



TheECONOMY

Economic Reawakening Stirs Inflation

With the vaccine rollout well underway and new COVID-19 cases trending notably lower, U.S. consumers are feeling more confident and starting to make up for lost time as the economy begins its long-awaited reopening; this is good news for the near-term economic outlook as approximately two-thirds of gross domestic product (GDP) is attributable to consumer spending. While still below their pre-pandemic levels, measures of consumer confidence have risen sharply in recent months, buoyed by firming labor markets, improving public health outlooks, heightened savings accumulated during the pandemic, and recently distributed stimulus checks. Against this backdrop, near-term economic data is poised to remain decidedly strong.

The strength of the consumer was on full display in the first quarter of 2021 which saw the U.S. economy expand at an annualized rate of 6.4%. Growth was fueled by a 10.7% annualized surge in personal consumption, the second strongest reading since the 1960s. To be sure, the combined effects of highly accommodative monetary and fiscal policies in response to the pandemic have helped underpin economic activity and stimulate financial market conditions in hopes of returning the U.S. economy to its longer-term growth potential. While the possibility of an inflationary flare-up has long been recognized as a potential risk to such aggressive and coordinated policy actions, the demand shock resulting from COVID-19 had, until recently, served to keep such broad-based consumer price pressures contained.

Consumer prices surged 0.8% in April with the consumer price index (CPI) leaping to an annual rate of 4.2%, up from 2.6% the prior month. Similarly, core CPI surged 0.9% in April, registering its largest monthly increase since 1982 and raising the annual rate to 3.0% from 1.6% the prior month. The price increases were broad-based, reflecting gains in nearly every major price category and suggesting that expanding demand is allowing companies to pass through higher costs. While year-over-year price changes are somewhat distorted by comparisons to the pandemic-depressed base period of April 2020, the accelerating nature of the price gains will add to the already spirited debate surrounding how long such inflationary pressures may persist and what actions the Federal Reserve may be compelled to consider in response.

Treasury Yields

MATURITY	5/11/21	4/12/21	CHANGE
3 Month	0.010%	0.008%	0.002%
6 Month	0.030%	0.030%	0.000%
1-Year	0.033%	0.063%	-0.030%
2-Year	0.159%	0.167%	-0.008%
3-Year	0.303%	0.350%	-0.047%
5-Year	0.800%	0.881%	-0.081%
10-Year	1.622%	1.666%	-0.044%
30-Year	2.345%	2.333%	0.012%

Source: Bloomberg

Agency Yields

MATURITY	5/11/21	4/12/21	CHANGE
3 Month	0.022%	0.027%	-0.005%
6 Month	0.032%	0.042%	-0.010%
1-Year	0.057%	0.077%	-0.020%
2-Year	0.160%	0.185%	-0.025%
3-Year	0.337%	0.372%	-0.035%
5-Year	0.847%	0.893%	-0.046%

Source: Bloomberg

Commercial Paper Yields (A-1/P-1)

MATURITY	5/11/21	4/12/21	CHANGE
1 Month	0.070%	0.080%	-0.010%
3 Month	0.120%	0.130%	-0.010%
6 Month	0.160%	0.170%	-0.010%
9 Month	0.200%	0.190%	0.010%

Source: Bloomberg

Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q1 '21	6.40%
US Unemployment	Apr '21	6.10%
ISM Manufacturing	Apr '21	60.7
PPI YoY	Mar '21	5.90%
CPI YoY	Apr '21	4.20%
Fed Funds Target	May 12, 2021	0.00% - 0.25%

Source: Bloomberg