{ US ECONOMY }

JEREMY WARNER

Are conditions really ripe for the Federal Reserve to stop buying assets?

Has the US economy reached 'escape velocity', the point at which a genuine, self-sustaining recovery underpinned by robust, private-sector demand takes over from the artificially generated upturn we have seen to date?

Financial markets will be watching the data from the US with even more interest than usual this summer for signs of this long-awaited changeover.

There have already been a number of false dawns since the onset of the Great Recession, when the US economy has seemed to splutter back to life only to sink back down again the moment the Federal Reserve shows signs of easing back on monetary support.

Is the Fed again acting prematurely in threatening to slow the pace of its asset-buying programme and cease it altogether by the end of the year?

Take a stroll around downtown Manhattan and you see an economy that once more seems in the grip of a full-scale boom, with restaurants and stores filled to capacity. It's the same on the West Coast, where the banking crisis already seems a distant memory. In San Francisco, the technology boom is back in full swing, feeding a renewed climb in house prices, which has left the previous 2007 housing market peak trailing in its wake.

These enduring temples of consumption and innovation may not be entirely representative, but they may also be the outriders for a much wider revival in the US economy. The Standard & Poor's Case-Shiller index of house prices recently posted its biggest gains in seven years, with house prices rising year-on-year in all 20 of the cities tracked.

It's a similar picture in building permits, where rising house prices have prompted the construction industry to accelerate plans for building and hiring. The part of the US economy that originally caused the banking crisis – the housing market – has finally and unambiguously turned the corner.

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Admittedly, some of the other data doesn't look quite so encouraging. The US economy posted a contraction in manufacturing output for May, while the labour market is still pretty subdued compared with past cyclical upturns. All the same, there are definite signs of life, which are in turn reflected in stock prices close to their all-time highs.

So is the US economy ready for a cessation of quantitative easing, and the slightly tighter monetary policy this would imply? I've got my doubts.

Already there is a quite fierce fiscal squeeze going on at a federal level, equal to around 1.3% of GDP both this year and next. This is faster than the UK, and is bound to act as a considerable drag on economic progress for some time to come.

Central bankers are desperate to get off the treadmill of continued money printing, but sustained budgetary consolidation may not allow them to. What is more, overstretched households, businesses and governments do not yet seem ready to tolerate significantly higher interest rates.

Neither the Fed, nor the Bank of England, nor even the Bank of Japan, will admit to it outright, but each of them is engaged in a form of 'financial repression', where through asset purchases they generate a negative real rate of interest, allowing governments to erode the value of mountainous debts over time.

This purpose would also be undermined if the Fed were to rein back on asset purchases. The US economy is further along the recovery trajectory than most other advanced economies, but the Fed will need to keep its foot hard down on the accelerator for a while longer yet to avoid another stall.

Jeremy Warner is assistant editor of ***The Daily Telegraph*** and one of Britain's leading business and economics commentators