

The Fed joins in with more monetary loosening

As the world manufacturing downturn intensifies the Fed has joined the Bank of Japan and the European central Bank in trying to ease the situation. The Fed has decided to create money and expand its balance sheet to ease the obvious shortage of cash in the short term lending markets between banks. This is welcome and necessary.

All the main Central Banks of the world with the exception of the Bank of England are now taking belated action to ease, to try to turn round the manufacturing slowdown created by past policy tightness, by other tax and regulatory policies targeting vehicle manufacture in particular, and the impact of new and additional tariffs. I must ask again why is the Bank of England standing out against this trend? Who doesn't it share the analysis and conclusions of other Central Banks?

The Bank of Japan is creating as much money as it takes to buy in government bonds to keep interest rates at zero for 10 year money, and negative rates for shorter terms. The ECB is keeping the official short rate at zero, with negative rates for many government bonds for longer terms. To do so it is now buying in Euro 20bn a month of bonds. The Fed is putting \$75bn overnight into money markets to keep the repo or short interbank rate down in line with official rates. The official rate has been cut twice recently and is probably about to be cut again.

Central banks in India, Turkey, Brazil, Australia, New Zealand and elsewhere have been cutting official rates. All this is seeking to offset the negative impacts of higher taxes, tariffs and tighter lending conditions. So far the actions have not turned the corner for manufacturing, though they have prevented a even faster and deeper slump.

As highlighted here before, the UK not only refuses to join in with a general move to assist manufacturing, but the authorities are considering a further restriction on car loans which lies at the heart of part of the problem of insufficient demand for new vehicles. The latest GDP figures which suggest there will be no recession in the second and third quarters of the year continue to show a very weak vehicle manufacturing sector for the reasons forecast here.

The Bank's new £20 note shows the great Turner painting of the Temeraire on the back. It's a curious choice for an institution so concerned about our relations with the EU.