

TRENDMACRO LIVE!

On the July FOMC

Wednesday, July 29, 2020

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Luckily, Powell is in charge of monetary policy, not public health policy.

It appears that after announcing yesterday the extension through year-end of extraordinary lending programs – the \$2.3 trillion capacity of which has seen less than 10% uptake – and earlier today the extension of foreign central bank dollar swap-lines – which are down from a high of \$445 billion a month ago to \$122 billion now – that the FOMC has shot its wad policy-wise for a while. *That's a good thing, because it is built on the reality that the small and shrinking size of the prior emergency measures means that they worked – that the Fed's massive intervention at the darkest moments of the economy in March was a successful pre-emption of disaster, as we said all along it would be* (see [“On the Fed's Massive Intervention”](#) March 23, 2020).

- Chair Jerome Powell was asked about the very small uptake of the Fed's lending programs in the post-FOMC press conference. He said, “We haven't done as much lending as we thought we would. That's because markets started working again.” The programs were extended as insurance – “It was important that they remain in place.”
- So no need for [dubious “do something” measures](#) like introducing [“yield curve control.”](#) *The Fed's inaction here demonstrates its confidence – and we think that confidence is well-placed.*
- To be sure, the media will no doubt try to do what it did at the June FOMC – when chair Jerome Powell [prudently stated the obvious](#), that the economy had a “long road” ahead to climb out of the present recession, it was universally portrayed as a dire [“warning.”](#)
- There were only two new passages in [today's FOMC statement](#), one noting the good news that “economic activity and employment have picked up somewhat in recent months” – but we'll bet that the media's emphasis will be on the next phrase, that they “remain well below their levels at the beginning of the year” (for the full red-line, see [“Data Insights: Federal Reserve”](#) July 29, 2020).
- The other change to the statement was an entirely new sentence: “The path of the economy will depend significantly on the course of the virus.” *This is an unfortunate change, because it acts as though the virus itself is in control – not the Fed, and not the rest of us economic participants. The language in the June statement, was much more accurate, in which the causal agent wasn't just the virus alone, but “[t]he virus and the measures taken to protect public health.”* We may not be able to control the virus, but we can

Update to strategic view

US FED, US MACRO: No new policy initiatives, which we take as both the right move and as a sign of confidence. The extraordinary lending facilities and swap-lines have been extended to year-end, but Powell noted that their uptake was less than expected because markets started working again. The FOMC statement acknowledges the upswing in economic activity. But it adds a new sentence arguing that the course of the recovery is in the hands of the virus, not economic actors. Powell emphasized this in the press conference, acting as though new lockdowns would be an inevitable and unquestionable consequence of virus flare-ups. He seems unaware of increasingly accepted statistical evidence that the March/April lockdowns didn't help, and the revealed behavior of officials who have done little in response to the sunbelt flare-ups. He's not in charge of public health policy, but we'll bet that the media uses his statements to stoke fears and encourage lockdowns.

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determine the measures we use to combat it – and we can choose not to repeat the catastrophic error we made in March and April when we deliberately caused a depression for what turned out to be no net public health benefit.

- *Powell was asked in the press conference about this entirely new sentence. He doubled down on it – “it’s so fundamental... we can’t say it enough... it’s so important.” What he means is that re-opening the economy can only proceed so long as there is not a flare-up in cases, because that flare-up would necessitate further lockdowns. It seems that, in his mind, this is utterly axiomatic.*
- *It’s a nihilistic view that deprives economic actors of agency. The virus is in control, because our reactions to the virus are – he seems to think – dare we say it – on [automatic pilot](#).*
- He is living in a pre-evidence past. We were considered lunatics back in April when we showed statistical proof that the degree of lockdowns made no difference to the degree of success in controlling the pandemic (see [“Video: What you’re not hearing about bringing the economy out of lockdown”](#) April 27, 2020). That heretical view has now been quietly adopted by the epidemiological community, with the publication [in the prestigious medical journal *The Lancet*](#) of research showing the same thing using the same statistical techniques. Chair Powell doesn’t seem to have gotten the memo.
- *In a substantive sense it doesn’t matter – luckily, Powell is in charge of monetary policy, not public health policy. We’re sure that the US officials actually in charge of these decisions, especially in the sunbelt states where most of the flare-ups are occurring, understand the truth, and will not impose significant lockdown measures – as indeed so far they have not* (see [“Fear Factor versus So-What Factor”](#) June 29, 2020). *Nevertheless, it’s not a positive for consumer confidence that a public figure like Powell says things like this, if for no other reason than that the scare-mongering media will be sure to quote him as an authority.*

Bottom line

No new policy initiatives, which we take as both the right move and as a sign of confidence. The extraordinary lending facilities and swap-lines have been extended to year-end, but Powell noted that their uptake was less than expected because markets started working again. The FOMC statement acknowledges the upswing in economic activity. But it adds a new sentence arguing that the course of the recovery is in the hands of the virus, not economic actors. Powell emphasized this in the press conference, acting as though new lockdowns would be an inevitable and unquestionable consequence of virus flare-ups. He seems unaware of increasingly accepted statistical evidence that the March/April lockdowns didn’t help, and the revealed behavior of officials who have done little in response to the sunbelt flare-ups. He’s not in charge of public health policy, but we’ll bet that the media uses his statements to stoke fears and encourage lockdowns. ▶

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