

## **Will the Fed underestimate the inflationary surge?**

The Federal Reserve's Open Markets Committee met on 16<sup>th</sup>-17<sup>th</sup> March 2021 and voted unanimously to keep interest rates low and to continue with its very substantial monthly asset purchase scheme. It also re-stated that very accommodative monetary policy will be maintained until inflation rises above 2% for a sustained period.

The Shadow Government Statistics agency (which the Institute for International Monetary Research uses to obtain the US broad money (M3) data) has not published February's numbers, but in the three months to January, US broad money grew at an annualised rate of 7.8% and the annual rate stood at 22.1%. The FOMC takes no interest in money and thus has reached a very different assessment of inflationary prospects in the USA. Its projections for 2021-2023 argue for a median rate of 2.4% this year, falling back to 2.0% in 2022 and 2.1% in 2023. Based on monetary trends in a number of jurisdictions, it is our opinion that inflation is likely to hit at least 5% this year and may take a lot longer to come down without a change of direction from the Fed. Already consumer price inflation is approaching the Fed's 2% target, having risen from 1.4% in the year to January to 1.7% a month later. Away from California and the North East, most US states are scrapping all restrictions imposed to contain the coronavirus, which will result in a surge of spending. At the same time, the impact of President Biden's huge fiscal stimulus will push up money growth, as it will be financed by the banks and thus create new bank deposits which are money. Asset prices, notably houses, are already rising rapidly. Consumer prices are likely to follow suit.