INSTITUTE OF INTERNATIONAL MONETARY RESEARCH

Federal Open Market Committee meeting, US Fed. 21-22/9/2021

Fed signals that tapering will begin shortly

"The Committee judges that a moderation in the pace of asset purchases may soon be warranted." This statement was issued after the most recent meeting of the Federal Reserve's Open Markets Committee on 21st - 22nd September. No date was set for the much-anticipated "tapering" to begin and the statement was hedged with the inevitable caveats about the need for further progress towards maximum employment and price stability. Indeed, the FOMC stated that it "would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals" – in other words, the door was left open for further stimulus should the economy need it. In a press conference after the meeting, Jerome Powell, the Fed Chairman, provided more details. While not specifying a start date for tapering, he stated that the middle of next year should see a complete end to the emergency asset purchase programme. He stressed that neither a run-off of the assets nor a rise in the Fed Funds Rate was in the pipeline and that it was too early to second guess when the economy would support any further monetary tightening. He also acknowledged that there had been a wide range of opinions among the members of the FOMC, especially regarding the timing of an increase of the Fed Funds Rate, although 2023 seems to be the favoured date for the first rate hike.

Powell also acknowledged the current high level of consumer price inflation. He nonetheless stated his expectation that once the current supply bottlenecks were addressed, inflation would fall back to a level much closer the Fed's target, although this would probably not happen until early 2022. He reiterated the importance of achieving maximum employment in the labour market in the Fed's thinking. No mention was made at all of money. Broad money grew at an annualised rate of 6.3% in the three months to August. This figure is much higher than the typical readings during the period 2010-19, even though it does not compare with the extraordinary months between April and June 2020 when annualised quarterly broad money growth rose above 50%. Broad money growth seems largely to be driven by banks and the central bank financing the government's greatly increased huge fiscal deficit. The amount of money lent by US banks has been declining now for five consecutive months. If banks start to lend more, as they probably will once the number of cases of the virus starts to come down, this will further boost broad money growth as loans create deposits, which are money.

So it is unlikely that consumer price inflation, which has stood at 5% or higher since May, will fall any time soon. Indeed, producer prices rose by 8.3% in the year to August, suggesting that inflation may rise further in the next 2-3 months. While the Fed's moves towards a tapering of the asset purchases are welcome, the Institute of International Monetary Research believes that it is still seriously underestimating the scale and duration of the inflationary boom that the country is currently experiencing.

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/