CHANDLER ASSET MANAGEMENT

Economic highlights from the week ending on February 19, 2021

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Following a somewhat sluggish holiday shopping season, retail sales picked up in January assisted by another round of federal relief checks. On a year-over-year basis, retail sales were up 7.4% in January versus up 2.5% in December. On a month-over-month basis, retail sales jumped 5.3% in January, following a 1.0% decline in December and a 1.3% decline in November. On an adjusted basis, sales increased in every major category in January, on a month-over-month basis. Excluding vehicles and gas, retail sales increased 6.1% month-over-month in January.

While fiscal relief checks provided a boost to consumer spending last month, we believe many recipients used their checks to continue paying down debt. According to a report by the New York Fed, 35% of fiscal relief direct household payments received last year were used for debt repayment. While mortgage debt increased substantially during 2020, driven by a combination of factors including low interest rates and the shift toward working from home, household debt not related to housing (e.g., credit card debt, auto loans, student loans, and other debt) was lower at year-end compared with year-ago, pre-pandemic levels.

Congress continues to push ahead with an additional $1.9 trillion relief package, which would include another round of direct household payments. Meanwhile, the White House is also crafting a proposal for an approximate $2 trillion infrastructure spending plan. Although the economy and labor market continue to face significant headwinds from the pandemic, we believe robust fiscal spending, along with the Fed's highly accommodative monetary policy framework should continue to provide support for the financial markets. Despite some weather-related setbacks, the vaccine rollout seems to be accelerating at a faster than expected pace. Altogether, we believe these factors could set the economy up for a fairly robust second half of the year.

The Bloomberg consensus estimates for gross domestic product (GDP) growth have recently been revised higher. The current consensus estimate for Q1 2021 seasonally adjusted annualized GDP growth is 3.3% (recently revised up from 2.3%), Q2 is 5.5%, Q3 is 6.0%, and Q4 is 4.3%. For the full year 2021, the estimate for GDP growth has been recently revised up to 4.8% from 4.1%. In December 2020, the Federal Open Market Committee (FOMC) was projecting 4.2% GDP growth in 2021, well above the longer-run expected growth rate of 1.8%. The FOMC was also projecting a decline in the unemployment rate to 5.0% by 2021 year-end. Although the Fed has signaled that the fed funds rate is likely to remain unchanged until at least 2023, we believe economic activity may exceed the Fed's expectations this year.

Next Week

Chicago Fed National Activity Index, Leading Indicators, Case-Shiller Home Price Index, FHFA House Price Index, Consumer Confidence, New Home Sales, Fed Chair testifies before Senate Banking Committee, Durable Goods, GDP, Pending Home Sales, Personal Income & Outlays, Consumer Sentiment

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