

Is the Bank of England at risk of missing a major downturn...

www.taxresearch.org.uk/Blog/2022/04/22/is-the-bank-of-england-at-risk-of-missing-a-major-downturn

Published: January 12, 2026, 8:17 pm

As I have [already mentioned on this blog](#), Danny Blanchflower and I have been working together on our vision for the economic policy that the UK needs at present. The following post is by the two of us, and sets out our basis for concern:

We are worried. Today it's been reported that UK retail sales are collapsing and consumer confidence plummeted just as we had expected. [The bottom is nowhere in sight](#).

This suggests to us that the UK is probably headed to – and may already be in recession: this now seems almost certain, driven by tax increases and spending cuts and rate rises by the Bank of England, who we should recall also missed the Great Recession in 2008. Six months after recession started in April 2008 the majority of those at the Bank had no idea about this and just as now were talking about raising rates. Then they had to cut them as inflation plummeted. It is difficult to identify turning points but there are many indicators to watch that are all now flashing red. We are at risk of history repeating itself.

In this post we set out our concerns. When doing so we have, inevitably, had to appraise both the real-world data on what is happening, and the explanations for current policy that are being supplied, most especially by the Bank of England when the Treasury has little meaningful to say to justify its own inaction. This post brings some of that thinking together. It is not policy focussed: that is for another article. The intention is to look at the issues that cause us concern.

In this post we essentially argue three things. The first is that consumer sentiment in the UK suggests that the economy is collapsing. As Danny has shown in his research, this is the most reliable indicator yet found of an oncoming recession.

Second, we argue that interest rate increases are the wrong response to this crisis,

offering a number of reasons.

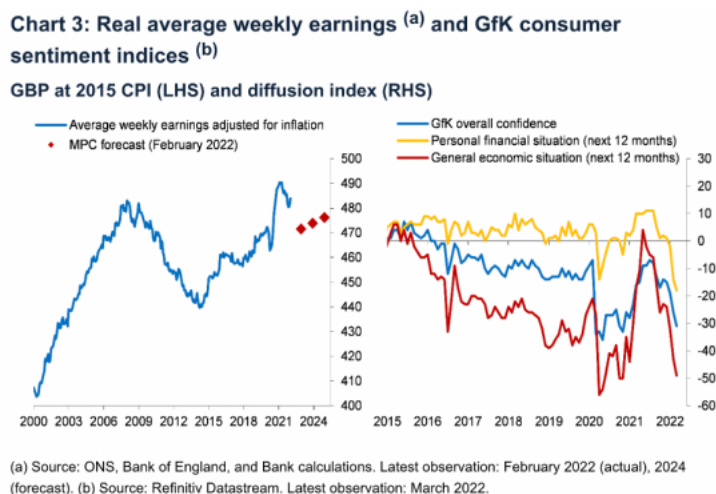
Third we suggest that the Bank of England has also misunderstood the current inflation and is applying its mandate without consideration of the social consequences of doing so.

The analysis offered is not academic: if it were we would use a considerably wider range of sources. The conclusions would, however, be the same. It would just be harder to read.

Danny coined the phrase 'the economics of walking about', which was the [title of a speech he gave](#) when a member of the Bank of England Monetary Policy Committee in 2007. The idea is quite simple and was used by Danny to forecast the 2008 crisis, which the rest of the Bank missed, entirely, but which [Richard also forecast](#) using not dissimilar approaches.

