

ESSENTIALS OF MONETARY POLICY

Federal Reserve (Fed)

A Pause, but Not the End of Rate Hikes

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ACCORDING TO THE FED

- ▶ The Committee decided to maintain the target for the federal funds rate in a range of 5.00% to 5.25%.
- ▶ The U.S. banking system is sound and resilient. Tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain. The Committee remains highly attentive to inflation risks.
- ▶ Holding the target range steady at this meeting allows the Committee to assess additional information and its implications for monetary policy. In determining the extent of additional policy firming that may be appropriate, 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 suggest that economic activity has continued to expand at a modest pace. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated.

COMMENTS

As expected, the Fed held rates steady today. This comes as no surprise to markets, with just 8 of 109 forecasters surveyed by Bloomberg predicting another increase. It's the first time the Fed has left rates unchanged since January of 2022. It has raised rates at each of the last 10 meetings, lifting them a total of 500 basis points (bps).

But today's pause doesn't mean the end of rate hikes in the US. The Fed is just buying time to assess the effects of previous firming and the impact of tightening credit conditions in the US banking market. Based on the dot plot released today, Fed

officials see rates rising another 50bps by the end of the year. The economic projections also suggest stronger economic growth in 2023. The forecast for year-over-year change of real GDP growth at the end of 2023 was revised upward from 0.4% to 1.0%, but downgraded slightly for 2024 and 2025. The unemployment forecast for the end of 2023 was also revised downward, from 4.5% to 4.1%. The Fed sees headline inflation easing a bit more than previously anticipated, but expects core inflation—which strips out food and energy—to fall more slowly. Inflation is projected to cool in 2024 and in 2025, with rate cuts of 100 points and 125 points pencilled in for 2024 and 2025, respectively. Fed officials still believe the long-term neutral rate is around 2.50%.

Given the continued strength of the labour market, stubbornly high core inflation and expectations for further rate hikes this year, you may be wondering why the Fed paused today. During his press conference, Jerome Powell said the speed of increases and their ultimate level are two separate things and that rates may have to go up at a more moderate pace.

IMPLICATIONS

The Fed paused as expected today, but signalled that more rate hikes are likely before the year is out. We therefore expect another increase at the July meeting.

2023 Schedule of Central Bank Meetings

Date	Central bank	Decision	Rate
January			
13	Bank of Korea	+25 b.p.	3.50
18	Bank of Japan	unchanged	-0.10
19	Bank of Norway	unchanged	2.75
25	Bank of Canada*	+25 b.p.	4.50
February			
1	Bank of Brazil	unchanged	13.75
1	Federal Reserve	+25 b.p.	4.75
2	European Central Bank	+50 b.p.	3.00
2	Bank of England	+50 b.p.	4.00
6	Reserve Bank of Australia	+25 b.p.	3.35
9	Bank of Sweden	+50 b.p.	3.00
9	Bank of Mexico	+50 b.p.	11.00
21	Reserve Bank of New Zealand	+50 b.p.	4.75
23	Bank of Korea	unchanged	3.50
March			
6	Reserve Bank of Australia	+25 b.p.	3.60
8	Bank of Canada	unchanged	4.50
10	Bank of Japan	unchanged	-0.10
16	European Central Bank	+50 b.p.	3.50
22	Bank of Brazil	unchanged	13.75
22	Federal Reserve	+25 b.p.	5.00
23	Bank of England	+25 b.p.	4.25
23	Bank of Norway	+25 b.p.	3.00
23	Swiss National Bank	+50 b.p.	1.50
30	Bank of Mexico	+25 b.p.	11.25
April			
4	Reserve Bank of Australia	unchanged	3.60
4	Reserve Bank of New Zealand	+50 b.p.	5.25
12	Bank of Canada*	unchanged	4.50
13	Bank of Korea	unchanged	3.50
26	Bank of Sweden	+50 b.p.	3.50
28	Bank of Japan	unchanged	-0.10
May			
2	Reserve Bank of Australia	+25 b.p.	3.85
3	Bank of Brazil	unchanged	13.75
3	Federal Reserve	+25 b.p.	5.25
4	European Central Bank	+25 b.p.	3.75
4	Bank of Norway	+25 b.p.	3.25
11	Bank of England	+25 b.p.	4.50
18	Bank of Mexico	unchanged	11.25
23	Reserve Bank of New Zealand	+25 b.p.	5.50
25	Bank of Korea	unchanged	3.50
June			
6	Reserve Bank of Australia	+25 b.p.	4.10
7	Bank of Canada	+25 b.p.	4.75
14	Federal Reserve	unchanged	5.25
15	European Central Bank		
16	Bank of Japan		
21	Bank of Brazil		
22	Bank of England		
22	Bank of Norway		
22	Bank of Mexico		
22	Swiss National Bank		
29	Bank of Sweden		

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

NOTE: Central banks may decide to change rates between the scheduled meetings. The abbreviation b.p. stands for basis points. * Monetary Policy Report published; ** To be determined.