Federal Open Market Committee meeting, US Fed. 15-16/03/2022

First rise in the Fed Funds Rate since 2018.

Faced with consumer price inflation at a 40-year high of 7.9% in the year to February, the FOMC voted to raise the Fed Funds Rate by 0.25% to 0.5% at its most recent meeting. Fed Chairman Jay Powell stated that further increases were likely to follow during the course of the year while the next FOMC meeting will consider making a start to running off the asset purchases, thus reducing the Fed's balance sheet. With coronavirus no longer affecting the US economy, it is growing very strongly, fuelled by strong broad money growth. In the three months to January, US M3 grew at an annualised rate of 11.2% and January itself saw a rise of $293b., or more than 1%, according to Shadow Government Statistics.

Inflation was set to reach double digits even without the pressures on fuel prices caused by the war in Ukraine. Milton Friedman's postulation of an 18-24-month gap between monetary action and the resultant effect on prices being the norm appears to be borne out by the US economy, which suggests that high inflation is likely to continue for the rest of this year and into 2023.

Broad money growth is likely to fall as the Federal Reserve, along with many other central banks which introduced monetary stimulus programmes in 2020, terminates it completely at the end of this month after beginning a "taper" of its asset purchases in November 2021. Earlier this month, Jay Powell told Congress that money "doesn't really have important implications for the economic outlook", claiming that the connection between broad money and inflation ended 40 years ago. There is little indication that other FOMC members pay any more attention to money growth than the Chairman. If inflation rises as predicted, this could result in the FOMC engaging in rapid and sustained monetary tightening without noticing that money growth is stagnating as it usually tends to focus on other indicators, notably unemployment levels (which are very low), wage increases (which are very high) and the real estate sector (which is booming). In other words, the USA is lining itself up to go from the current boom into a bust in the not-too-distant future.

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