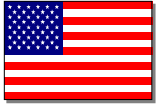


December 12, 2006



## ***The Fed stays the course for now: rates and tone remain unchanged***

### ***According to the U.S. Federal Reserve:***

- The target for the federal funds rates remains at 5.25%.  
Votes: For = 10; against = 1 (Jeffrey M. Lacker, Richmond Fed president).
- The Committee members reiterated that the extent and timing of any additional firming that may be needed will depend on the evolution of the outlook for both inflation and economic growth.
- Core inflation remains high and the high level of resource utilization has the potential to sustain inflation pressures.
- Economic growth has slowed over the course of the year, partly reflecting a substantial cooling of the housing market. Although recent indicators have been mixed, the economy seems likely to expand at a moderate pace on balance over coming quarters.

### **Commentary:**

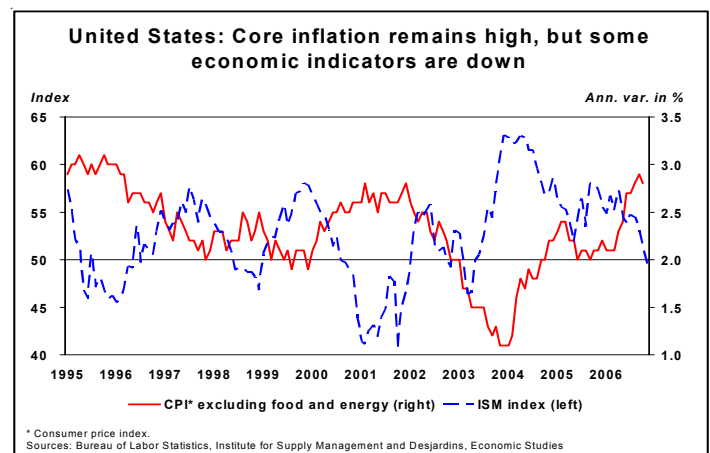
The U.S. Federal Reserve (the “Fed”) decided to maintain the status quo policy begun in August, holding the benchmark interest rates steady at 5.25%. Dissenting yet again, the Richmond Fed president was the only one to vote for a rate hike. For their part, the other members of the Federal Open Market Committee (FOMC) felt that the current rates were appropriate for the economic situation. In light of the consensus call and futures market implicit probabilities, this decision comes as no surprise.

As expected, the Federal Reserve release hardly differed from the last one except for a few superficial changes. Mr. Bernanke and the Committee members are still concerned about the level of inflation, particularly the core rate, which excludes food and energy. This explains their bias toward tightening. They again called attention to the fact that economic growth has slowed and will continue to do so in the coming quarters. This tone is in line with the most recent statements made by Fed policymakers, including Bernanke himself.

Still, the slowdown, and especially the poor performance of some economic indicators, could cause the Fed to change course sooner than later. In fact, the Committee has already said that the “substantial cooling” of the housing market is a risk factor. Weakness in the manufacturing sector and sluggish consumer spending are also a concern. The deceleration of the economy, combined with easing price pressures stemming from the imbalance in the real estate market, should help bring down core inflation—the main obstacle to rate cuts—in 2007. Thus, the Fed may very well decide to lower interest rates by winter’s end in order to avoid exacerbating the situation.

However, three conditions must exist before this can happen. First, core CPI (excluding food and energy) growth must moderate. Second, some indicators must deteriorate, particularly the ISM index, which recently fell below 50. And third, the Fed must pave the way by clearly signalling its intention to change course. This may happen in its January press release or when it tables its semi-annual report before Congress. If it does, we may well see a rate cut in March, or in May if it decides to adopt a more cautious stance.

It bears mentioning that while there will be new faces on the FOMC in 2007, the balance between hawks and doves will not change. Jeffrey Lacker, the most hawkish member, will be replaced by a like-minded individual: Chicago Fed president Michael Moskow. Among the dovish members, Janet Yellen will be replaced by Thomas M. Hoenig.



**François Dupuis**  
Vice-President and Chief Economist

Phone: 514 281-2336 or 1 866 866-7000, ext. 2336

**Francis Généreux**  
Economist

E-mail: [desjardins.economics@desjardins.com](mailto:desjardins.economics@desjardins.com)

Federal Reserve Release



## Press Release

The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5-1/4 percent.

Economic growth has slowed over the course of the year, partly reflecting a substantial cooling of the housing market. Although recent indicators have been mixed, the economy seems likely to expand at a moderate pace on balance over coming quarters.

Readings on core inflation have been elevated, and the high level of resource utilization has the potential to sustain inflation pressures. However, inflation pressures seem likely to moderate over time, reflecting reduced impetus from energy prices, contained inflation expectations, and the cumulative effects of monetary policy actions and other factors restraining aggregate demand.

Nonetheless, the Committee judges that some inflation risks remain. The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.

Excerpt from the U.S. Federal Reserve press release  
December 12, 2006

### Schedule and key rates of Central Bank

Date	Central Bank	Decision	Rate
<b>September 2006</b>			
20	U.S. Federal Reserve	s.q.	5.25
22	Bank of Mexico	s.q.	7.00
27	Bank of Norway	s.q.	3.00
<b>October 2006</b>			
3	Reserve Bank of Australia	s.q.	6.00
5	Bank of England	s.q.	4.75
5	European Central Bank	+25 b.p.	3.25
13	Bank of Japan	s.q.	0.25
17	Bank of Canada	s.q.	4.25
18	Bank of Brazil	-50 b.p.	13.75
25	U.S. Federal Reserve	s.q.	5.25
26	Bank of Sweden	+25 b.p.	2.75
27	Bank of Mexico	s.q.	7.00
31	Bank of Japan	s.q.	0.25
<b>November 2006</b>			
1	Bank of Norway	+25 b.p.	3.25
2	European Central Bank	s.q.	3.25
7	Reserve Bank of Australia	+25 b.p.	6.25
9	Bank of England	+25 b.p.	5.00
15	Bank of Japan	s.q.	0.25
24	Bank of Mexico	s.q.	7.00
29	Bank of Brazil	-50 b.p.	13.25
<b>December 2006</b>			
5	Reserve Bank of Australia	s.q.	6.25
5	Bank of Canada	s.q.	4.25
7	Bank of England	s.q.	5.00
7	Reserve Bank of New Zealand	s.q.	7.25
7	European Central Bank	+25 b.p.	3.50
8	Bank of Mexico	s.q.	7.00
12	U.S. Federal Reserve	s.q.	5.25

### Coming soon...

Date	Central Bank
<b>December 2006</b>	
13	Bank of Norway
14	Bank of Sweden
14	Swiss National Bank
18 - 19	Bank of Japan
<b>January 2007</b>	
10 - 11	Bank of England
11	European Central Bank
16	Bank of Canada
17 - 18	Bank of Japan
23 - 24	Bank of Brazil
24	Bank of Norway
25	Reserve Bank of New Zealand
26	Bank of Mexico
30 - 31	U.S. Federal Reserve
<b>February 2007</b>	
6	Reserve Bank of Australia
7 - 8	Bank of England
8	European Central Bank
14	Bank of Sweden
20 - 21	Bank of Japan
23	Bank of Mexico
<b>March 2007</b>	
6	Reserve Bank of Australia
6	Bank of Canada
6 - 7	Bank of Brazil
7 - 8	Bank of England
8	European Central Bank
8	Reserve Bank of New Zealand
15	Bank of Norway
15	Swiss National Bank