

WEEKLY COMMENTARY

Will the Presidential Election Influence the Fed’s Decisions?

By Francis Généreux, Principal Economist

It looks like the wind has shifted for the Fed. Just a few weeks ago, it seemed like the Fed was signalling that rate cuts were on the horizon. But since then the resilience of the US economy appears to have changed the central bank’s plans. If economic indicators had come in as expected, the Fed’s next meeting, ending on Wednesday, May 1, could have been used to lay the groundwork for an initial rate cut in June. But since they haven’t, it’s now quite possible that Fed Chair Jerome Powell will signal that the US central bank will wait and see before it starts cutting rates. He and the other Fed officials want to see clear signs that inflation is starting to fall back down to the 2% target. But so far this year, sticky inflation (including the resurgence of some inflation components), a strong labour market and robust first-quarter domestic final demand growth haven’t exactly built a convincing case for a rate cut in the very near future.

We therefore expect the Fed to hold off on monetary easing for several meetings. Of course, that would depend on the inflation trajectory and the likelihood of it converging toward the target. But could decisions on key rates also be influenced by the presidential election?

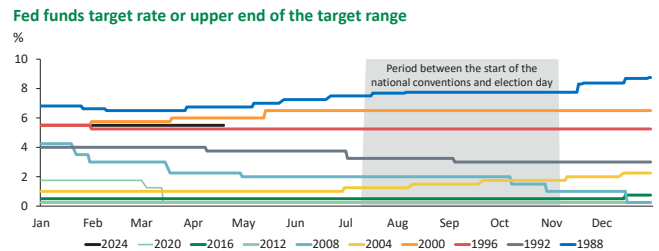
Officially, the Fed will always claim that politics don’t affect its monetary policy decisions. Jerome Powell recently [reiterated](#) that “We do not consider politics in our decisions. We never do. And we never will. And I think the record—fortunately, the historical record really backs that up.”

It’s clear that, if economic and financial conditions so require, the Fed won’t have any qualms about making the choices needed to fulfill its mandate from Congress, which is to promote maximum employment and stable prices. Just before the 2008 election, with the global financial crisis in full swing, the Fed forged ahead

with interest rate cuts and an array of ambitious measures to protect the US banking sector.

But when we look at key rate movements in every election year since the late ‘80s (graph 1), we can see that the Fed hasn’t changed, much less reversed course on, monetary policy during the run-up to elections (which are always at the start of November). In the past, it hasn’t been shy about raising or lowering rates if they were already moving in that direction. That’s what happened with the rate cuts in 1992 and 2008, as well as the hikes in 1988 and 2004.

Graph 1
There Are Fewer Changes to Key Rates in the Run-Up to Presidential Elections



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In fact, that’s the crux of the problem for this cycle. By ruling out next June’s meeting, the Fed will not be able to use the movement already in place to decree a rate cut during the peak election period, which runs from the start of the Republican National Convention on July 15 to election day on November 5. The July 30–31 meeting, which falls between the

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two conventions (the Democratic National Convention begins on August 19), may also be too early for Fed officials. They want to see inflation fall for several months before they start cutting rates.

Looking further ahead, the meeting that ends on September 18 is just seven weeks before the election, around the time that the televised presidential debates usually begin. Fed officials would have to be pretty gutsy—and able to ignore criticism—if they decide to pivot then. Given the circumstances, and the stubbornness of current inflation, an initial cut just after the November election now seems more likely. Our latest [Economic and Financial Outlook](#) sees this as the most likely hypothesis.

Fed officials will also want the first rate change to be fully priced in by the markets before it happens. The detailed minutes of Fed meetings leading up to previous elections show that the Fed views presidential races as a source of uncertainty for financial markets and for businesses' investment decisions. The Fed will likely want to ease that uncertainty by clearly signalling its intentions, although a rate cut probably wouldn't trigger as much instability as the start of another tightening cycle.

