Federal Open Market Committee meeting, US Fed. 1-2/11/2022

Fourth consecutive 0.75% increase in the Fed Funds Rate may not be the last.

As widely expected, the Federal Open Market Committee voted unanimously to increase the Fed Funds Rate by 0.75% during its meeting at the start of November. The cost of borrowing has now been raised from zero to 3.75% - 4% since the start of the year. A further hike in borrowing costs could be implemented at the final FOMC meeting of the year. “We still have some ways to go,” said Fed Chairman Jay Powell. “Incoming data since our last meeting suggests that the ultimate level of interest rates will be higher than previously expected.” The “run off” assets purchased during 2020 will continue. November will be the third month in which the money from $60b. worth of maturing Treasuries and $35b. of mortgage-backed securities will not be reinvested. The press release from the Fed after the FOMC meeting acknowledged that inflation is way above target and stressed the Fed’s determination to bring it down to 2%. However, its relatively upbeat assessment of the US economy made no mention of the quantity of money. According to the Shadow Government Statistics agency (which has published M3 figures since the Fed stopped doing so in 2006), the stagnation in broad money broad money growth since March has turned into outright contraction. In the three months to September, broad money declined at an annualised rate of 1.3%. September itself saw M3 contract by $159b. *No single month in the Great Recession of 2008-10 saw such a massive fall in the quantity of money, broadly defined.* These notes predicted several months ago that “Quantitative Tightening” currently being implemented by the Fed could cause M3 to shrink by $50b. each month in and of itself, regardless of any other factors.

Increased borrowing costs have thus far had little effect on the creation of new credit by US banks. “Loans and leases in bank credit”, a set of figures which corresponds to bank lending, indicates that the recent strong growth in the stock of bank loans is continuing. The level of both real estate loans and borrowing by businesses was up by more than 10% in the year to September, albeit slowing somewhat from June’s peak. If these rapid and substantial increases in the Fed Funds Rate begin to deter borrowing, the decline in broad money could become more severe as the creation of new bank credit is now the main driver of M3 growth. Brian Deese, President Biden’s senior economic advisor, insists that the US economy has the “strength and resilience” to avoid a recession. Currently, the US retail sector is recording strong growth, house prices are rising by over 10% per annum and the unemployment rate stands at a mere 3.5%. These are all indicators which Mr Deese and the FOMC follow closely. None of them take any notice of the quantity of money. If they did, their assessment of the future for the US economy would not be nearly so positive.

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