
TRENDMACRO LIVE!

On Bernanke at Jackson Hole

Friday, August 26, 2011

Donald Luskin

Bernanke resists the "do something!" urge. But if inflation falls, he'll act.

As we anticipated (see ["Being Ben Bernanke"](#) August 9, 2011), Ben Bernanke's closely-watched [speech this morning at Jackson Hole](#) made no commitments to further Fed easing. We do not see this as bearish. We don't think markets were expecting it as much as the chatter this week would have you think. More important, we believe -- as we think Bernanke does -- that Fed policy is about right at this time. It would not improve matters to ease from here, nor to tighten.

- There was the general commitment that the Fed is "prepared to employ its tools as appropriate to promote a stronger economic recovery in a context of price stability."
- There was no detailed discussion today of the Fed's easing tools, as there had been in [last year's speech](#). But what would have been the point? We all know what they are.
- There was a commitment to continue to discuss the deployment of those tools at the upcoming September FOMC -- which, Bernanke noted, has been expanded to "two days (the 20th and the 21st) instead of one to allow a fuller discussion."
- This means that further easing is by no means off the table. But this year, just as last year, it will have to be processed by the FOMC. Remember, last year QE2 did not arrive until the second FOMC meeting after Jackson Hole, after the economy had notably deteriorated.
- Bernanke was clear that inflation will be his top decision criterion, saying: "Most importantly, monetary policy that ensures that inflation remains low and stable over time contributes to long-run macroeconomic and financial stability."
- Bernanke chose to assuage his inflation-phobe critics by framing this statement in terms of controlling the upside risk of inflation. But we know that he is more alert to downside risk -- that is, deflation. We haven't the slightest doubt that if inflation falls back to last year's levels, where it was flirting with deflation, Bernanke will deploy all the Fed's tools to raise it.
- By contrast, he seemed to throw up his hands on employment, saying: "...most of the economic policies that support robust economic growth in the long run are outside the province of the central bank."

Update to strategic view

US FED: Bernanke wisely avoided the demand effects calling for a Jackson Hole announcement of QE3. We do not see this as bearish. Expectations for QE3 have been overplayed in the media -- and Fed policy is about right at this time, given everything we now know about the economy. If inflation falls, we have no doubt that Bernanke will act.

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Bottom line

Bernanke wisely avoided the demand effects calling for a Jackson Hole announcement of QE3. We do not see this as bearish. Expectations for QE3 have been overplayed in the media -- and Fed policy is about right at this time, given everything we now know about the economy. If inflation falls, we have no doubt that Bernanke will act. ▶

Contact TrendMacro

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Donald Luskin
Menlo Park CA
650 429 2112
don@trendmacro.com

Thomas Demas
Charlotte NC
704 552 3625
tdemas@trendmacro.com

Lorcan Roche Kelly
Sixmilebridge Ireland
212 537 9067
lorcan@trendmacro.com

John Clinton
Charlotte NC
704 552 3629
jclinton@trendmacro.com

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