

## Economic highlights from the week ending on December 17, 2021

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The Federal Open Market Committee (FOMC) kept the fed funds target rate unchanged this week, in a range of 0.0%-0.25%, but announced plans to accelerate the pace of their tapering process. The Fed will reduce the magnitude of their monthly asset purchases by \$30 billion in January, doubling the pace of the monthly reduction in asset purchases that began in November. Should the Fed continue to reduce their monthly asset purchases at the new pace, their bond-buying program would end this spring (late-March or mid-April), a few months earlier than the guidance that Fed Chair Powell initially provided in October. The FOMC's updated Summary of Economic Projections indicates that policymakers may be prepared to hike the fed funds rate three times in 2022 (based on the median estimate), up from the previous projection of just one 25 basis point hike. The Fed's updated projections suggest that these hikes would be amid a backdrop of strong economic growth and still modestly elevated inflation. In essence, the outlook indicates that they believe the economy is strong enough to sustain multiple rate hikes and still continue to expand at an above-trend growth rate. Fed Chair Powell noted that economic activity has been robust and aggregate demand remains very strong. With inflation now more elevated and prolonged than originally anticipated, we believe the Fed's decision to accelerate the tapering process is prudent. However, we do not believe that monetary policy is on a pre-set course and expect the Fed will adjust policy if necessary, depending on developments in the economy.



Currently, virus infection rates are increasing and the outlook for the health situation remains uncertain. Though the impact on economic activity from each resurgence of the virus seems to lessen with each wave, we believe there is risk to the consensus outlook for first quarter 2022 GDP (gross domestic product) growth of 4.0%. Recall, GDP growth decelerated to 2.1% in the third quarter of this year, amid surging delta infection rates and supply chain congestion.

In our opinion, this week's economic data remained solid. The Industrial Production index was up 5.3% in November, on par with October's year-over-year gain. On a month-over-month basis, the Industrial Production index increased 0.5% in November, following an upwardly revised 1.7% increase in October. Though manufacturing production likely remains constrained by supply chain bottlenecks, capacity utilization increased to 76.8% in November from 76.5% in October, suggesting to us that supply chain issues in the factory sector are improving. Although capacity utilization remains below its longer-run average of 79.6%, it is running above the pre-pandemic level of 76.3%.

On a year-over-year basis, retail sales were up 18.2% in November versus up 16.3% in October. On a month-over-month basis, retail sales were softer than expected in November, up 0.3% versus expectations of 0.8%, but this followed an upwardly revised gain of 1.8% in October. In our view, the data suggests that consumers may have started shopping early this holiday season in anticipation of supply shortages. Higher gas prices seem to have taken some wallet share, with spending at gasoline stations up 1.7% month-over-month. Amid the current resurgence of virus cases, the outlook for

December retail sales is uncertain, and nonstore retailers (online) may be poised to outperform.

Total housing starts jumped 11.8% in November to an annual pace of 1,679,000. Single-family starts increased 11.3% while multi-family starts increased 12.9%, month-over-month. On a year-over-year basis total housing starts were up 8.3% in November. We believe the strong gain in November housing starts may indicate that supply chain constraints and pricing pressures from high materials costs are beginning to improve. Nevertheless, the backlog of housing units that have been authorized but not yet started is elevated. Given strong demand, low inventory, and elevated backlogs, construction appears poised to accelerate into next year.



## Next Week

*Leading Indicators, GDP, Chicago Fed National Activity Index, Consumer Confidence, Existing Home Sales, Durable Goods, Personal Income & Outlays, New Home Sales, Consumer Sentiment*

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