First Trust
ECONOMIC RESEARCH REPORT
Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist
Andrew Opdyke, CFA – Senior Economist
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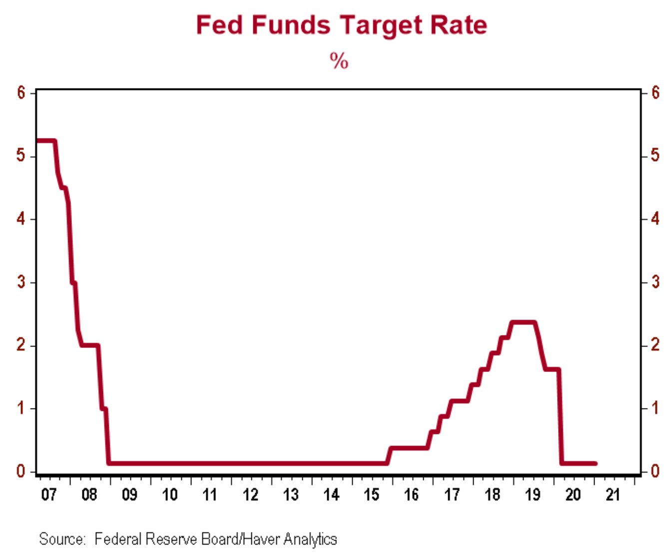
Watching and Waiting

Beyond the annual rotation of voting members on the Federal Open Markets Committee (FOMC), there wasn't change in today's Fed statement. While acknowledging the moderation in some recent economic data, and that weakness is concentrated in areas most directly impacted by the pandemic (think travel, hospitality, and local businesses that rely more on in-person interaction), the Fed also noted on the flip side that there has been progress on the vaccine rollout.

Does any of that change their plan for the path forward? Don't count on it. The Fed will continue purchasing at least $80 billion per month of Treasury securities and $40 billion per month of mortgage backed securities until "substantial further progress has been made toward the Committee's maximum employment and price stability goals." Meanwhile, the Federal Reserve has no plans to move rates in 2021, 2022, or 2023 (which is as far out as they forecast in their most recent projection materials).



During Chair Powell's press conference, he made the point on multiple occasions that a full recovery is still some ways off. There remain more than 9 million jobs to bring back in order to reach the employment level seen pre-pandemic, and the Fed wants to see inflation consistently above 2% before they will feel mandates have been achieved. When asked about expectations regarding the vaccine rollout bringing activity back towards "normal," Chair Powell echoed a similar tone. They see progress on the vaccine front, but plan for worst case scenarios. As with inflation, they will react when they see the results in the data.

More attention will be on the Fed's next meeting in mid-March, at which point we will all have more information of the vaccine rollout progress, the impact on case numbers, and Congressional moves on additional stimulus measures. All of which will influence the pace of growth in the US economy. The March meeting will also bring with it updated Fed forecasts on employment, the economy, and the path on rates in coming years. In the meantime, the Fed remains ultra accommodative.

Brian S. Wesbury, *Chief Economist*
Robert Stein, *Deputy Chief Economist*

Text of the Federal Reserve's Statement:

The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.

The COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world. The pace of the recovery in economic activity and employment has moderated in recent months, with weakness concentrated in the sectors most adversely affected by the pandemic. Weaker demand and earlier declines in oil prices have been holding down consumer price inflation. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy will depend significantly on the course of the virus, including progress on vaccinations. The ongoing public health crisis continues to weigh on economic activity, employment, and inflation, and poses considerable risks to the economic outlook.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With inflation running persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time. In addition, the Federal Reserve will continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per *month until substantial further progress has been made toward the Committee's maximum employment and price stability goals. These asset purchases help foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.*

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Thomas I. Barkin; Raphael W. Bostic; Michelle W. Bowman; Lael Brainard; Richard H. Clarida; Mary C. Daly; Charles L. Evans; Randal K. Quarles; and Christopher J. Waller.