Obviously, if the Fed lowers rates before the election, most of the criticism will come from Republicans. Donald Trump already started sniping at Jerome Powell back in February, [saying](#) "It looks to me like he's trying to lower interest rates for the sake of maybe getting people elected, I don't know ... I think he's going to do something to probably help the Democrats, I think, if he lowers interest rates." We can expect more attacks if surprisingly the Fed starts cutting rates just a few weeks before the big day. And if Trump returns to the Oval Office, he'll have some old scores to settle with the Fed. He'll take the first opportunity to appoint his loyalists to the seats on the Fed's board of governors, including a new Fed Chair in 2026.

What to Watch For

TUESDAY April 30 - 9:00

February	y/y
Consensus	n/a
Desjardins	6.7%
January	6.6%

TUESDAY April 30 - 10:00

April	Index
Consensus	104.1
Desjardins	103.5
March	104.7

WEDNESDAY May 1 - 10:00

April	
Consensus	50.1
Desjardins	50.3
March	50.3

WEDNESDAY May 1 - 14:00

May	
Consensus	5.50%
Desjardins	5.50%
March 20	5.50%

FRIDAY May 3 - 8:30

April	
Consensus	250,000
Desjardins	250,000
March	303,000

FRIDAY May 3 - 10:00

April	
Consensus	52.0
Desjardins	51.3
March	51.4

TUESDAY April 30 - 8:30

February	m/m
Consensus	0.3%
Desjardins	0.3%
January	0.6%

UNITED STATES

S&P/Case Shiller index of existing home prices (February) – Under the influence of continued high mortgage rates, existing home prices are starting to show new signs of slowing. Average monthly growth was 0.8% from May to October of last year, then just 0.2% between November and January. Monthly price growth was probably flat in February. However, this shouldn't prevent the Case-Shiller index from continuing to edge up year-over-year due to favourable base effects.

Conference Board consumer confidence index (April) – After rebounding at the end of last year, consumer confidence has been fading since February. The Conference Board index fell from a recent high of 110.9 in January to 104.7 in March. We've already seen negative prints from the University of Michigan (-1.5 points according to the preliminary version) and TIPP indexes (-0.3 points) in April, and we expect the Conference Board index to follow suit. Other factors pointing to a slump in the index include higher gasoline prices and mortgage rates, as well as the recent stock market decline. We expect the index to fall to 103.5.

ISM Manufacturing index (April) – The ISM Manufacturing index reached and surpassed the 50-point mark for the first time since the fourth quarter of 2022. March's 2.5-point monthly advance was also the strongest since March 2021. With regional indexes printing rather negative in March—and continuing to suggest a lower ISM Manufacturing index—this result was quite a surprise. However, we expect the index to come in flat in April.

Federal Reserve meeting (May) – A rate cut at May's meeting hasn't been in the cards for a long time. However, just a few weeks ago, it was quite feasible that Federal Reserve officials would use May's meeting to lay the groundwork for monetary easing to potentially begin in June. That said, we would have had to see inflation slow further for that to happen. With inflation remaining sticky, we expect the Fed to reiterate that it isn't ready to start cutting just yet. Last week, Jerome Powell indicated that the Fed wasn't considering rate increases either. Instead, Powell said officials would leave rates at their current level "as long as needed" if inflation proved more stubborn.

Change in nonfarm payrolls (April) – The establishment survey print exceeded the consensus forecast again in March. The number of upside surprises has been increasing steadily since November. Unemployment insurance claims remained stable and relatively low, so we expect further strong growth in April, with around 250,000 new jobs added. It will also be interesting to see how the labour market evolves based on the household survey, which was brighter in March after several months of weakness.

ISM Services index (April) – While the ISM Manufacturing index surprisingly edged up above 50 in March, the ISM Services index declined, shedding 1.2 points after dropping 0.8 points in February. Aside from December's 50.5 print, the index is at its lowest level in a year. Based on the household confidence indexes and regional non-manufacturing indicators published so far this month, we're not expecting much change in April.

