

Economic Indicator — April 28, 2021

April FOMC: A Subtle Change in Tune

Summary

The April FOMC meeting statement and opening remarks from Chair Powell's press conference struck a slightly more optimistic tone but did nothing to dissuade expectations that the current stance of policy will remain unchanged for months to come. While acknowledging a clear pickup in activity since its March meeting and inflation closer to its 2% goal, the FOMC left its forward guidance around the fed funds rate and asset purchases unchanged, noting it still needs to see "substantial further progress" on its employment and inflation goals before scaling back asset purchases. We are gradually getting closer to an eventual taper, but we suspect it will be at least a few more months before that word reenters the FOMC's vocabulary.

Economist(s)

Sarah House

Senior Economist | Wells Fargo Securities, LLC
sarah.house@wellsfargo.com | 704-410-3282

Michael Pugliese

Economist | Wells Fargo Securities, LLC
michael.d.pugliese@wellsfargo.com | 212-214-5058

A More Positive View of the Economy

As expected, the FOMC made no policy changes at today's meeting in a unanimous decision. The fed funds rate target was left unchanged at a range between 0.00-0.25%, while asset purchases will continue at their current pace of \$80 billion in Treasury securities and \$40 billion in mortgage-backed securities.

The post-meeting statement treaded the thin line between acknowledging the rapidly improving economy while remaining dovish on policy guidance. Specifically, the FOMC noted that, "amid progress on vaccinations and strong policy support, indicators of economic activity and employment have strengthened." It also removed language from the March statement citing "considerable" risks to the economic outlook from the public health crisis, instead opening with softer language that "risks to the economic outlook remain" from the ongoing public health crisis.

In regard to inflation, the Committee's updated assessment reflects that inflation by some measures has moved back above 2%. However, the FOMC indicated that it expects the pickup in inflation underway will likely prove temporary, and explicitly stated in the post-meeting statement that the recent pickup in inflation "largely reflects transitory factors." That view had previously been made clear in the March meeting's Summary of Economic Projections, but its inclusion in the statement signals it is widely held among members and underscores that the FOMC is prepared to look through the near-term rise in inflation.

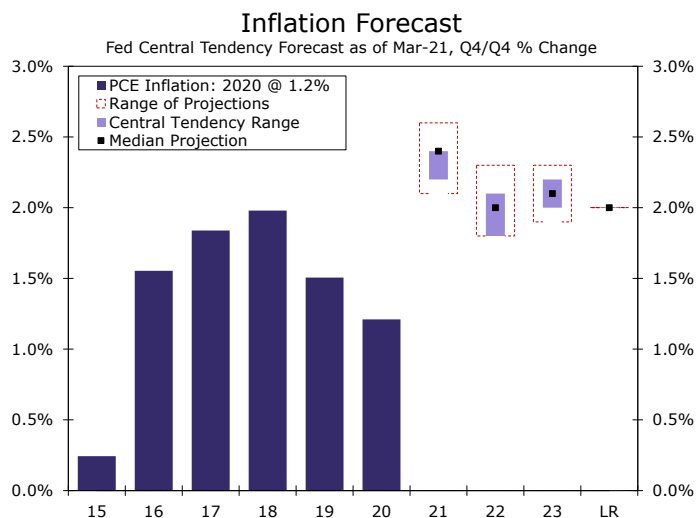
Holding the Line: Forward Guidance on Tapering and Rates Unchanged

Despite the upgraded read on the economic growth and inflation, forward guidance about future policy adjustments was left unchanged. The FOMC continued to expect that the current fed funds target range will be appropriate until maximum employment is achieved, inflation has reached 2% and is "on track to moderately exceed 2% for some time."

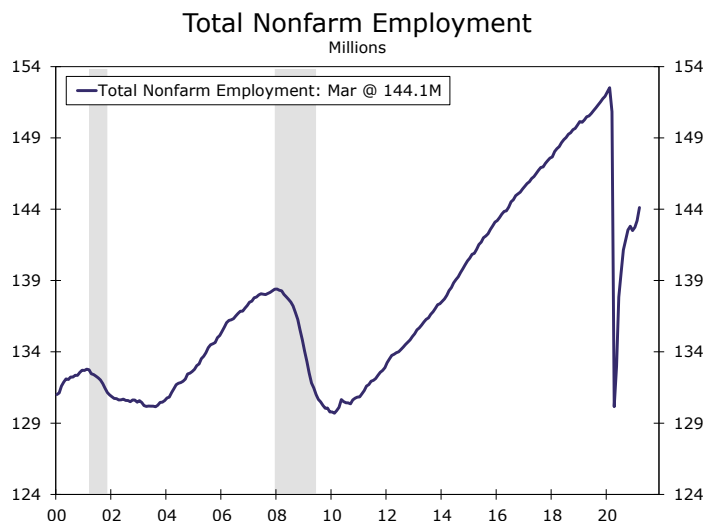
As for asset purchases, the Fed reiterated that purchases would continue at their current pace "until substantial further progress" has been made on its employment and inflation goals. Chair Powell reiterated this in his response to the first question of the press conference. He noted that, "it will take some time before we see substantial further progress" toward the FOMC's employment and inflation goals, and he reinforced the idea that it is not yet time to have a conversation about tapering.

While no doubt encouraged by the *pace* of the recovery over the past six weeks, the Fed remains more focused on its *level*. With 8.4 million fewer jobs since the pandemic began, and an uncertain inflation outlook past the near-term pickup, there remains a good deal of ground to cover before reaching maximum employment and inflation that averages 2%.

With risks to the outlook remaining, the meeting statement again indicated that the FOMC will need to see *outcomes* consistent with its goals, not just *forecasts*. That will keep the Fed in a holding pattern for months to come.



Source: U.S. Department of Commerce, Federal Reserve Board and Wells Fargo Securities



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Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	International Economist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Azhar Iqbal	Econometrician	(212) 214-2029	azhar.iqbal@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Brendan McKenna	International Economist	(212) 214-5637	brendan.mckenna@wellsfargo.com
Shannon Seery	Economist	(704) 410-1681	shannon.seery@wellsfargo.com
Hop Mathews	Economic Analyst	(704) 383-5312	hop.mathews@wellsfargo.com
Nicole Cervi	Economic Analyst	(704) 410-3059	nicole.cervi@wellsfargo.com
Sara Cotsakis	Economic Analyst	(704) 410-1437	sara.cotsakis@wellsfargo.com
Coren Burton	Administrative Assistant	(704) 410-6010	coren.burton@wellsfargo.com

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