Funding the Future

We would all have been better off if the Bank of Englan...

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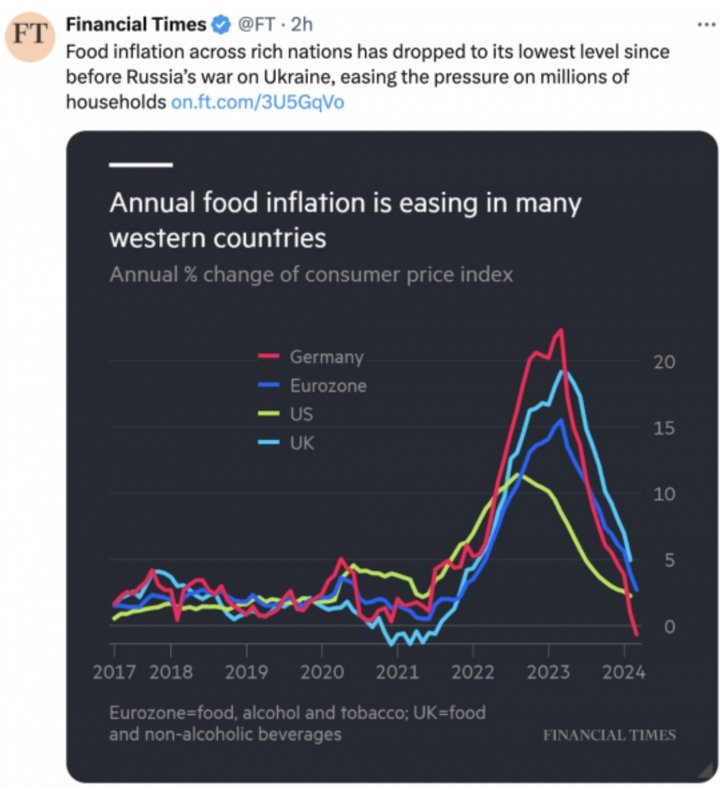
The FT posted this on Twitter this morning:



The data they used comes from the OECD, which either leaked it or is subject to a leak as it is not due out until later today.

The data shows that food inflation is falling to levels last seen before the Ukraine war. This is also true of raw material prices. In other words, the shocks that caused an unnecessary market reaction that hiked international prices, largely as a result of the onset of that war but also in reaction to the reopening after COVID-19, have now all gone away or will cease to have much impact very soon.

This is, of course, exactly as a few of us predicted and which was denied as being a possibility by the likes of the Bank of England.

Did their increasing interest rates have any effect on this? No, not at all, although Brexit did have an impact in leaving our inflation higher than anyone else's.

Did anyone else's interest rate rises affect this? Again, no, because the lag effect on any impact from such changes is usually reckoned to be two years, and the downturn came long before they could have had an impact.

So what did happen? Simply, what always happens when an exogenous shock to markets occurs. Markets return to normal once they have absorbed the shock and, in most cases, realise that they had overreacted, as they did on a massive scale in this case. Again, this is exactly as predicted by me, Danny Blanchflower and others.

So was there any real role for monetary policy in this crisis? As far as I can see, there was none: we would have all been vastly better off if only the Bank of England had done precisely nothing with interest rates at any time since 2021.

As it is, they acted and now will not return rates to the level they need to be at - which is below 2% - for a long time to come. We will all be paying a significant price for that for a long time to come.