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TRENDMACRO LIVE

On Bernanke at Jackson Hole

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Donald Luskin

An open door to QE. But with the election near and the economy stable, no promises.

Fed Chair Ben Bernanke's speech this morning at Jackson Hole was very much like the celebrated one in 2010 that presaged QE2. But there's something of a false memory in the marketplace about that 2010 speech. Most seem to recall it as a very clear-cut promise of significant non-conventional easing. In fact, like this morning's speech, it merely laid out the cost/benefit case, and kept the door open for action should it be needed (see "On Bernanke at Jackson Hole" August 27, 2010). In fact, at the first FOMC meeting following the 2010 speech, the Fed did nothing (see "On the September FOMC" September 21, 2010). QE2 wasn't announced until the *next* FOMC (see "On the November FOMC" November 3, 2010).

We have maintained since the first quarter that the Fed would do more QE this year (see "On the March FOMC" March 13, 2012), and indeed it did by extending "Operation Twist" in June (see "On the June FOMC" June 20, 2012). We have continued to expect more, and were a little surprised we didn't get it at the most recent meeting -- especially since this one was probably the Fed's last chance to stimulate the economy ahead of the election (see "On the August FOMC" August 1, 2012). Now, by failing to be more definitive at Jackson Hole, Bernanke has once again demurred from being the potential element at the margin that tips the election for the incumbent.

So now as we look ahead, we feel less and less sure that more QE is really coming. The election is not a factor at this point -- it's too late. Indeed, a move from here would *look* embarrassingly political, even though the time to have been *efficaciously* political has now passed. Yes, Bernanke was clear today that "the economic situation is obviously far from satisfactory," and that QE "can continue to be effective." Yes, he said "we should not rule out the further use of such policies if economic conditions warrant." But do they really "warrant" at this point?

The economic conditions prevailing at this time in 2010 -- ahead of QE2 -- and at this time in 2011 -- ahead of "Operation Twist" -- were tangibly worse than they are today. In both cases we were facing widespread fears of a double-dip recession, indeed there was a strong consensus that one had already begun. We didn't agree, but nevertheless that was the

Update to strategic view

US FED: Bernanke left the door open for QE3 with his Jackson Hole speech, but this was far from a promise. With the time to have impacted the election now passed, and with the economy muddling along -- without an imminent double-dip threat as in 2010 and 2011 -- we're getting increasingly skeptical that the Fed will actually do QE3 this year.

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prevailing outlook (see, respectively, "Betting Against a 'Double Dip'" June 30, 2010 and "Footprints of the Black Swans" June 30, 2011). That just isn't the case today. The prevailing sense of the economy now isn't that we are slipping into recession, but only that we're *not* experiencing an adequate recovery (see, among many, "Cupertino, We Have a Problem" July 25, 2012). So with the Fed already so far down the diminishing returns curve, with such a large amount of asset purchases required to get any real impact out of any possible QE3, are we really clearing what Bernanke called today "the hurdle for using nontraditional policies"? Like Bernanke, we're not ruling anything out. Today's sharply rising gold price would appear to be ruling something *in*. But we're getting less certain with each passing day that we'll see QE3 this year.

Bottom line

Bernanke left the door open for QE3 with his Jackson Hole speech, but this was far from a promise. With the time to have impacted the election now passed, and with the economy muddling along -- without an imminent double-dip threat as in 2010 and 2011 -- we're getting increasingly skeptical that the Fed will actually do QE3 this year.

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