CANADA

Real GDP by industry (February) – Real GDP is expected to have advanced by 0.3% m/m in February, just shy of the 0.4% flash estimate from Statistics Canada. Leading the bounce in the month is likely to have been mining and oil and gas extraction, pushing the aggregate goods-producing sector notably higher. Services-producing sectors are anticipated to have advanced by far less than in January—when striking public sector workers in Quebec returned to work—but at a still-respectable pace. Accommodation and food services may have provided a notable tailwind to the

THURSDAY May 2 - 8:30

March	\$B
Consensus	1.00
Desjardins	0.10
February	1.39

MONDAY April 29 - 21:30

April	
Consensus	n/a
March	52.7

TUESDAY April 30 - 5:00

April	y/y
Consensus	2.4%
March	2.4%

TUESDAY April 30 - 5:00

Q1 2024	q/q
Consensus	0.1%
Q4 2023	0.0%

second month of 2024. Looking ahead to the final month of Q1, Statistics Canada's flash estimate for March could show growth took a breather, possibly coming in broadly flat.

International merchandise trade (March) – Canada's trade balance is expected to have barely remained in surplus territory in March. Moreover, advanced US trade data suggest that both Canadian imports and exports decreased during the month. The slower production of motor vehicles seemingly weighed on exports as well as imports. That said, tailwinds from higher commodity prices, notably oil and gold, likely mitigated the decline on the export side.

OVERSEAS


China: Composite PMI (April) – China's composite PMI rose from 50.9 in February to 52.7 in March. Gains were broad-based, with both the manufacturing and non-manufacturing indexes rising last month. However, we think growth is likely to moderate in the coming months. China's property market remains precarious, and the post-pandemic rebound ran out of steam some time ago. April's data will provide more information on China's economic situation at the start of the second quarter.


Eurozone: Consumer price index (April, preliminary) – Eurozone headline inflation continues to fall. It was 2.4% in March, its lowest level since July 2021. Even core inflation dropped below 3%. This clearly opens the door for the European Central Bank to start cutting rates soon. A further slowdown in inflation in April would provide additional reassurance.

Eurozone: Real GDP (first quarter, preliminary) – The eurozone economy has been flat since late 2022 and posted negative annualized quarterly growth in the third and fourth quarters of 2023. Monthly indicators have been rather mixed, with industrial production and retail sales printing positive and negative lately. However, PMIs have improved significantly in recent months. Overall, we're expecting weak growth this quarter.

Economic Indicators

Week of April 29 to May 3, 2024

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 29 --- ---						
TUESDAY 30						
	8:30	Employment cost index (q/q)	Q1	1.0%	1.0%	0.9%
	9:00	S&P/Case-Shiller home price index (y/y)	Feb.	n/a	6.70%	6.59%
	9:45	Chicago PMI	April	45.0	45.0	41.4
	10:00	Consumer confidence	April	104.1	103.5	104.7
WEDNESDAY 1						
	10:00	Construction spending (m/m)	March	0.3%	-0.3%	-0.3%
	10:00	ISM Manufacturing index	April	50.1	50.3	50.3
	14:00	Federal Reserve meeting	May	5.50%	5.50%	5.50%
	14:30	Speech by Federal Reserve Chair J. Powell				
	---	Total vehicle sales (ann. rate)	April	15,700,000	15,750,000	15,490,000
THURSDAY 2						
	8:30	Initial unemployment claims	April 22–26	210,000	212,000	207,000
	8:30	Trade balance – goods and services (US\$B)	March	-69.0	-69.1	-68.9
	8:30	Nonfarm productivity – preliminary (ann. rate)	Q1	1.5%	0.8%	3.2%
	8:30	Unit labor costs – preliminary (ann. rate)	Q1	2.0%	2.7%	0.4%
	10:00	Factory orders (m/m)	March	1.6%	1.7%	1.4%
FRIDAY 3						
	8:30	Change in nonfarm payrolls	April	250,000	250,000	303,000
	8:30	Unemployment rate	April	3.8%	3.9%	3.8%
	8:30	Average hourly earnings (m/m)	April	0.3%	0.2%	0.3%
	8:30	Average weekly hours	April	34.4	34.4	34.4
	10:00	ISM Services index	April	52.0	51.3	51.4
	19:45	Speech by Federal Reserve Bank of Chicago President A. Goolsbee				
CANADA						
MONDAY 29 --- ---						
TUESDAY 30						
	8:30	Real GDP by industry (m/m)	Feb.	0.3%	0.3%	0.6%
WEDNESDAY 1						
	16:15	Speech by Bank of Canada Governor T. Macklem and by Senior Deputy Governor C. Rogers				
THURSDAY 2						
	8:30	International trade (\$B)	March	1.00	0.10	1.39
	8:45	Speech by Bank of Canada Governor T. Macklem and by Senior Deputy Governor C. Rogers				
FRIDAY 3 --- ---						

