

Special Commentary — July 28, 2021

FOMC: "Progress" Made but Is It Enough to Taper?

Summary

- As widely expected, the FOMC did not make any major policy changes at today's meeting. The decisions to keep the target range for the fed funds rate unchanged as well as the pace of asset purchases was unanimously supported by all 11 voting members of the Committee.
- The FOMC acknowledged that "progress" has been made toward reaching the Committee's goals of maximum employment and price stability. But probably not enough progress yet to warrant a near-term commencement of tapering asset purchases.
- We continue to forecast that the FOMC will keep its target range for the fed funds rate unchanged through at least the end of next year.
- We look for Fed officials to begin dropping hints in the next month or two about an eventual tapering of asset purchases. We look for a formal announcement to be made at the December FOMC meeting, with the actual process of winding down the purchases to begin early next year.

Economist(s)

Jay Bryson

Chief Economist | Wells Fargo Securities, LLC
jay.bryson@wellsfargo.com | 704-410-3274

The FOMC Made No Major Policy Changes at Today's Meeting

As widely expected, the Federal Open Market Committee (FOMC) announced no major policy changes at the conclusion of its two-day meeting today. The FOMC left its target range for the federal funds rate at 0.00% to 0.25%, where it has been maintained since March 2020. The Committee also decided to maintain its monthly purchase rate of Treasury securities and mortgage-backed securities (MBS) at \$80 billion and \$40 billion, respectively. Both decisions were unanimously supported by all 11 voting members of the Committee.

As is typical for the fifth FOMC meeting of the year, the Committee did not release its quarterly Summary of Economic Projections (SEP), which contains the FOMC's macroeconomic forecasts. So there is no way of knowing how the Committee's outlook has evolved since its June 16 meeting, when the last SEP was published. The June SEP showed that all 18 committee members thought the target range for the fed funds rate would remain unchanged through the end of the year, and that a majority of members (11) thought that it would remain unchanged through the end of 2022. These projections are similar to our own forecast of an unchanged fed funds rate through at least the end of next year.

The statement that was released at the conclusion of today's meeting gives us no reason to change that forecast. The Committee stated that "indicators of economic activity and employment have continued to strengthen." The statement went on to say that "the sectors most adversely affected by the pandemic have shown improvement," but it also noted that they "have not fully recovered." Furthermore, the FOMC continued to note that "risks to the economic outlook remain," due largely to the lingering pandemic. A rate hike simply does not seem likely as long as the economic outlook remains clouded by uncertainty.

When Will Tapering Begin?

The FOMC has been stating that "substantial further progress" needs to be made toward the Committee's twin goals of maximum employment and price stability before a tapering of asset purchases would be warranted. The statement that was released today said that "the economy has made progress toward these goals," and that the FOMC "will continue to assess progress in coming months." In other words, progress has been made, but not quite enough yet to warrant a near-term commencement of "tapering." Note the reference to "coming months." It does not seem that the FOMC is in any hurry to taper, although the Committee does seem to acknowledge that the time is drawing nearer.

As we discussed in our recent [July Flashlight for the FOMC Blackout Period](#), we look for the FOMC to make a formal announcement regarding the tapering of its asset purchases at the December 14-15 meeting, and we expect that the Fed will begin the process of winding down its purchases early next year. But before that formal announcement is made, we expect that Fed officials will hint that tapering will be forthcoming. Today's statement suggests that Chair Powell could potentially drop an explicit hint in his speech at the Jackson Hole Symposium at the end of August, or at the conclusion of the September 22 FOMC meeting.

But as we also acknowledged in our *Flashlight* report, the commencement of any tapering of asset purchases will depend crucially on the evolution of the economy in coming weeks and months. Stronger-than-expected economic growth and/or higher-than-expected inflation could induce the Committee to begin the process of dialing back the Fed's purchases of Treasury securities and MBS earlier than we currently anticipate. Conversely, marked deceleration in economic activity and/or significant easing of inflationary pressures could lead the FOMC to conclude that continued asset purchases are warranted. In that regard, the recent resurgence in COVID cases represents a notable downside risk to the economic outlook.

The minutes of today's meeting are scheduled to be published on August 18. We will be reading those minutes closely for any explicit references to the timing of tapering.

No change in target ranges for fed funds rate or pace of asset purchases.

"Progress" made, but probably not enough to warrant a near-term tapering of asset purchases.

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

The 2021 Annual Economic Outlook: *Aftershocks and Divergence in the Post-Pandemic Economy* is available at wellsfargo.com/economicoutlook

Via The Bloomberg Professional Services at WFRE

And for those with permission at research.wellsfargosecurities.com

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

Required Disclosures

This report is produced by the Economics Group of Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes this report directly and through affiliates including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., Wells Fargo Securities Canada, Ltd., Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

The information in this report has been obtained or derived from sources believed by Wells Fargo Securities, LLC to be reliable, but Wells Fargo Securities, LLC does not guarantee its accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or upon any opinions set forth herein. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sale of any security or other financial product or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company. © 2021 Wells Fargo Securities, LLC

Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EEA, this report is distributed by WFSIL or Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE