



## Economic highlights from the week ending on October 29, 2021

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Real US gross domestic product (GDP) growth decelerated in the third quarter amid widespread supply chain disruptions and a surge in the Covid Delta variant. According to the advance estimate, third quarter GDP grew at an annualized rate of just 2.0% in the third quarter, below expectations for 2.6% growth. This follows a much stronger pace of growth in the first half of this year, with first and second quarter annualized GDP growth up 6.3% and 6.7%, respectively. Over the past few months, expectations for GDP growth through year-end have moderated, but the consensus forecast for full year 2021 GDP growth is 5.7%, which is still much higher than forecasters were initially expecting. Heading into the year, the consensus forecast called for GDP growth of just 3.9% in 2021. While supply chain issues are likely to persist over the near- to intermediate-term, virus infection rates have declined and vaccination rates continue to improve. GDP growth is expected to reaccelerate in the current quarter. The consensus forecast calls for 4.9% GDP growth in the fourth quarter. Looking further ahead, the consensus estimate calls for 2022 US GDP growth of 4.0%, which would remain well above the long-run average annual growth rate of about 1.8%.



Inflation continues to run hot, as supply has not been able to keep pace with demand across many parts of the economy. The Personal Consumption Expenditures (PCE) index was up 4.4% year-over-year in September, up slightly from 4.3% in August. Core PCE was up 3.6% year-over-year in September, roughly unchanged for the fourth consecutive month. Current inflation readings suggest that inflationary pressures may be stabilizing but continue to run well above the Fed's longer-run target of around 2.0%. Pricing pressures have been widespread. According to the Case-Shiller 20-City home price index, home prices were up 19.7% year-over-year in August. West Texas Intermediate crude oil prices are up roughly 70% year-to-date (up about 35% from year-end 2019 levels). According to the Energy Information Administration, average regular retail gas prices are up nearly 60% year-over-year and are up 30% from this time in 2019.

Driven in part by growing concerns about inflation, we believe the Fed will announce plans to start tapering their asset purchases at next week's Federal Open Market Committee meeting. We expect them to outline plans to reduce their asset purchases in monthly increments and provide a timeline for completion of the tapering process by mid-2022. The Fed has signaled that they will not consider raising rates until the taper process is complete. In our view, should they accelerate the timeline for tapering their asset purchases, expectations for a rate hike would be pulled forward. However, we expect that the Fed will remain cautious and take a gradual approach to normalizing monetary policy. Given the amount of monetary and fiscal stimulus that was injected into the economy over the past two years in an effort to avoid a prolonged recession, we think it is unlikely that the Fed would move quickly to pump the brakes on the economy in the near-term, particularly while the labor market is still recovering and uncertainties about the ongoing global health crisis remain.

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## Next Week

*ISM Manufacturing, Construction Spending, Factory Orders, ISM Services, FOMC Announcement, Productivity & Costs, Consumer Credit, Employment*

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