

Economic highlights from the week ending on January 29, 2021

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The Federal Open Market Committee (FOMC) kept monetary policy unchanged at their meeting this week as expected, with the fed funds target rate in a range of 0.0% to 0.25%. The Fed also continues to purchase \$80 billion of Treasuries per month, and \$40 billion of agency mortgage-backed securities per month. The decision among voting members (which includes the four new Reserve Bank Presidents that rotated onto the FOMC this year as well as new Fed Governor Christopher Waller) was unanimous. The Fed intends to remain highly accommodative until



their goals of maximum employment and higher inflation are achieved. Fed Chair Powell said it would be premature to begin talking about tapering their asset purchases and said they will telegraph their plans well in advance of any changes in monetary policy. Notably, Chair Powell also said that the Fed believes inflation will pick up in the coming months, but the increase is likely to be transient. As such, we expect the Fed to look through any near-term increase in inflation, even if it begins to exceed 2.0% this spring, and is likely to keep policy on hold for at least the next 6-12 months. For now, inflation continues to run well below the Fed's 2.0% long-run target, with the headline Personal Consumption Expenditures (PCE) index up just 1.3% year-over-year in December, and Core PCE up just 1.5% year-over-year in the month.

According to the advance estimate, real US gross domestic product (GDP) grew at an annualized rate of 4.0% in the fourth quarter of 2020 (slightly below expectations of 4.2%), following 33.4% growth in the third quarter and a 31.4% annualized decline in the second quarter. Personal consumption expenditures rose at an annual rate of 2.5% in the fourth quarter, falling short of the 3.1% consensus estimate. We believe the resurgence of the virus in the fourth quarter and the delay in fiscal relief contributed to the slower than expected growth. The consensus forecast for US gross domestic product growth in 2021 is 4.1%, following a 3.5% decline in 2020. The consensus estimate calls for GDP growth to moderate in the current quarter to an annualized rate of 2.3%. GDP growth is expected to reaccelerate in the second and third quarter of this year, as vaccine distribution becomes more widespread.



Next Week

ISM Manufacturing, ISM Services, Productivity & Costs, Factory Orders, Employment, Consumer Credit

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