First Trust
ECONOMIC RESEARCH REPORT
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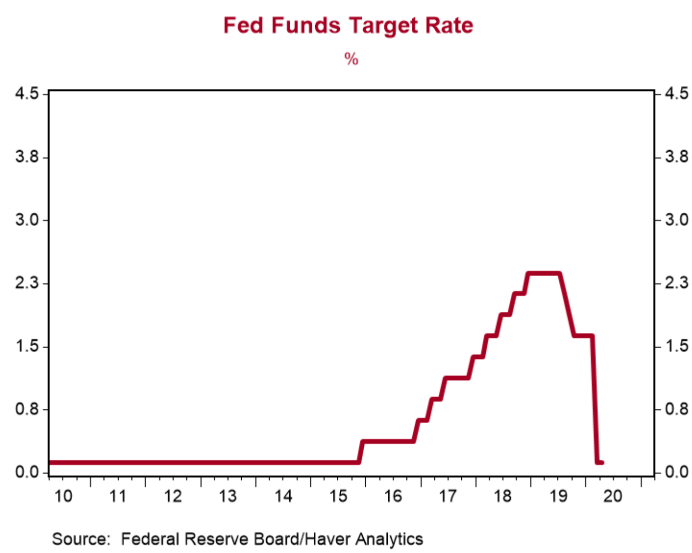
QE Infinity and Beyond

The Federal Reserve has been extremely aggressive since the Coronavirus and related shutdowns hit the US economy and made it clear today that it will continue to be so until the US economy has gotten back on its feet. This includes keeping short-term interest rates near zero, continuing to expand its balance sheet with purchases of Treasury debt and mortgage-backed securities (both residential and commercial), as well as using facilities to maintain liquidity and the flow of credit to households, businesses (both large and small), and state and local governments.

Chairman Powell made it clear at his press conference that the Fed will continue to use the full range of its legal powers "forcefully, proactively, and aggressively" and wants to see an economic recovery that is "as robust as possible."



After the Great Recession, the Fed didn't raise short-term rates again until December 2015, well into the recovery, and when the unemployment rate was 5.0%. Given the Fed's commitment to make sure the economy heals from the current crisis, don't expect the Fed to raise rates for the next couple of years, perhaps not until 2024. As Chairman Powell said at his press conference, the Fed won't be in any hurry to raise rates.

Does this mean higher inflation? Not right away. If anything general price measures will keep falling in the short term due to lower commodity prices. After that, we expect a return of general price increases, but not rampant inflation. Yes, the supply of money is growing by leaps and bounds. But the demand for money by households and businesses has also grown enormously. Cash is King right now and likely to remain so over the medium term. One key issue is how long the federal government maintains very generous unemployment benefits in which a large share of workers can earn more through July by not working than by going back to work. If these benefits remain in place into 2021, we may see faster inflation as the businesses that are growing and hiring need to ramp up wages to entice people back to work. Time will tell.

Looking forward, expect more of the same in 2020: continued expansion of their balance sheet and short-term rates near zero.

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Text of the Federal Reserve's Statement:

The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.

The coronavirus outbreak is causing tremendous human and economic hardship across the United States and around the world. The virus and the measures taken to protect public health are inducing sharp declines in economic activity and a surge in job losses. Weaker demand and significantly lower oil prices are holding down consumer price inflation. The disruptions to economic activity here and abroad have significantly affected financial conditions and have impaired the flow of credit to U.S. households and businesses.

The ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term. In light of these developments, the Committee decided to maintain the target range for the federal funds rate at 0 to 1/4 percent. The Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals.

The Committee will continue to monitor the implications of incoming information for the economic outlook, including information related to public health, as well as global developments and muted inflation pressures, and will use its tools and act as appropriate to support the economy. In determining the timing and size of future adjustments to the stance of monetary policy, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2 percent inflation objective. This assessment will take into account a wide range of information, including measures of labor market *conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments.*

To support the flow of credit to households and businesses, the Federal Reserve will continue to purchase Treasury securities and agency residential and commercial mortgage-backed securities in the amounts needed to support smooth market functioning, thereby fostering effective transmission of monetary policy to broader financial conditions. In addition, the Open Market Desk will continue to offer large-scale overnight and term repurchase agreement operations. The Committee will closely monitor market conditions and is prepared to adjust its plans as appropriate.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michelle W. Bowman; Lael Brainard; Richard H. Clarida; Patrick Harker; Robert S. Kaplan; Neel Kashkari; Loretta J. Mester; and Randal K. Quarles.