Funding the Future

War, fear of inflation and central bankers in increasin...

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I published this thread on Twitter (X) this morning:

War, of some sort, has begun in the Red Sea and Yemen. The UK is involved. It is likely that there will be action for a while. Ignoring the ethics of the engagement, for now, what are the economic consequences? A thread……

Because this war is going to make passage of the Red Sea more, rather than less, dangerous for the time being it is inevitable that for an unknown period the cost of shipping goods and raw materials from the Far and Middle East will rise. Suez is going to be out of action.

But let's be clear: the diversion of shipping around the Cape of Good Hope has already begun. And whilst there are costs, and delays, in that they are not on a major scale. Saudi cuts to the price of oil might more than compensate for them.

In other words, by our own choice we are going to face another, but likely small, hiccup in market prices for some goods over the next few months. And then things will return to normal, either because this conflict will end or because the new prices will rapidly become stable.

No one need panic. No one is going to be without anything they really need. A few things, like some electric cars, might arrive a few weeks late for a few months. But on the scale of disruption to our economic life this issue hardly hits the Richter scale, so overall small is it.

In that case, let's not pretend that inflation will suddenly be out of control, interest rates must stay high, wages must be suppressed still further and government austerity is required, because not one of those things is true.

Anyone pretending to the contrary is a) making things up b) desperate for a recession and will use any excuse to get one c) does not understand that any inflation this fracas gives rise to will be the impact of financial market over-reaction which will be corrected very soon.

As example, do you remember the toilet roll crisis of April 2020, when apparently loo roll was never going to be seen again, rationing was required and prices on eBay hiked, all for no reason at all? Any price reaction to what is happening now would be of the same sort.

It would be all hype and no substance. Now, I am not saying markets can't do hype without substance and work themselves up into a crisis that does not exist. Doing so is what most market readers live for. But what we should have is central bankers who understand that.

Our central bankers should be sending out the unambiguous message right now that nothing that is happening as a result of this undeclared war is likely to create any significant disruption of any consequence in our economies and so will be ignored by them.

That would be the cool, calm, measured response that a regulator correctly reading the runes this morning should be saying, because frankly the likelihood that these events will have any significant impact on inflation is minimal a) because they're too small to do so and b) …

that's what the evidence from all similar episodes suggests, when price restabilisation always happens very quickly.

Will the Bank of England provide that cool, calm, measured leadership, or will it instead seek to exploit this situation to pursue its own agenda, which is all about seeking a recession, come what may? I fear it will be the latter. But such a reaction would be wholly unnecessary.

If the people of this country are wholly unnecessarily punished for a relatively minor event in the Red Sea we will know that there are bigger, oppressive, agendas at play here, wholly unrelated to actual threats to shipping.

Time will tell. But I am worried, and solely because I think the powers that be (and retailers) will exploit this to create an inflation story that need never exist and not because of any real threat to our wellbeing.