# CHANDLER ASSET MANAGEMENT

# Economic highlights from the week ending on July 16, 2021

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The Consumer Price Index (CPI) was up 5.4% year-over-year in June versus up 5.0% in May. Core CPI (CPI less food and energy) was up 4.5% year-over-year in June, versus up 3.8% in May. Inflation is currently running well above the Fed's longer-run target of around 2.0%. However, Fed Chair Powell reiterated this week that policymakers believe that most of the factors fueling near-term inflationary pressures will be temporary. While we expect supply chain bottlenecks will continue to put upward pressure on prices over the near- to intermediate-term, base effects from the pandemic will likely start to phase out in the coming months. As such, we believe we may be at or near the peak of year-over-year inflation rates. The Federal Open Market Committee will hold its next policy meeting on July 27-28 and we expect that inflation will be a central talking point. However, we continue to believe the Fed will proceed with caution, in terms of monetary policy changes, particularly given the high number of people who remain unemployed and continued uncertainty about the pandemic and impact of COVID-19 variants.

On a year-over-year basis, retail sales were up 18.0% in June versus up 27.6% in May. Year-over-year gains were fueled in part by the drop-off in spending and activity during the pandemic last year. On a month-over-month basis, retail sales increased 0.6% in June (exceeding expectations), following a 1.7% decline in May. Retail sales have been somewhat uneven on a monthly basis due to the timing of fiscal stimulus and economic reopening. Notably, while some states have already stopped providing the $300 per month extended pandemic-related unemployment benefit, millions of American households will begin receiving monthly child tax credit payments this month. Eligible households will receive up to $300 a month for each child under age 6 and up to $250 for each child ages 6 to 17, through year-end. Overall, we believe ongoing fiscal support, an improving labor market, and further progress on vaccinations should continue to support consumer spending. However, we have recently seen a meaningful increase in COVID-19 cases, particularly in areas with lower vaccination rates, which bears watching. While we are not anticipating renewed widespread US lockdowns, a significant resurgence of the virus could at least temporarily disrupt expectations for a full economic reopening this fall. It may also help catalyze demand for vaccines, as US vaccination rates have recently stalled.

## Next Week

*Housing Market Index, Housing Starts & Permits, Chicago Fed National Activity Index, Existing Home Sales, Leading Indicators*

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