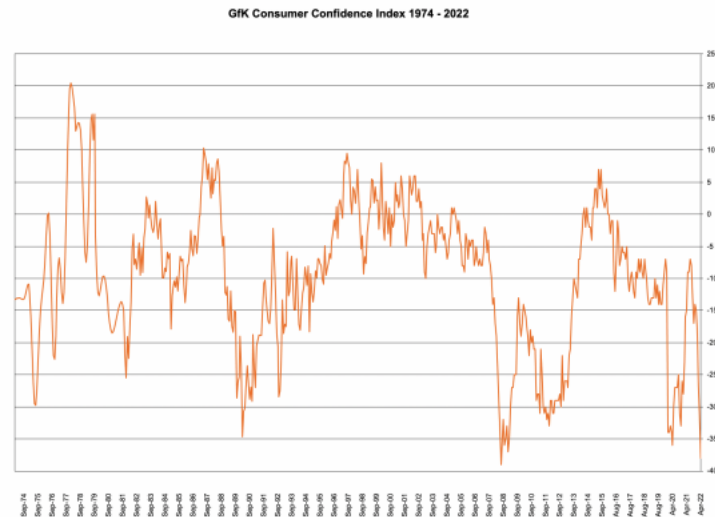
As [Danny's work has shown](#), people's sentiments are the best indicator of future levels of economic activity that we have. Asking people what they expect to happen is the best way of finding out what will happen. The sentiment of people you might meet 'walking about' is simply more reliable than the data and modelling produced by most professional economists in forecasting the future.

The evidence that people think that there is going to be a recession in the UK (with similar findings being found in other countries) is overwhelming. We [note this data in a speech](#) published by Catherine Mann, a Citi bank economist who sits on the Bank of England Monetary Policy Committee this week:



The right-hand chart is the more telling at this moment: the left is one to return to. Interestingly Dr Mann seems to believe that this data is irrelevant and it was time to raise rates at the Bank of England's next meeting in May, and this despite that chart showing that the Bank of England were aware of plummeting consumer sentiment when making their last decision to increase interest rates.

We now know that matters have got much worse. The latest Refinitiv GfK data is now available, having been published today, and shows this:



Consumer confidence has collapsed.

The troughs are in 1975 (inflation crisis as a result of oil price crisis), 1981 (Thatcher crisis, destroying the economy), 1990 (ERM crisis), 2008, Covid and now. The current situation is just about as bad as it gets. On every occasion, consumers knew how bad things were. They do now, we suggest, and matters can only get worse this time. We are moving into uncharted territory. It is our simple suggestion that with things this bad conventional economic thinking is way out of its depth and alternative approaches are required.

We also know that business confidence is collapsing as well. The [S&P / Chartered Institute of Supply and Procurement indices for April 2022](#) show that April data indicated a much weaker speed of recovery across the UK economy, largely due to the slowest rise in new orders so far in 2022. Survey respondents mainly noted that the cost of living crisis and economic uncertainty arising from the war in Ukraine had impacted client demand.

Despite this the only policy response we are seeing to this crisis is coming from the Bank of England, The Treasury recently stood aside and, apart from increasing taxes wholly inappropriately did almost nothing in the Spring Statement. The Bank has now increased interest rates twice. They now stand at 0.75%. Some in financial markets think it is the Bank's aspiration to raise them again, to maybe 1% in May, and that the target is 2.5% by next year. We completely disagree with this policy, for three reasons.

First of all, a policy of increasing interest rates to reduce prices only works to tackle inflation created by excess demand for goods driven by excess incomes within the economy. There is no such excess demand within the economy. This is the chart of retail sales in the UK issued by [the Office for National Statistics today](#):

Figure 1: Retail sales volumes fell in March 2022 but are 2.2% above their level in February 2020

Volume sales, seasonally adjusted, Great Britain, March 2019 to March 2022

Perhaps as worrying is the chart for online spending, which is likely to better reflect discretionary spending:

Figure 3: Non-store retailing sales fell back again in March 2022

Volume sales, seasonally adjusted, Great Britain, March 2019 to March

2022



Source: Office for National Statistics – Monthly Business Survey – Retail Sales Inquiry

Retail sales are already falling, and that is before energy price increases. There is an overall shortage of demand in the economy. Families are now widely expected to be facing a cost-of-living crisis and millions are expected to go into poverty. Despite that the Bank wants to reduce demand still further by crushing the household incomes of those who borrow (who are by definition usually amongst the least well off) still further by increasing interest rates. This can only make matters worse, not least because of the wholly inappropriate social consequences that flow from it. In our opinion rates need to be at or near zero again, and most likely strongly negative. Forcing them upwards makes no sense. The MPC should be cutting rates not raising them.

So why is the Bank of England pursuing such an inappropriate policy – signalling that more rate rises are coming - in the light of the evidence that they know exists, that consumers think we are heading for economic Armageddon in a way not known during the working lifetimes of most of those now involved in economic policy decision making? The two increases we have already had were in error in our view.

As far as we can tell from the recent speech by Catherine Mann the Bank disagrees with the idea that if consumers think the economy is going to slow, it will. Instead they think that if only the Bank can send out a signal to the world that they are going to tackle inflation then the expectation of inflation will go away and all will be well. The belief is that people will drop their expectation of higher wages (which are happening, as noted in the first chart of this post, which comes from this speech) if they believe that the Bank will get inflation under control by increasing interest rates, irrespective of their consequences. That, however, requires the Bank to believe that people think that they

believe that the problem causing inflation is that people just have too much money to spend and that if only that excess money is taken away from them then all will be well in the world.

In this context it is worth noting that Bank of England Chief Economist Charlie Bean [said in April 2008](#):

And indeed some commentators have argued that the MPC should have been more aggressive in cutting interest rates in order to head off the risk of the credit crunch turning into something particularly nasty. But that would simultaneously have increased the likelihood of inflation becoming de-anchored, another outcome we want to avoid.

It is as if nothing has been learned. Not only are the priorities as wrong now as they were before the last crisis, as what we have written here shows, what the Bank of England want to believe is not what is actually happening in the real world. Most people have too little money. They have no excess to spend. They cannot save. They have no savings to draw on. Their lines of credit will soon expire. And they have no way of knowing how they can make ends meet without wage rises, which the Bank is determined will not happen. As a result, their confidence has, quite reasonably, crumbled. But Mann thinks consumers are wrong to feel that way and that the Bank is right in their belief that people's confidence should grow because the Bank is seeking to crush their well-being. As such she thinks the policy of increasing rates should continue.

Worse, and our third argument, she appears to think this even if it means that people might remain worse off when inflation is curtailed, which is a point Mann explicitly makes in the speech, where she suggests that this is an issue beyond the mandate of the Bank of England, whatever its ramifications, which we would suggest include long term hardship. .

There is much more we could say on this speech, and others by Bank of England personnel, but what ordinary people have realised is that the Bank is the only agency pursuing economic policy in the UK right now, and it does not care about them. It is actually doing the exact opposite to what it should be doing in a time of a European war

Nothing else really matters after that is appreciated. No wonder consumer confidence has collapsed. No wonder retail sales have collapsed. Economic policy is being run against the best interests of people at a time when people are facing economic poverty, despair and potential very real distress.

What to do about this? That is the subject of another post. The point of this one is to make clear that, firstly, people are rightly concerned; secondly, the Bank of England has its policy response to this crisis wrong and thirdly it does not care about that.

There is, however, a critical comparison to make. The UK actually went into recession in

April 2008, and not after Lehman Brothers collapsed in September that year. Danny, alone, on the Monetary Policy Committee at that time realised that. In January 2008 he was already arguing for interest rate cuts. In [a Guardian article](#) that month he was noted saying "Worrying about inflation at this time seems like fiddling while Rome burns."

In September that year [the minutes of the MPC note](#) that "A case could be made for an increase in Bank Rate. There still remained a significant risk to inflation expectations from the expected short-term rise in CPI inflation."

In contrast it was noted with regard to Danny's contribution that:

For one member, the prospects for UK demand had clearly worsened over the month, increasing substantially the downside risk to inflation in the medium term. There was no evidence that inflation expectations were pushing up nominal pay growth. The slowdown might be amplified by financial institutions' responses to increased financial fragility. A significant undershooting of the inflation target in the medium term, at a time when output and employment would be well below potential, risked damaging the credibility of the monetary framework.

The reality was that inflation fell by more than 4% over the coming year. It was killed by worried consumers reducing their spending, and not by the interest rate cuts that began a month after Danny made the above point.

We feel we are in the same place now. Whilst the Bank of England fiddles with rates people's livelihoods are failing, and the economy is burning. We are likely to be in recession again, already. But still the Bank does not get the issues, the messages from the data, or the required responses. And that is why we are worried.