INSTITUTE OF INTERNATIONAL MONETARY RESEARCH

www.mv-pt.org

First signs of dissent from within the Fed?

The Federal Reserve's Open Markets Committee met on 27th - 28th April 2021 and voted unanimously 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.

In the first quarter of 2021, US broad money (as measured by M3, calculated by Shadow Government Statistics) grew at an annual rate of 10.3%, the highest reading since July of last year. The annual rate stood at 19.1%, the lowest reading in a year, but still extraordinarily high by recent standards. Besides the massive American Rescue Plan, as President Biden's 'stimulus package' is now called, the US government also intends to spend $1 trillion from the Treasury General Account. All this will keep broad money growth at a very elevated level compared with 2010-19, although not at the extreme levels seen between March and May of last year. Consumer Price Inflation rose to 2.6% in the year to March 2021 and producer prices rose by 4.2% in the same year. The Fed clearly does not seem to think that these figures presage a period of sustained inflation. Based on monetary trends in a number of jurisdictions, however, 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 clear change of direction from the Fed. Two days after the FOMC meeting, Robert Kaplan, the President of the Dallas Federal Reserve (and not a member of the FOMC) said that the Fed should think about "tapering" the asset purchases soon and suggested that a rise in the Fed Funds Rate in 2022 might be appropriate. "I think the US economy would be far healthier when we have the ability to start weaning off these purchases (i.e., the QE programme)" he said.

Mr Kaplan is the first senior figure from the Federal Reserve to dissent from the prevailing consensus that the huge fiscal and monetary stimulus in the USA is likely to have little effect beyond a short-lived blip in inflation this year. Janet Yellen, the former Fed President who is now the US Treasury Secretary, did however warn that a small rise in interest rates may be necessary to stop the US economy from overheating, but when these comments resulted in US bond yields rising higher, she then issued a further statement that she saw no inflation problem brewing.

You can access further details on the latest monetary developments in the USA in our latest monthly report and video at https://mv-pt.org/monthly-monetary-update/ .