ESSENTIALS OF MONETARY POLICY

Federal Reserve (Fed)

The Fed Starts Slowing Rate Hikes

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ACCORDING TO THE FED

- The Committee decided to raise the target range for the federal funds rate by 0.50%. It is now in a range of 4.25% to 4.50%.
- The Committee is strongly committed to returning inflation to its 2% objective and anticipates that ongoing increases in the target range will be appropriate. In determining the pace of future increases in the target range, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments.
- Recent indicators point to modest growth in spending and production. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures.

COMMENTS

After four straight increases of 75 basis points, today the Fed began to slow the pace of monetary tightening. This came as no surprise. The Fed had been telegraphing the downshift recently, and nearly every forecaster called it.

The current hiking cycle seems to be drawing to a close. But the Fed's work isn't done yet. Once again, the press release published with the rate decision said "ongoing increases in the target range will be appropriate." And the projections released today point to further rate hikes. According to the Fed's dot plot, the upper end of the target range could hit 5.25% by the end of 2023. Subsequent cuts would bring it down to 4.25% by the end of 2024 and 3.25% by the end of 2025. All these projections are higher than they were in September.

The Fed knows the economy is slowing and has cut its 2023 economic growth forecast accordingly. It now expects annual real GDP growth to come in at 0.5% in Q4 2023 versus 1.2% in September. But that's still higher than our call for a 0.4% contraction, which is based on a modest recession and real GDP declines in the first three quarters of the year. The Fed also expects unemployment to rise and inflation to slow more modestly than we do.

During his press conference, Jerome Powell reiterated that the Fed isn't done with monetary tightening and that they "still have some ways to go." The historical record "cautions strongly against prematurely loosening policy. We'll stay the course until the job is done." Translation? Expect further rate hikes at upcoming meetings.

IMPLICATIONS

The Fed remains committed to taming inflation. It slowed the pace of rate hikes, but still doesn't think monetary policy is restrictive enough. That means more rate hikes are coming. The labour market will need to show additional signs of slowing before the Fed slows the pace of tightening again.

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Schedule 2022 of Central Bank Meetings

Date	Central banks	Decision	Rate
January			
13	Bank of Korea	+25 b.p.	1.25
17	Bank of Japan	s.q.	-0.10
20	Bank of Norway	s.q.	0.50
26	Bank of Canada*	s.q.	0.25
26	Federal Reserve	s.q.	0.25
31	Reserve Bank of Australia	s.q.	0.10
February			
2	Bank of Brazil	+150 b.p.	10.75
3	European Central Bank	s.q.	0.00
3	Bank of England	+25 b.p.	0.50
10	Bank of Sweden	s.q.	0.00
10	Bank of Mexico	+50 b.p.	6.00
22	Reserve Bank of New Zealand	+25 b.p.	1.00
23	Bank of Korea	s.q.	1.25
28	Reserve Bank of Australia	s.q.	0.10
March			
2	Bank of Canada	+25 b.p.	0.50
10	European Central Bank	s.q.	0.00
16	Bank of Brazil	+100 b.p.	11.75
16	Federal Reserve	+25 b.p.	0.50
17	Bank of England	+25 b.p.	0.75
17	Bank of Japan	s.q.	-0.10
24	Bank of Norway	+25 b.p.	0.75
24	Bank of Mexico	+50 b.p.	6.50
24	Swiss National Bank	s.q.	-0.75
April			
5	Reserve Bank of Australia	s.q.	0.10
12	Reserve Bank of New Zealand	+50 b.p.	1.50
13	Bank of Korea	+25 b.p.	1.50
13	Bank of Canada*	+50 b.p.	1.00
14	European Central Bank	s.q.	0.00
27	Bank of Japan	s.q.	-0.10
28	Bank of Sweden	+25 b.p.	0.25
May			
3	Reserve Bank of Australia	+25 b.p.	0.35
4	Bank of Brazil	+100 b.p.	12.75
4	Federal Reserve	+50 b.p.	1.00
5	Bank of England	+25 b.p.	1.00
5	Bank of Norway	s.q.	0.75
12	Bank of Mexico	+50 b.p.	7.00
24	Reserve Bank of New Zealand	+50 b.p.	2.00
25	Bank of Korea	+25 b.p.	1.75
June			
1	Bank of Canada	+50 b.p.	1.50
7	Reserve Bank of Australia	+50 b.p.	0.85
9	European Central Bank	s.q.	0.00
15	Bank of Brazil	+50 b.p.	13.25
15	Federal Reserve	+75 b.p.	1.75
16	Bank of England	+25 b.p.	1.25
16	Bank of Japan	s.q.	-0.10
16	Swiss National Bank	+50 b.p.	-0.25
23	Bank of Norway	+50 b.p.	1.25
23	Bank of Mexico	+75 b.p.	7.75
30	Bank of Sweden	+50 b.p.	0.75

Date	Central banks	Decision	Rate
July			
5	Reserve Bank of Australia	+50 b.p.	1.35
12	Bank of Korea	+50 b.p.	2.25
12	Reserve Bank of New Zealand	+50 b.p.	2.50
13	Bank of Canada*	+100 b.p.	2.50
20	Bank of Japan	s.q.	-0.10
21	European Central Bank	+50 b.p.	0.50
27	Federal Reserve	+75 b.p.	2.50
August			
2	Reserve Bank of Australia	+50 b.p.	1.85
3	Bank of Brazil	+50 b.p.	13.75
4	Bank of England	+50 b.p.	1.75
11	Bank of Mexico	+75 b.p.	8.50
16	Reserve Bank of New Zealand	+50 b.p.	3.00
18	Bank of Norway	+50 b.p.	1.75
24	Bank of Korea	+25 b.p.	2.50
September			
6	Reserve Bank of Australia	+50 b.p.	2.35
7	Bank of Canada	+75 b.p.	3.25
8	European Central Bank	+75 b.p.	1.25
20	Bank of Sweden	+100 b.p.	1.75
21	Bank of Brazil	s.q.	13.75
21	Bank of Japan	s.q.	-0.10
21	Federal Reserve	+75 b.p.	3.25
22	Bank of England	+50 b.p.	2.25
22	Bank of Norway	+50 b.p.	2.25
22	Swiss National Bank	+75 b.p.	0.50
29	Bank of Mexico	+75 b.p.	9.25
October			
3	Reserve Bank of Australia	+25 b.p.	2.60
4	Reserve Bank of New Zealand	+50 b.p.	3.50
11	Bank of Korea	+50 b.p.	3.00
26	Bank of Brazil	s.q.	13.75
26	Bank of Canada*	+50 b.p.	3.75
27	European Central Bank	+75 b.p.	2.00
27	Bank of Japan	s.q.	-0.10
31	Reserve Bank of Australia	+25 b.p.	2.85
November			
2	Federal Reserve	+75 b.p.	4.00
3	Bank of England	+75 b.p.	3.00
3	Bank of Norway	+25 b.p.	2.50
10	Bank of Mexico	+75 b.p.	10.00
22	Reserve Bank of New Zealand	+75 b.p.	4.25
23	Bank of Korea	+25 b.p.	3.25
24	Bank of Sweden	+75 b.p.	2.50
December			
5	Reserve Bank of Australia	+25 b.p.	3.10
7	Bank of Brazil	s.q.	13.75
7	Bank of Canada	+50 b.p.	4.25
14	Federal Reserve	+50 b.p.	4.50
15	European Central Bank		
15	Bank of England		
15	Bank of Norway		
15	Bank of Mexico		
15	Swiss National Bank		
20	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.