

## ECONOMIC UPDATE

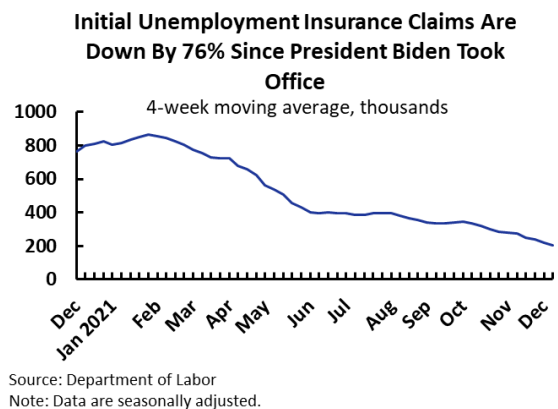
December 17, 2021

### Economic Issue in Focus: The Federal Reserve Is Actively Addressing Short-Term Inflationary Concerns, While the Long-Term Inflation Outlook Remains Stable

Even amid strong wage gains, recent inflation data demonstrate what U.S. workers and households are feeling: Decades of declining public investment and private sector cost-cutting, combined with extreme fluctuations in supply and demand from the pandemic, have caused prices to rise. In response to the overall strength of the recovery—the speed of which has exceeded the Federal Reserve’s expectations—and recent price increases which have resulted in inflation at higher than the targeted rate, the Federal Reserve took steps Wednesday to scale back its emergency pandemic relief actions faster than originally planned. As the Federal Reserve revised its projections to include a more rapid labor market recovery and 4% GDP growth in 2022, it also announced that it will accelerate the timeline for ending extraordinary economic aid. This decision, often referred to as the “tapering” of asset prices, is likely the first step by the Federal Reserve to raise interest rates to help reduce inflation which it now forecasts will drop to 2.6% in 2022, still above the long-run target of 2% but a rapid normalization from recent price spikes. Wednesday’s action affirms that the Federal Reserve has tools at its disposal to address inflationary pressures and is moving to deploy them. Notably Chair Powell affirmed that wage growth and tightness in the labor market have not been contributing to inflation.

### Key Economic Indicators to Track

- Unemployment Insurance Claims:** After new unemployment claims fell to a 52 year low in early December, new [data](#) released by the Department of Labor show that initial claims remained at pre-pandemic levels (206,000) for the week ending December 11. The four-week moving average, which smooths week-to-week volatility in the data, fell to the **lowest level in over 50 years** (203,750) and is now down 76% since President Biden took office.
- Retail Sales:** [Data](#) released by the Census Bureau showed that retail sales rose by 0.3% during the month of November—exceeding analysts’ expectations—and are now 22% above pre-pandemic levels. Retail sales have grown 18.2% in the year since November 2020, far outpacing inflation during the same period. This demonstrates that American families continue to see growth in their real disposable income, and stores and restaurants have the supplies to drive this recovery. As the



Administration takes action to address the challenges stemming from elevated inflation, including the issues supply chain bottlenecks pose for Americans' pocketbooks, the U.S. economy continues to strengthen.

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## **JEC Spotlight: Six Months of Advance CTC Payments Have Dramatically Reduced Childhood Poverty and Improved Family Finances**

A recent JEC [issue brief](#) shows the expansion of the CTC, included in President Biden's American Rescue Plan, is one of the largest-ever single-year tax cuts for families with children. More than 61 million children from over 36 million families have received a total of nearly \$93 billion in advance Child Tax Credit payments in 2021. The average advance CTC payment per household was \$444 in December. The advance CTC is putting money in the pockets of low- and middle-income families to pay for household expenses like food, rent, utilities and child care. As part of the expansion, half of the CTC has been distributed in advance via monthly payments, helping families meet their financial needs in real time. Food has consistently been the top category for CTC spending, while many also used the payments for school expenses prior to the start of the 2021-22 school year. Qualifying families have received monthly checks from July through December.

The monthly CTC payments, which were passed as a short-term measure under the American Rescue Plan, will stop after December 2021. Without an extension, which is included in the House-passed Build Back Better Act, CTC will revert to its pre-American Rescue Plan form. As a result, the CTC will be only partially refundable again, and at least 27 million children who are now receiving the full credit will receive only a partial credit or no credit at all. This will place nearly 10 million children at risk of slipping back below the poverty line or deeper into poverty. To prevent this backward slide, Congress must finalize action on the Build Back Better Act and extend the CTC enhancements, including making the CTC fully refundable, retroactively, to cement the CTC's historic reduction in child poverty.

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### **Selected JEC Resources**

- [\*The Build Back Better Act Will Create Jobs, Reduce Costs for Working Families, Spur Innovation in Clean Energy and Asks the Wealthy and Corporations to Pay Their Fair Share\*](#)
- [\*Estimates of Advance Child Tax Credit Distribution by Congressional District \(December 2021\)\*](#)
- [\*Health Insurance Tax Subsidies in the Build Back Better Act Will Provide Affordable Health Insurance for Millions of Americans\*](#)
- [\*Expanding the Housing Choice Voucher Program to Improve Housing Affordability and Economic Security for the Lowest-Income Families\*](#)
- [\*Strong Care Infrastructure Is Critical to Increasing Labor Force Participation and Driving Future Economic Growth\*](#)
- [\*Hispanic Workers Kept the U.S. Economy Moving During the Coronavirus Pandemic but Face Lower Wages and Poor Working Conditions\*](#)

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