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Weekly Commentary

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Discussing less

When the Federal Reserve releases the minutes of its July Federal Open Market Committee (FOMC) meeting this week, "decreasing" will get increased attention. Investor focus will be on the FOMC's discussions about tapering its mammoth asset-purchase program, in which the Fed has been buying $120 billion in Treasuries and mortgage-backed securities on the open market each month since the onset of the pandemic. Reducing the bond buying would be a clear sign the Fed thinks the U.S. economy is on a sustainable path and does not need as much accommodation—with the goal being to raise the federal funds rate from the present range of 0-0.25%.

Since that meeting, more signs have come supporting the reduction of quantitative easing. The labor market keeps tightening, which is lifting wages in some sectors, notably for restaurants workers. Also, the producer price index (PPI) continues to rise. Headline PPI beat expectations with a year-over-year (y/y) gain of nearly 8%. The core number also increased, reaching an above-consensus 6.2% y/y. So, whatever Fed policymakers thought in July about tapering should still apply, even with the curveball of the delta variant of Covid-19. In fact, they might even look past the variant's recent lowering of consumer confidence and businesses views on economic conditions because they already expect the recovery to slow down.

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