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Weekly Commentary

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Lots of news, little action in Q1

The Federal Reserve was constantly in the news in the first quarter, but ultimately hardly altered monetary policy. With the pandemic continuing, vaccine distribution slow and data showing the mandated restrictions over the winter stalled the economic recovery, the Federal Open Market Committee (FOMC) meeting in January left rates in the 0-0.25% range and purchases of government securities at $120 billion a month.

February shifted to a positive direction. The vaccination rollout improved, and new cases of Covid-19 slowly fell. Evidence that the fiscal stimulus bill passed in late December was trickling into the economy came with strong retail and housing sales. The confirmation of former Fed Chair Janet Yellen as Secretary of the Treasury suggested that fiscal and monetary policy might be better aligned. This, along with the Democratic majority in Congress, increased the likelihood of another stimulus package. Both pent-up consumer demand and the prospect that the end of pandemic was in sight created sentiment that a rebound in gross domestic product would follow.

In many speeches and appearances, Fed Chair Jerome Powell acknowledged the apprehension about a potential surge in inflation but said policymakers believed an uptick in prices would be transitory. In the March FOMC meeting, this stance was affirmed as they made only slight shifts to rate projections. While the updated Summary of Economic Projections pushed estimates for core inflation above 2% at the end of 2021, Powell reiterated that the Fed would be willing to let it pass that mark until the labor market and economy seemed on steady footing.

In March, more federal economic relief arrived. The $1.9 trillion American Rescue Plan sent stimulus checks to those who qualified and provided direct and substantial aid to state and local governments. The expanded re-openings should be a solid economic boost to these governments and other entities.