

Storm clouds are gathering

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The economic outlook appears to be even poorer this morning.

Those renting are having a torrid time. [Rents are up at least 10%](#) in the past year.

Those who can get a property [are accessing some of the poorest housing stock](#) in Europe.

The government is going to make things worse. [They plan to solve the refugee processing backlog](#) by releasing 50,000 into the community without support, many of whom will then become homeless.

And things are little better for homeowners. [MetroBank is in financial crisis](#) (although that's being talked down). The bank has a loan book that few think of the highest quality. That is why its value has fallen to £100 million. The problem for it is it needs to refinance £350 million of its own loans in the next year, and raise £250 million in extra capital. There is, I suggest, no way that it can survive that dual demand in its existing form. A white knight will have to be found, and that is always a sure sign of an impending financial crisis. Just think back to 2008.

That is not the only problem for banks. [As the FT has noted](#), bank third quarter earnings look like they will be hit hard by the fall in the value of their bond holdings as markets take the impact of long-term high-interest rates into account. Since interest rates and bond values are pretty much the inverse of each other, those rates are now hitting the value of bank balance sheets hard, just when their mortgage and loan portfolios are severely threatened by bad debt risks, also created by high-interest rates.

Those bad debt risks are, of course, the consequence of personal and business debt crises as high interest rates hit. So, there are further threats of homelessness whilst unemployment is bound to rise.

And let me add some more misery into the mix. [September was totally abnormally hot](#):

September 2023 was the warmest on record

Global average surface temperature anomalies relative to 1991-2020, each September

1.0C

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0.93C
September 2023

0.5

That's not just aberrational: it is staggeringly abnormal, and that is continuing. I am writing this in the open air and just shirt-sleeved at 8.20 in the morning in October, with 25 degrees forecast for the south at the weekend. The scale of investment required to manage this is also off the scale.

So what does all this mean?

First, it means that the Bank of England policy of high-interest rates is working as I predicted it would, to crash the economy. That did not require me to be an exceptional seer: the Bank of England wanted this to happen to crush demand in the economy and is getting what it wanted. I just had the honesty to call it out. The crisis we face is not necessary: it is being manufactured in Threadneedle Street.

Second, the cost of this is not going to be some little blip in the economy. This moment now feels like 2007 - when everything began to go wrong but few said it (again, I was one of the exceptions). It feels like everything could totter over soon, with calamitous (I do not use the word lightly) consequences.

Third, no one is getting ready for this. The Bank of England is talking about selling £100 billion of its bond portfolio in the next year as part of its quantitative tightening programme as part of its programme to maintain high interest rates when the reality is that it should be planning for the emergency support that the economy is going to need, soon.

The Tories are playing games. The whole focus of their conference was putting spanners in Labour's works: HS2 abandonment apart, nothing they announced will have the slightest consequence before they are out of office.

And then there is Labour. This weekend will be interesting only for the sentiments on display. If they win today's by-election in Scotland they will be buoyant. If not (and you can guess where I stand on that) they will be hunkering down before even reaching office.

My suspicion is that they will win because there is always a backlash against a sitting MP who has failed. In that case, expect talk of them saving public services without spending a penny on them because fiscal rules will be referred to time and again, whilst nothing of substance will be said because (as Pat MacFadden has tediously said, yet again, this morning) they 'need to see the books' before deciding on anything. It is as if imagining what might be revealed is a task way beyond their ability.

Fourth, then, there is the real need. That is for an economic redesign. [I mentioned the need for innovation around what is possible yesterday](#). Nowhere is that more apparent than in the economy itself.

We need to cut interest rates because that is possible and would cut inflation. It is economically counter-cultural, but when convention is very obviously not working what

is wrong with that?

We also need to raise taxes on the wealthy for three reasons. The first is that the government needs to spend more as a proportion of GDP in both the short and long term and that will require that the inflationary impact of that spending be removed from the economy by making extra demand on those best able to meet it.

The second reason is that income has to be redistributed into the hands of those who need it if they are to survive the stresses to come.

And third, when markets are failing to direct savings towards real investment - which they are so obviously not doing - the state will have to intervene to achieve that goal.

What we then need is a plan for the required spending. It will not be possible to cut our way out of the crisis to come - at least not if the lives of the people of this country matter - so there have to be such spending plans.

My great fear is that Labour is doing none of this thinking. It is not even aware, I suspect, that it is required even though this crisis is going to emerge on their watch unless something very unexpected happens to save them.

We are already in the proverbial creek. My fear is that no one in charge knows where the paddle is. And that is really scary.