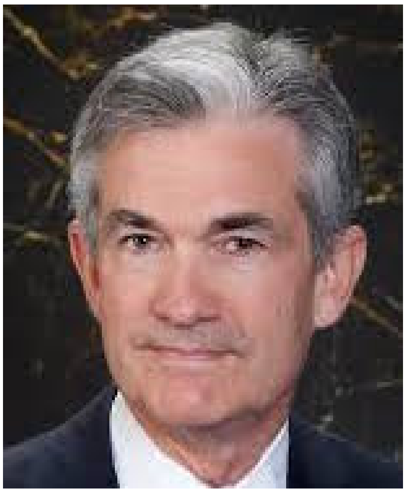
Fed chairman promises to do 'whatever it takes'

By Kerry Pechter *Thu, Apr 30, 2020*

'A wave of unnecessary insolvencies could do long-term damage to the productive capacity of the economy. That's a risk,' Fed chairman Jerome Powell (in photo) said Wednesday.



Noting that the Federal Reserve can lend money but not spend it, Fed chairman Jerome Powell promised that he would act "forcefully, proactively and aggressively" for long as it takes to prevent the COVID-19 pandemic from inflicting long-term damage on the U.S. economy.

Responding to questions from reporters via video streaming Wednesday afternoon, Powell acknowledged that lasting damage could occur if too many Americans remained out of work too long or if too many small companies failed.

"A wave of unnecessary insolvencies could do long-term damage to the productive capacity of the economy. That's a risk," he said. "There's also the global dimension. Problems overseas could weigh on our performance."

The Fed will continue to buy Treasury securities, U.S. agency-backed securities and mortgage-backed securities, Powell said, adding that its **Primary Market Corporate Credit Facility** and **Secondary Market Corporate Credit Facility**, which will be equipped to buy up to $750 billion in corporate bonds "will be operating soon."

At the same time, the Fed is working on the establishment of the **Main Street New Loan** and **Expanded Loan** Facilities, which would facilitate bank or credit union loans up to a total of $600 billion to small and medium-sized businesses with up to 10,000 employees and $2.5 billion in 2019 revenues.

Under the programs, Congress also appropriated of tens of billions of dollars to absorb losses under the loan programs, because the Fed is not allowed to take on credit risk. Asked about the future, Powell emphasized that interest rates would stay low until the economy recovers, but he said the recovery timeline is uncertain.

"We'll definitely see a sharp slowdown in the second quarter. In the next phase, let's say in the third quarter, there will likely be less social distancing and the economy will begin to recover," Powell said.

"We might see a large increase in output, but it's unlikely to bring us quickly back to pre-crisis levels. The sooner we have the virus under control, the sooner people will begin to feel confident about the economy. It will take some time to get back to normal or maximum employment," he added.

As for the Fed's lending capacity, Powell said, "If demand for lending facilities is greater than estimated then we'll expand them. It's not like the **Paycheck Protection Program** where a certain amount is allocated and then it ends. We won't stop lending until we exhaust the Treasury's equity and we're a long way from doing that."

The Fed's offer to buy corporate securities calmed the credit markets, he added. "So far we've only made short-term money market loans, and not other corporate loans. But our actions have already built confidence in the market, and many companies have been able to refinance themselves privately since we announced the facility. The announcement alone has had an effect."

Here's yesterday's formal announcement by the Federal Open Market Committee:

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.