

US: Powell pleas for more stimulus

Fed Chair Powell reiterates that while the economy has performed well the outlook remains uncertain and that more fiscal stimulus is required to ensure the recovery continues. His emphasis that doing little on this front is worse than doing too much appears to be a plea for Washington to hammer out another deal irrespective of current tensions



Fed Chair, Jerome Powell

A good start...

Fed Chair Jerome Powell has been speaking at the National Association for Business Economics Annual (virtual) meeting and offered his thoughts on the current situation and the path ahead. Unsurprisingly the key themes haven't changed since the September FOMC, but his forcefulness behind the cause for more fiscal support for the US economy certainly has.

He highlighted the Fed's own responses to the crisis that lowered the cost of borrowing and ensured credit continued to flow while helping to stabilize financial markets. He also heaped praise on the government's fiscal response, calling it "truly extraordinary" and the "largest and most innovative" since the Great Depression. The income support programs helped to offset the decline in employee compensation and ensured that household finances remained in strong shape despite the unprecedented nature of the pandemic. At the same time, the paycheck protection program

“forestalled an expected wave of bankruptcies and lessened permanent layoffs”.

But Washington needs to do more...

Nonetheless, he emphasized that more needs to be done. While the recovery “has progressed more quickly than generally expected... the outlook remains highly uncertain”. This is due to ongoing fallout from the pandemic with uncertainty over the path of the virus while economic data suggests “the pace of economic improvement has moderated since the outsized gains of May and June”.

He also highlighted the fact that the “expansion is still far from complete” and that more fiscal support is required. In this regard the “risks of overdoing it seem, for now to be smaller” versus offering too little support that “would lead to a weak recovery, creating unnecessary hardship for households and business”. This is clearly another plea for Washington to hammer out an additional substantial fiscal package. It also ties in with previous comments that he has made stating that the Fed cannot create demand, they can only support conditions to allow the free flow of credit – government needs to step up!

Re-affirming rates to stay low for longer

On this front we got a re-affirmation of the current Fed stance that nothing is happening on policy “normalization” until 2024. He stated once again that they have adjusted their policy framework due to the changed state of the economy whereby low unemployment can be sustained for longer before generating inflation pressures. This means interest rates can stay lower for longer, which in turn “will support our efforts in pursuit of a strong economic recovery”.

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