

ESSENTIALS OF THE MONETARY POLICY

Federal Reserve (Fed)

The Fed Seems Increasingly Concerned about the Current Situation

ACCORDING TO THE FED

- ▶ The Committee decided to maintain the target range for the federal funds rate at 0.00% to 0.25%.
- ▶ The Committee expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time.
- ▶ The Fed will continue to increase its holdings of Treasury securities by at least US\$80B per month and of agency mortgage-backed securities by at least US\$40B per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals.
- ▶ The Fed is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.
- ▶ The COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world. The pace of the recovery in economic activity and employment has moderated in recent months, with weakness concentrated in the sectors most adversely affected by the pandemic. Weaker demand and earlier declines in oil prices have been holding down consumer price inflation. Overall financial conditions remain accommodative.
- ▶ The path of the economy will depend significantly on the course of the virus, including progress on vaccinations. The ongoing public health crisis continues to weigh on economic activity, employment, and inflation, and poses considerable risks to the economic outlook.

COMMENTS

It was clear that the Fed's leaders had to see the short-term risks weighing on the U.S. economy, as some of the indicators had

obviously deteriorated since their last meeting. December saw the loss of 140,000 jobs, the first contraction since April. To date, jobless claims in January have remained much higher than the average for the last quarter of 2020. Retail sales also fell in December. These are, without a doubt, the result of the current wave of the pandemic, which has forced some States to tighten the public health restrictions once again. The changes made to the Fed's statement partially reflect these weaknesses. In it, the risks are described as being current rather than in the medium term.

Should the Fed act now? It's understandable that it prefers to remain in a holding pattern, as it appears that fiscal policy is coming to the rescue. First, at the very end of 2020, the government approved a relief plan worth just over US\$900B, including money allocated directly to individuals and enhanced benefits for the unemployed. It remains to be seen what effect these measures will have on economic activity. Second, the Biden administration proposed an additional, short-term relief plan that could cost US\$1,900B. This plan remains to be negotiated with Congress.

Under these circumstances, the Fed will try to see what impact the budgetary measures will have. The vaccination campaign is also a major issue. Even if growth has eased in the short term (U.S. GDP is not expected to drop), it's reasonable to think that the economy will rebound later in 2021. There doesn't seem to be any need to ease monetary policy any further.

IMPLICATIONS

The Fed seems more worried about the short-term economic situation and has reiterated its willingness to act if necessary. Still, given the measures that the federal government has either tabled or passed and, especially if the vaccination rollout goes without a hitch, it would be surprising if this were to be the case.

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

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Schedule 2021 of Central Bank Meetings

Date	Central banks	Decision	Rate
January			
14	Bank of Korea	s.q.	0.50
20	Bank of Brazil	s.q.	2.00
20	Bank of Canada*	s.q.	0.25
20	Bank of Japan	s.q.	-0.10
21	European Central Bank	s.q.	0.00
21	Bank of Norway	s.q.	0.00
27	Federal Reserve	s.q.	0.25
February			
1	Reserve Bank of Australia		
4	Bank of England		
10	Bank of Sweden		
11	Bank of Mexico		
23	Reserve Bank of New Zealand		
25	Bank of Korea		
March			
1	Reserve Bank of Australia		
10	Bank of Canada		
11	European Central Bank		
17	Bank of Brazil		
17	Federal Reserve		
18	Bank of England		
18	Bank of Norway		
19	Bank of Japan		
25	Bank of Mexico		
25	Swiss National Bank		
April			
6	Reserve Bank of Australia		
13	Reserve Bank of New Zealand		
15	Bank of Korea		
21	Bank of Canada*		
22	European Central Bank		
27	Bank of Sweden		
27	Bank of Japan		
28	Federal Reserve		
May			
4	Reserve Bank of Australia		
5	Bank of Brazil		
6	Bank of England		
6	Bank of Norway		
13	Bank of Mexico		
25	Reserve Bank of New Zealand		
27	Bank of Korea		
June			
1	Reserve Bank of Australia		
9	Bank of Canada		
10	European Central Bank		
16	Bank of Brazil		
16	Federal Reserve		
17	Bank of Norway		
17	Swiss National Bank		
18	Bank of Japan		
24	Bank of England		
24	Bank of Mexico		

Date	Central banks	Decision	Rate
July			
1	Bank of Sweden		
6	Reserve Bank of Australia		
13	Reserve Bank of New Zealand		
14	Bank of Canada*		
15	Bank of Korea		
16	Bank of Japan		
22	European Central Bank		
28	Federal Reserve		
August			
3	Reserve Bank of Australia		
4	Bank of Brazil		
5	Bank of England		
12	Bank of Mexico		
17	Reserve Bank of New Zealand		
19	Bank of Norway		
26	Bank of Korea		
September			
7	Reserve Bank of Australia		
8	Bank of Canada		
9	European Central Bank		
22	Bank of Brazil		
22	Bank of Japan		
22	Federal Reserve		
23	Bank of England		
23	Bank of Norway		
23	Swiss National Bank		
30	Bank of Mexico		
**	Bank of Sweden		
October			
4	Reserve Bank of Australia		
5	Reserve Bank of New Zealand		
12	Bank of Korea		
27	Bank of Brazil		
27	Bank of Canada*		
28	European Central Bank		
28	Bank of Japan		
November			
1	Reserve Bank of Australia		
3	Federal Reserve		
4	Bank of England		
4	Bank of Norway		
11	Bank of Mexico		
25	Bank of Korea		
29	Reserve Bank of New Zealand		
**	Bank of Sweden		
December			
6	Reserve Bank of Australia		
8	Bank of Brazil		
8	Bank of Canada		
15	Federal Reserve		
16	European Central Bank		
16	Bank of England		
16	Bank of Norway		
16	Bank of Mexico		
16	Swiss National Bank		
17	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; ** To be determined.