

Economic highlights from the week ending on December 18, 2020

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Recent economic data suggests that the economy has lost momentum as virus cases have risen. We anticipated that economic data would soften during the winter months, and believe the near-term outlook remains challenging as the labor market remains under pressure, many regions have renewed business restrictions due to the virus, and fiscal support remains delayed. With the level of unemployment already elevated, initial jobless claims continued to rise last week, which does not bode well for the holiday shopping season in our view.



Consumer spending had already started to soften in November. On a month-over-month basis, retail sales declined 1.1% in November, with broad-based declines in many categories on a seasonally adjusted basis. Excluding vehicles and gas, retail sales fell 0.8% in November, following a 0.1% decline in October. On a year-over-year basis, retail sales were up 4.1% in November versus 5.5% in October. Notably, retail sales make up roughly one third of the personal consumption expenditures component of US gross domestic product (GDP), while services revenue comprises roughly two thirds. Spending on services has been hit particularly hard during the pandemic and lagged the pick-up in overall third quarter GDP. While retail sales remain higher on a year-over-year basis, we believe this increase is just a partial offset to the contraction in spending on services.

While labor market, consumer spending, and manufacturing data has recently softened, the housing market remains an area of relative strength. Total housing starts increased 1.2% in November to an annual pace of 1,547,000, one of the strongest reports since 2006. On a year-over-year basis, total housing starts were up 12.8% in November, driven by growth in single-family starts. Meanwhile, permits were up 6.2% on a month-over-month basis in November, to an annualized rate of 1,639,000, the strongest rate since 2006. Very low mortgage rates, solid stock market performance, and a meaningful shift toward working from home are providing strong tailwinds for the housing sector.

Although we expect that the labor market and consumer spending trends will remain under pressure over the near-term, we believe there are positive catalysts on the horizon. Congress seems to be closing in on a deal for another round of stimulus, the first U.S. COVID-19 vaccinations outside of clinical trials began this week, and authorization of Moderna's COVID-19 vaccine for emergency use appears imminent. Congress is negotiating the details of a stimulus bill, expected to be in the \$900 billion range, and could strike a deal as soon as today. While a deal is not certain, we continue to believe there will be additional fiscal relief at some point, and President-elect Joe Biden has already voiced support for additional aid after his inauguration. Furthermore, we expect monetary policy will remain highly accommodative and continue to provide support for the economy.

The Federal Open Market Committee kept monetary policy unchanged at their meeting earlier this week as expected, with the fed funds target rate in a range of 0.0% to 0.25%. The decision was unanimous. The Fed intends to remain highly accommodative until their goals of maximum employment and higher inflation are achieved. The Fed's

summary of economic projections continues to signal that the target fed funds rate will remain unchanged through at least 2023, as policymakers do not expect inflation to exceed 2.0% during that timeframe. Until the Fed has made substantial progress toward achieving their dual mandate of maximum employment and price stability, they have set a floor for monthly asset purchases of at least \$80 billion per month of Treasuries and \$40 billion per month of agency mortgage-backed securities. Notably, the Fed's outlook for GDP over the next few years was revised higher compared with their previous forecasts in September, and fewer policymakers believe the risks to the economy are weighted toward the downside, which suggests increased optimism about the outlook. Nevertheless, the outlook remains uncertain and Fed Chair Powell indicated that the Fed would increase policy accommodation further if progress toward their dual mandate slows.



Next Week

Chicago Fed National Activity Index, GDP, Consumer Confidence, Existing Home Sales, Durable Goods, Personal Income & Outlays, FHFA House Price Index, New Home Sales, Consumer Sentiment

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