

All eyes on the Fed

This Friday at Jackson Hole Jerome Powell, Chairman of the Fed, will make a most important speech. The financial markets are expecting confirmation that there will be further interest rate cuts from the USA to promote faster growth and a weaker dollar. The self same market commentators that claim not to like Mr Trump very much nonetheless back the President's often repeated mantra that the Fed is holding up growth and more jobs and needs to cut rates by at least 1%, almost halving them.

Others point out that the US economy is growing much faster than the European or Japanese economies already, that money growth is strong, job numbers are increasing and real pay rising. They worry that further rate cuts could fuel an inflation after a decade of no serious inflationary pressures.

The Fed did it get badly wrong at the end of last year, when it was threatening major rate rises at a time when the world economy was slowing and markets were worried that slowdown could become recession. Jerome Powell backed off then, and reversed policy, promising not to raise rates. He went on to cut them. Now he needs to set out a new theory of how the Fed will set rates in future, to avoid the problems the current system created in 2018. The data on the economy suggests there is less need for rate cuts than many commentators suggest.

The Bank of England needs to study the work being done by the Fed as they seek a new consensus on how to run their monetary policy. UK money policy has not this year assisted the economy, being very tight at a time when the world and UK economies are slowing. The Bank has not followed either the Fed or the ECB in trying to offset some of the slowdown with monetary easing. China has now announced some more easing, alongside rate cuts from Australia, New Zealand, Russia, Brazil, the USA, Indonesia, Turkey, Thailand and others in recent weeks.