

August 18, 2021

Macro Alert

Delta Impact on Consumer Behavior Will Delay Tapering Announcement

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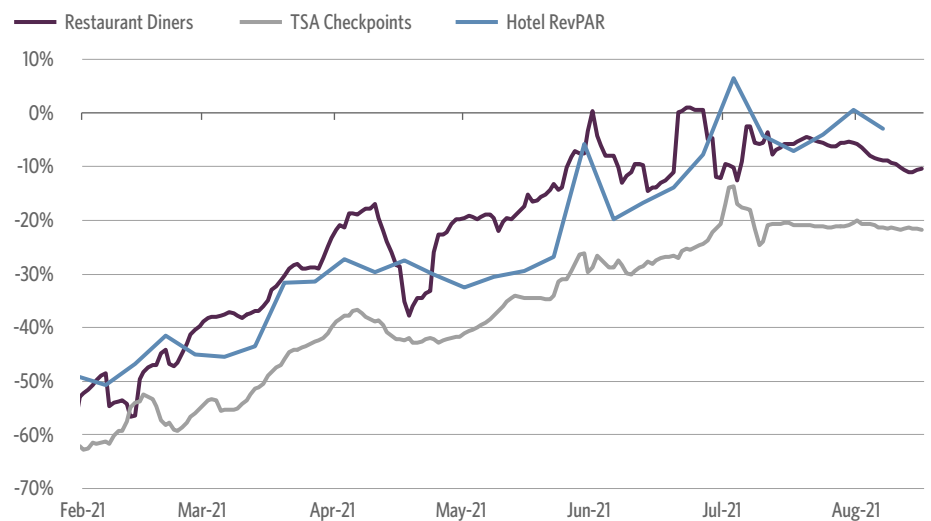
Expectations are mounting for a September announcement of tapering plans by the Federal Reserve (Fed), prompted by the strength of the economy and comments from more hawkish members of the FOMC, particularly Boston Fed President Eric Rosengren. We don't see that happening.

The Delta variant is throwing a wrench into the forward progress of the economy. Although Fed Chair Powell believes that "it's not yet clear whether the Delta strain will have important effects on the economy," our read of the latest data suggests that it is already having a negative impact on consumer behavior.

After a large downside miss to July retail sales, spending on COVID sensitive activities such as restaurants, air travel, and hotels has weakened further in August. High frequency indicators of broader consumer activity such as daily credit card spending also show softening over the past few weeks.

The Recovery in COVID-Sensitive Activities Has Stalled

Change Relative to Same Day in 2019



Source: Guggenheim Investments, Bloomberg, STR. Data as of 8.17.2021 for diners and TSA, 8.7.2021 for hotels.

Surveys also confirm the impact that the Delta variant is having on consumer sentiment. Consumers now expect a more negative economic impact from COVID than they have for several months.

Consumers Expect Renewed Economic Stress from Delta Wave

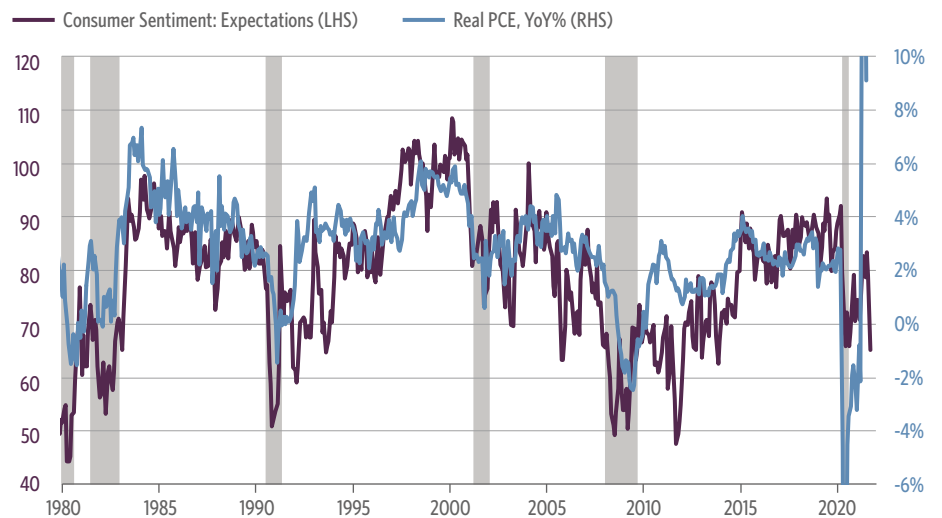
Expected GDP Impact of COVID Over the Next 12 Months (Median, 7 Day Moving Average)



Source: Guggenheim Investments, Cleveland Fed. Data as of 8.17.2021.

In addition, last week's unexpected plunge in the University of Michigan Consumer Sentiment survey bodes poorly for consumer spending based on its historical relationship with consumption.

Sharp Drop in Sentiment in Early August Could Weigh on Consumption



Source: Guggenheim Investments, Bloomberg. Data as of 8.13.2021 for sentiment, 7.31.2021 for PCE.

The good news is that our economic recovery is unlikely to fully reverse, given lack of political will for a return to stricter lockdown measures. But evidence of a slowdown in third quarter economic activity will continue to mount in the coming weeks, putting the Fed's 7 percent real GDP growth projection for 2021 out of reach. This string of weaker data will likely prompt the Fed, led by Chair Powell and Governor Brainard, to take a more cautious approach to the timing and speed of tapering plans, in turn keeping Treasury yields low.

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GPIM 49389