CHANDLER ASSET MANAGEMENT

Economic highlights from the week ending on October 15, 2021

Shelly Henbest, CFA
Senior Credit Analyst

Minutes from the Federal Open Market Committee (FOMC) September meeting indicate that the potential path of Fed tapering would feature monthly reductions in the pace of asset purchases of $10 billion in Treasury securities and $5 billion in agency mortgage-backed securities. The current pace of Fed asset purchases is $80 billion of Treasuries per month, and $40 billion of agency mortgage-backed securities per month. As such, if the Fed followed the aforementioned pace of monthly reductions in asset purchases and started the process in November (which is now a distinct possibility), the tapering process would be complete by mid-2022. This timeline is consistent with Fed Chair Powell's recent comments. According to the September FOMC meeting minutes, Fed policymakers noted that if a decision to begin tapering purchases occurred at the next meeting on November 2-3, the tapering process could begin in either mid-November or mid-December. When the Fed tapered their asset purchases in 2014 after the Financial Crisis, they tapered a total of $85 billion over 10 months. This time it will likely be $120 billion over roughly 8 months. As such, this tapering process will likely be somewhat more aggressive in terms of timeline and quantities. Arguably, the labor market is in much better shape than it was when the Fed announced plans to taper their asset purchases in December 2013, and inflation is running much hotter, which is top of mind for the FOMC. Nevertheless, we believe monetary policy will remain highly accommodative over the intermediate term, as policymakers remain unlikely to consider a rate hike until the taper process is complete next year. According to the meeting minutes, some policymakers expected that economic conditions would justify keeping the fed funds rate at or near its zero lower bound over the next couple of years. According to the Fed's most recent dot plot, Fed policymakers are split over the appropriate timing for the first rate hike; half believe at least one rate hike will be appropriate next year, and the other half believe it will be appropriate to keep the fed funds rate unchanged next year. The median estimate among Fed policymakers calls for one 25 basis point rate hike in 2022. Overall, the tilt of policymakers' views has become more hawkish, as inflationary pressures are appearing more than transitory. But we believe the FOMC will remain cautious about their outlook for rate hikes, as millions of people remain unemployed and downside risks to the economy from the ongoing health crisis linger.

Pricing pressures continue to run hot and we anticipate the upward pressure on inflation from supply chain bottlenecks and pandemic-related disruptions is likely to remain elevated over the near-term. The Consumer Price Index (CPI) was up 5.4% year-over-year in September, a bit higher than expected, versus up 5.3% year-over-year in August. Core CPI (CPI less food and energy) was up 4.0% year-over-year in September, unchanged from August. Meanwhile, the Producer Price Index (PPI – Final Demand) was up 8.6% year-over-year in September (the highest year-over-year rate of the pandemic thus far), versus up 8.3% in August. U.S. West Texas Intermediate (WTI) crude oil rose to over $80/per barrel this week for the first time since 2014 and is up 100% year-over-year. Meanwhile, according to the Energy Information Administration (EIA), average regular retail gas prices jumped 2.5% in the past week and are up more than 50% year-over-year.

While the EIA expects gas prices to moderate through year-end, they expect prices for all major home heating fuels will increase significantly this winter. Overall, prices across a broad spectrum of goods remain elevated. While plans to ramp-up operations and expand hours at the ports of Long Beach and Los Angeles should help to alleviate some of the supply chain bottlenecks that have put upward pressure on the price of many goods, it will take time for backlogs to ease.

Next Week

Housing Market Index, Industrial Production, Housing Starts & Permits, Beige Book, Philly Fed, Existing Home Sales, Leading Indicators

Chandler Asset Management | info@chandlerasset.com | 800.317.4747 | chandlerasset.com

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