

ECONOMIC PULSE

9

UNITED STATES: LATEST MINUTES RAISE THE ALARM

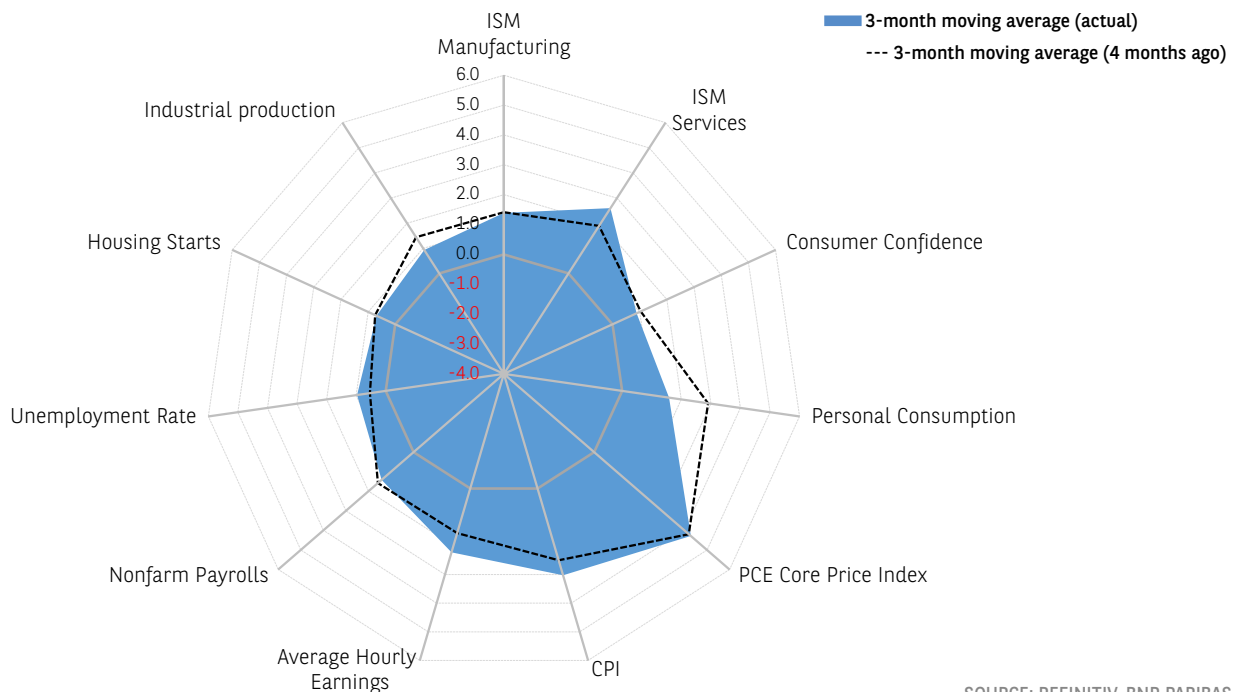
The Fed gets serious. Faced with an unprecedented increase in inflation (6.9% y/y in November, probably scarcely less in December) the Federal Reserve will tighten monetary policy more than previously expected.

With the ending of Quantitative Easing already having been brought forward, the latest minutes of the Federal Open Market Committee (FOMC) indicate that *“the appropriate pace of balance sheet runoff would likely be faster than it was during the previous normalization episode”* and *could come “at some point after the first increase in the target range for the federal funds rate”* (FOMC, 2021). The markets now expect rates to be ratcheted up by a quarter of a point in March, followed by at least two further increases later in 2022. Having thus far been unmoved by the Fed’s announcements, yields on 10-year Treasuries rose. At 1.70% on 6 January, they have gained 20 basis points since the beginning of the year.

Over and above the inflation figures, it was the situation in the labour market, described as “tight” by FOMC members, that drove this change of direction. The latest Bureau of Labor Statistics employment report does little to challenge this observation. For the first time since January 2019, the unemployment rate fell below the 4% mark in December (3.9%), whilst the number of jobs created (199,000 in December) was once again revised upwards. In 2021, nearly 6.5 million of the 9.4 million jobs lost in 2020 were recovered, with many of the active population (slightly over 2 million, mostly discouraged or prevented by Covid-19) missing out. Given the exceptionally high number of vacant positions (down slightly, but still nearly 10 million) and the increase in wages (an annualised 6% on an hourly basis in the final quarter of 2021), the situation is indeed tight.

Jean-Luc Proutat

UNITED STATES: QUARTERLY CHANGES



The indicators in the radar are all transformed into ‘z-scores’ (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -4 and +6. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.



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