First Trust
ECONOMIC RESEARCH REPORT
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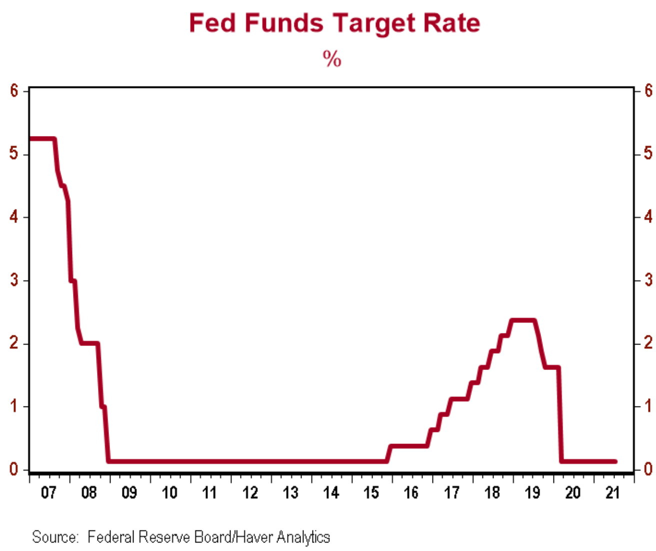
Are We There Yet?

It's the question that parents around the world know all too well, "Are we there yet?" That was the key question coming into today's Fed meetings. The answer? Not yet, but we're getting closer.



Although the Fed made no changes to the stance of monetary policy, it did insert language in the statement saying it will continue to assess the economy's progress "in coming meetings." This language was inserted immediately after language on the pace of quantitative easing (QE). This is a strong signal that unless something unexpected happens that the Fed will announce a tapering of QE in the fourth quarter, or possibly as early as the September meeting. We expect tapering to start by January 2022 and that the Fed will stop expanding its balance sheet at all by the end of 2022. In the meantime, the Fed will keep buying a total of $120 billion in Treasury and mortgage securities per month.

As far as raising short-term interest rates is concerned, don't hold your breath. The Fed continues to acknowledge recent higher inflation but dismiss its staying power. In addition, although recognizing that a higher short-term interest rate is a theoretical possibility before tapering is done, Powell, at the post-statement press conference said it was unlikely.

Is the Delta variant a concern that has the Fed holding back? Not according to Powell. While the Fed will certainly watch the data for signs of disruption, he noted that subsequent waves of COVID have had more muted impacts on economic growth. In fact, U.S. activity during the summer and winter waves of last year comfortably outperformed the Fed's expectations, and that was before vaccinations took off here in the U.S. As such, there is little expectation that the Delta wave will notably shift the economy's path in the coming months.

The September meeting should be much more lively, with two more jobs reports to come between now and then, as well as the roll-off of extended unemployment benefits that are scheduled to end nationally on September 6th. If India and the U.K are any indicator, we are likely to be on the tail-end of (or past) the Delta wave. Barring a downside surprise, expect even stronger hints about tapering at the September meeting. Rate hikes are still a long way off, but this would be the first step towards normalizing exceptionally accommodative monetary policy.

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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.

With progress on vaccinations and strong policy support, indicators of economic activity and employment have continued to strengthen. The sectors most adversely affected by the pandemic have shown improvement but have not fully recovered. Inflation has risen, largely reflecting transitory factors. 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 continues to depend on the course of the virus. Progress on vaccinations will likely continue to reduce the effects of the public health crisis on the economy, but risks to the economic outlook remain.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With inflation having run 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. Last December, the Committee indicated that it would 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 its maximum employment and price stability goals. Since then, the economy has made progress toward these goals, and the Committee will continue to assess progress in coming meetings. 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.