

Everything has changed. We are now living in a wartime ...

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As [the FT has noted](#) this morning:

UK consumer confidence plunged in February and many measures of spending remained below pre-pandemic levels as surging living costs hit morale even before Russia invaded Ukraine. The consumer confidence index, a closely watched indicator of how people view the state of their personal finances and wider economic prospects compiled by research company GfK, fell seven points to minus 26 in February. It was the lowest score since January 2021 and one of the worst since the start of the pandemic.

The trend is heavy, and marked. The report also reflects what is really happening. Spending on what are called 'delayable items', like clothing and homeware are down, with little sign of likely recovery, whilst spending on entertainment is also running much lower than last November. There is as yet no post-Omircon recovery. In other words, it is very likely that the mood has changed, significantly.

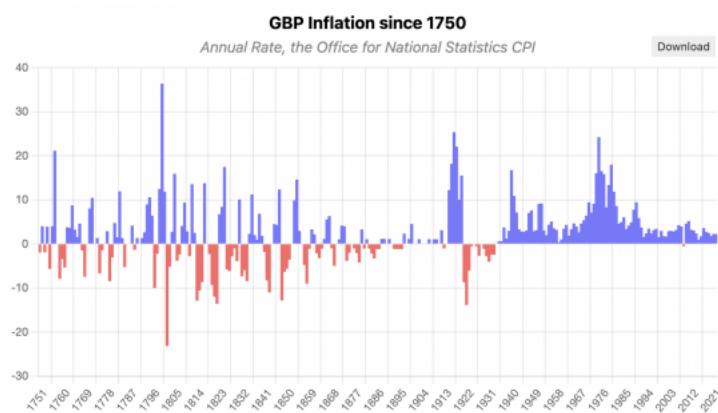
This is hardly surprising. Threatened and real increases in food prices, petrol and diesel costs, energy tariffs and taxation are all casting a very long shadow over consumer confidence for the very good reason that many household budgets are going to be stretched to their absolute limits. And that was before war in Ukraine.

What was already looking to be a fairly grim economic situation is now, in my opinion, looking very much like a profoundly recessionary environment. Petrol prices are now expected to rise to £1.60 per litre. If yesterday's gas price increases are sustained the domestic energy price cap would have to increase to something like £3,000 a year this autumn, which will push many households into an impossible situation when trying to balance their budgets. And, given that both Russia and Ukraine remain major wheat exporters, the price of food is going to rise as well.

And then, just as if things were not bad enough, the Bank of England is still sending out the message that it intends to increase interest rates.

Add all these factors up and the fall in consumer confidence is entirely rational. More than that, we should read it as predictive. As my fellow Mile End Road economist Danny Blanchflower points out in his research, consumers have been consistently better at predicting recessions than central bankers and economists. They have got the last seven right and I doubt that anybody else can claim that. We should in that case be listening to what they are saying and take heed of it.

The reality is that although we are not technically at war, and I hope that that remains the case, we will for some time to come be living in something akin to a wartime economy, with all the price implications that this brings. In particular, some realities have to be accepted during wartime eras. One of them is that [wartime inflation is inevitable](#):



The stand out peaks in inflation are due to the Napoleonic Wars, World Wars 1 and 2 and the 1970s Middle East conflicts, and their fall out.

To pretend that this war is not going to have such a consequence would be absurd. War changes everything. What it should be changing is the attitude of the Bank of England towards trying to control inflation when there is nothing whatsoever that it can do about it at this point in time. The sooner that this is acknowledged, the better.

The sooner that the government recognises that it will have a duty to protect those who are most vulnerable as a consequence of this change in circumstance, the better too.

Whatever the outcome of the war in Ukraine, and we can but hope for the best at present, the real consequences for the UK economy are going to be very significant indeed. In particular, without dramatic government action to support the well-being of very large numbers of people in the country the growth in poverty is going to be almost unprecedented in scale.

To react, a number of things are necessary. First, really effective measures to control the economy that will also impose sanctions on Russia are required. I [discussed some of these](#) a few days ago. Call these wartime controls if you like. I don't really care: the

time to take corruption out of our economy has arrived.

Second, there will be an urgent need for economic support for people, and the economy in general. Far from the government standing back, which is its preferred course of action, now is the time for it to take action to prevent very real hardship from arising.

Third, this will require a radical change of approach from the Bank of England. Far from it being in the mood to increase interest rates, I very strongly suspect that these need to be cut and a new programme of quantitative easing will need to be considered to support new plans for government expenditure.

Fourth, the government will need to reconsider very quickly what its taxation priorities are. A very rapid shift in the burden of taxation away from those who are going to be hardest hit by the price pressure that is about to happen, and onto wealth, is absolutely essential if the correct balance of taxation to support the economy at this point of time is to be put in place.

Fifth, this change of policy needs to be very publicly announced to provide people with the confidence that they require so that they might have a reasonable hope of getting through the coming economic crisis which now looks to be unavoidable.

Wartime leadership is nothing like that in peacetime. There is now war in Europe, even if we are not directly involved. To pretend that economic management can stay as the government planned only a week ago would be the most massive policy mistake on its part. I am only hopeful that the dogmatists in the Treasury are aware of this.

Everything has changed.