

## Economic highlights from the week ending on July 30, 2021

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The Federal Open Market Committee (FOMC) kept monetary policy unchanged at its meeting this week. The fed funds target rate remains in the range of 0.0% to 0.25%, and the Fed continues to purchase \$80 billion of Treasuries per month, and \$40 billion of agency mortgage-backed securities per month. While monetary policy remains unchanged, the Fed did announce the establishment of two standing repo facilities (domestic and international) to help support smooth market functioning. The FOMC has not committed to any specific timeline for tapering asset purchases but signaled that tapering is likely the next step if the economy continues to make significant progress toward their employment and inflation goals, and they will continue to discuss it at upcoming meetings. Fed Chair Powell said that another surge in COVID-19 infections may cause some disruption to the economy and labor market but noted with each successive wave of the virus there tends to be less of an economic impact. Overall, the Fed seems to be inching toward a path of policy normalization but the path and timing of monetary policy remain uncertain. As such, we expect financial market volatility may be elevated through year-end.



The Fed continues to believe that elevated inflationary pressures are likely to be transitory. Notably, today's report on Personal Consumption Expenditures (PCE) indicated that inflationary pressure may be cooling off. The headline PCE index was unchanged on year-over-year basis in June at 4.0%. The Core PCE index was up 3.5% year-over-year in June, below the consensus forecast of 3.7%. Many companies continue to grapple with supply chain bottlenecks and dislocations in the labor market, and we believe these issues will continue to put upward pressure on inflation over the near-term. However, some commodity prices have started to ease and renewed concerns about rising virus infections may temper economic activity and demand over the near-term.

Second quarter real US gross domestic product (GDP) growth was lower than expected, up 6.5% (vs. the 8.4% consensus estimate) on annualized basis, according to the advance estimate. Personal consumption was stronger than expected, up 11.8%. During the second quarter, the US economy more than recouped the output lost during the pandemic. Real GDP now stands 0.8% above the fourth quarter of 2019. The consensus forecast for full year 2021 US gross domestic product growth has moderated slightly but remains well above the long-run trend growth rate of about 1.8%. The current Bloomberg consensus estimates for 2021 and 2022 US GDP growth are 6.5% and 4.2%, respectively.



### Next Week

*ISM Manufacturing, Construction Spending, Factory Orders, ISM Services, International Trade, Consumer Credit, Employment*



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