2 2022 and 2.0% for Q2 2022 with rates at 0.1% then 0.3%

In August 2021 the Bank forecast 3.3% inflation for Q3 2022 and 2.1% for Q3 2023 with rates at 0.2% and then 0.4%