



Economic highlights from the week ending on April 30, 2021

Shelly Henbest, CFA
Senior Credit Analyst

The Federal Open Market Committee kept their target fed funds rate and asset purchase program unchanged this week, as expected. 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. The vote to keep policy unchanged was unanimous. During his press conference, Fed Chair Powell reiterated that the economy is still a long way from reaching their employment and inflation goals and it is too soon to begin discussing tapering asset purchases. The Fed believes that some parts of the economy will not be able to fully recover until the pandemic is decisively over. Chair Powell also reiterated that near term inflationary pressures are likely to be temporary. The Fed expects “base effects” (i.e., comparing current prices to prices at the early stage of the pandemic when prices were under pressure) will add 1.0% to headline inflation and 0.7% to core inflation readings in the near term, on a year-over-year basis. The base effects are expected to dissipate in a few months. Bottlenecks and supply chain disruptions are likely to add to inflation in the near-term as well. Nevertheless, the Fed is not signaling any near-term changes to monetary policy and plans to remain accommodative.



On the heels of his \$2.3 trillion infrastructure spending proposal last month (named the American Jobs Plan), President Biden unveiled the details of another \$1.8 trillion spending proposal this week dubbed the American Families Plan. Both plans would be in addition to the roughly \$5.5 trillion in pandemic-related fiscal spending that has already been approved since early last year. While the American Jobs Plan was largely focused on physical infrastructure, elderly care, and manufacturing, the American Families Plan would include new spending on childcare, education, and paid family leave. To help offset these spending proposals, the White House would raise corporate tax rates, and the top income-tax and capital gains tax rates. The Biden administration continues to push forward with large-scale spending proposals, despite significant progress on the vaccine rollout in the US, and largely better than expected economic data and corporate earnings. While we think the magnitude of spending could be watered down through negotiations in Congress, we ultimately believe an infrastructure spending bill is likely to come to fruition later this year.

US economic growth accelerated in the first quarter. According to the advance estimate, real US gross domestic product (GDP) grew at an annualized rate of 6.4% in the first quarter (slightly below the upwardly revised 6.7% consensus estimate), following 4.3% growth in the fourth quarter of 2020. Economic growth is expected to accelerate even further in the current quarter to an annualized rate of 8.1%. The consensus forecast for full year 2021 US gross domestic product growth is 6.3%, following a 3.5% decline in 2020. We believe accommodative monetary policy, robust fiscal spending, and continued progress on vaccine distribution will provide meaningful tailwinds for the economy in the coming quarters.

Looking ahead to next week, the April employment report will be released on Friday. The consensus forecast calls for a 970,000 increase in nonfarm payrolls and a decline in the

unemployment rate to 5.7%. A potential increase in the participation rate, which was 61.5% in March, would also be a positive signal for the labor market.



Next Week

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Chandler Asset Management | info@chandlerasset.com | 800.317.4747 | chandlerasset.com

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