

ESSENTIALS OF MONETARY POLICY

Federal Reserve (Fed)

The Fed Raises Rates Another 25bp in What Could Be Its Last Hike of the Cycle

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ACCORDING TO THE FED

- ▶ The Committee decided to raise the target range for the federal funds rate by 0.25 %. It is now 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.
- ▶ In determining the extent to which additional policy firming may be appropriate to return inflation to 2 percent over time, 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.
- ▶ Economic activity expanded at a modest pace in the first quarter. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated.

COMMENTS

As expected, the Fed raised rates another 25 basis points today after identical hikes in February and March. With 97 of 104 forecasters surveyed by Bloomberg predicting the move, markets and analysts are more focused on what comes next. Will the Fed tighten further, or is this the end of the line? Today's statement suggests the latter without overly committing. Previous statements said the Fed expects some additional policy firming may be appropriate to bring inflation back to target, but today's statement dropped that language. It says the Fed will take into account economic and financial conditions when determining whether additional policy firming is appropriate.

Tighter credit conditions are probably already having the same effect as monetary tightening. While the Fed believes the banking system remains sound, it did acknowledge that credit conditions are tightening. And it had the results of the latest quarterly Senior Loan Officer Opinion Survey in time for today's decision. The survey probably showed that financial institutions are tightening credit conditions in response to the crisis roiling the banking sector since mid-March, which could slow economic activity.

It's therefore no surprise the Fed signalled that today's rate hike could be the last. The Fed hasn't completely closed the door to further increases, but Jerome Powell said the statement change was meaningful. The Fed seems to be betting that the 500 basis points it's already raised rates will continue to work its way through the economy and tamp down inflation. Meanwhile credit conditions are tightening and the Fed continues to trim its balance sheet. Ongoing banking sector risks and growing concerns about the debt ceiling are undoubtedly factoring into the Fed's calculus as well.

IMPLICATIONS

Today's rate hike likely marks the end of the current monetary tightening cycle. Look for the Fed to pause for the rest of the year

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 | | |
| 3 | Federal Reserve | +25 b.p. | 5.25 |
| 4 | European Central Bank | | |
| 4 | Bank of Norway | | |
| 11 | Bank of England | | |
| 18 | Bank of Mexico | | |
| 23 | Reserve Bank of New Zealand | | |
| 25 | Bank of Korea | | |
| June | | | |
| 6 | Reserve Bank of Australia | | |
| 7 | Bank of Canada | | |
| 14 | Federal Reserve | | |
| 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.