NOTE: Each week, Desjardins Economic Studies takes part in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT - 4 hours).  Desjardins Economic Studies forecast.

Economic Indicators

Week of April 29 to May 3, 2024

Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
MONDAY 29								
Eurozone	5:00	Consumer confidence – final	April	n/a		-14.7		
Eurozone	5:00	Industrial confidence	April	-8.5		-8.8		
Eurozone	5:00	Services confidence	April	6.8		6.3		
Eurozone	5:00	Economic confidence	April	96.7		96.3		
Germany	8:00	Consumer price index – preliminary	April	0.6%	2.3%	0.4%	2.2%	
Japan	19:30	Unemployment rate	March	2.5%		2.6%		
Japan	19:50	Industrial production – preliminary	March	3.5%	-6.2%	-0.6%	-3.9%	
Japan	19:50	Retail sales	March	-0.2%	2.5%	1.7%	4.7%	
China	21:30	Composite PMI	April	n/a		52.7		
China	21:30	Manufacturing PMI	April	50.3		50.8		
China	21:30	Non-manufacturing PMI	April	52.2		53.0		
TUESDAY 30								
Japan	1:00	Housing starts	March		-7.5%		-8.2%	
France	1:30	Personal consumption expenditures	March	0.2%	0.1%	0.0%	-0.8%	
France	1:30	Real GDP – preliminary	Q1	0.1%	0.8%	0.1%	0.7%	
Germany	2:00	Retail sales	March	1.5%	-0.7%	-1.7%	1.9%	
France	2:45	Consumer price index – preliminary	April	0.5%	2.2%	0.2%	2.3%	
Germany	4:00	Real GDP – preliminary	Q1	0.1%	-0.2%	-0.3%	-0.2%	
Italy	4:00	Real GDP – preliminary	Q1	0.15	0.3%	0.2%	0.6%	
Eurozone	5:00	Net change in employment – preliminary	Q1	0.6%	2.4%	0.8%	2.4%	
Eurozone	5:00	Real GDP – preliminary	Q1	0.15	0.2%	0.0%	0.1%	
Italy	5:00	Consumer price index – preliminary	April	0.2%	1.0%	0.0%	1.2%	
Japan	20:30	Manufacturing PMI – final	April	n/a		49.9		
WEDNESDAY 1								
United Kingdom	2:00	Nationwide house prices	April	0.1%	1.2%	-0.2%	1.6%	
United Kingdom	4:30	Manufacturing PMI – final	April	48.7		48.7		
THURSDAY 2								
Japan	1:00	Consumer confidence	April	39.7		39.5		
Italy	3:45	Manufacturing PMI	April	50.4		50.4		
France	3:50	Manufacturing PMI – final	April	44.9		44.9		
Germany	3:55	Manufacturing PMI – final	April	42.2		42.2		
Eurozone	4:00	Manufacturing PMI – final	April	45.6		45.6		
FRIDAY 3								
France	2:45	Industrial production	March	0.3%	1.3%	0.2%	-0.8%	
Italy	4:00	Unemployment rate	March	7.5%		7.5%		
Norway	4:00	Bank of Norway meeting	May	4.50%		4.50%		
United Kingdom	4:30	Composite PMI – final	April	54.0		54.0		
United Kingdom	4:30	Services PMI – final	April	54.9		54.9		
Eurozone	5:00	Unemployment rate	March	6.5%		6.5%		

Note: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Times shown are Eastern Daylight Time (GMT - 4 hours).