

ESSENTIALS OF THE MONETARY POLICY

Federal Reserve (Fed)

The Fed Is Comfortable with Its Current Policy

ACCORDING TO THE FED

- ▶ The Committee decided to maintain the target range for the federal funds rate at 1.50% to 1.75%.
- ▶ Information received since the Federal Open Market Committee met in December indicates that the labor market remains strong and that economic activity has been rising at a moderate rate. Job gains have been solid, on average, in recent months, and the unemployment rate has remained low. Although household spending has been rising at a moderate pace, business fixed investment and exports remain weak.
- ▶ On a 12-month basis, overall inflation and inflation for items other than food and energy are running below 2%. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed.
- ▶ The Committee will continue to monitor the implications of incoming information for the economic outlook, including global developments and muted inflation pressures, as it assesses the appropriate path of the target range for the federal funds rate.

COMMENTS

To no one's surprise, the Fed did not alter its key interest rate at the meeting that ended today. The new make-up of the monetary policy committee as a result of the yearly turnover among regional Fed members did nothing to change the Fed's reading of the economic situation. Committee members repeated the December statement almost word for word and unanimously voted not to modify the target for the federal funds rate.

The only notable change to the statement deals with the pace at which household spending is rising: December's statement described the pace as strong, where it is now characterized as

moderate. This is consistent with our own view, and with what the economic indicators are showing. Real GDP for the fourth quarter, which will be out tomorrow, should show annualized growth in real consumption of less than 2%, after gains of 3.1% in the summer and 4.6% in the spring. The slowdown does not seem very dramatic at this point, as household confidence remains fairly high. Another change to the statement provides some detail on the Fed's goal of supporting a return by inflation to the symmetrical target of 2% (rather than close to the target).

In the statement the Fed makes no mention of the epidemic affecting China, and now other regions as well. At the press conference, the Fed Chair indicated that they were keeping a very close eye on the situation and the potential ramifications for the U.S. economy, but that it was too early to determine its impacts.

Without changing its key rate, the Fed made a slight adjustment to the interest rate paid on reserves held by financial institutions. The change, which takes the rate from 1.55% to 1.60%, is designed to get the effective interest rate closer to the centre of the target range. This should not be construed as a monetary policy decision. However, the Fed did not modify its purchases of short-term securities, which serve to stabilize the money market by ensuring adequate reserves. Instituted in October, these purchases should be adjusted gradually during the first half of 2020.

IMPLICATIONS

Fed leaders are comfortable with where key rates are. The measures to support the money market should remain in place for a few more months. Key rates should be stable throughout 2020.

Francis Généreux, Senior Economist

François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist
Francis Généreux, Senior Economist • Hendrix Vachon, Senior Economist

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2020, Desjardins Group. All rights reserved.

Schedule 2020 of Central Bank Meetings

Date	Central banks	Decision	Rate
January			
16	Bank of Korea	s.q.	1.25
20	Bank of Japan	s.q.	-0.10
22	Bank of Canada*	s.q.	1.75
23	European Central Bank	s.q.	0.00
23	Bank of Norway	s.q.	1.50
29	Federal Reserve	s.q.	1.75
30	Bank of England		
February			
4	Reserve Bank of Australia		
5	Bank of Brazil		
11	Reserve Bank of New Zealand		
12	Bank of Sweden		
13	Bank of Mexico		
27	Bank of Korea		
March			
3	Reserve Bank of Australia		
4	Bank of Canada		
12	European Central Bank		
18	Bank of Brazil		
18	Federal Reserve		
19	Bank of Norway		
19	Bank of Japan		
19	Swiss National Bank		
24	Reserve Bank of New Zealand		
26	Bank of England		
26	Bank of Mexico		
April			
7	Reserve Bank of Australia		
9	Bank of Korea		
15	Bank of Canada*		
28	Bank of Sweden		
28	Bank of Japan		
29	Federal Reserve		
30	European Central Bank		
May			
5	Reserve Bank of Australia		
6	Bank of Brazil		
7	Bank of England		
7	Bank of Norway		
12	Reserve Bank of New Zealand		
14	Bank of Mexico		
28	Bank of Korea		
June			
2	Reserve Bank of Australia		
3	Bank of Canada		
4	European Central Bank		
10	Federal Reserve		
16	Bank of Japan		
17	Bank of Brazil		
18	Bank of England		
18	Bank of Norway		
18	Swiss National Bank		
23	Reserve Bank of New Zealand		
25	Bank of Mexico		

Date	Central banks	Decision	Rate
July			
1	Bank of Sweden		
7	Reserve Bank of Australia		
15	Bank of Canada*		
16	European Central Bank		
16	Bank of Korea		
22	Bank of Japan		
29	Federal Reserve		
August			
4	Reserve Bank of Australia		
5	Bank of Brazil		
6	Bank of England		
11	Reserve Bank of New Zealand		
13	Bank of Mexico		
20	Bank of Norway		
27	Bank of Korea		
September			
1	Reserve Bank of Australia		
9	Bank of Canada		
10	European Central Bank		
16	Bank of Brazil		
16	Federal Reserve		
17	Bank of Japan		
17	Bank of England		
22	Reserve Bank of New Zealand		
22	Bank of Sweden		
24	Bank of Norway		
24	Bank of Mexico		
24	Swiss National Bank		
October			
6	Reserve Bank of Australia		
14	Bank of Korea		
28	Bank of Brazil		
28	Bank of Canada*		
29	European Central Bank		
29	Bank of Japan		
November			
3	Reserve Bank of Australia		
5	Bank of England		
5	Bank of Norway		
5	Federal Reserve		
10	Reserve Bank of New Zealand		
12	Bank of Mexico		
26	Bank of Korea		
26	Bank of Sweden		
December			
1	Reserve Bank of Australia		
7	Bank of Mexico		
9	Bank of Brazil		
9	Bank of Canada		
10	European Central Bank		
16	Federal Reserve		
17	Bank of England		
17	Bank of Norway		
17	Swiss National Bank		
18	Bank of Japan		

NOTE: Certain banks may decide to change rates in-between the scheduled meetings. The abbreviations s.q. and b.p. correspond to status quo and basis points respectively. * Monetary Policy Report published.