According to the U.S. Federal Reserve:

- The target for the federal funds rate stays at 5.25%.
  Votes: for = 10; against = 1 (Jeffrey Lacker, President of the Richmond Fed).
- Fed leaders once again to signal that the timing and extent of any additional firming will depend on the evolution of the outlook for both inflation and economic conditions.
- Core inflation remains elevated. High levels of resource utilization and of the prices of energy and other commodities have the potential to sustain inflation pressures.
- The moderation in economic growth is continuing, reflecting a cooling of the housing market. Deceleration by growth, reduced impetus from energy prices and the effect of recent monetary policy actions should help limit inflation pressures.

Commentary:

The Fed’s (U.S. Federal Reserve) extension of the status quo comes as no surprise and was fully anticipated by the financial markets and forecasters. Ben Bernanke and his colleagues therefore see current rates, at 5.25%, as appropriate to the United States’ economic situation. It therefore appears that, for members of the monetary policy committee (FOMC), inflation risks are still present, although growth should weaken in the months to come. Given that key rates are currently in the upper part of the monetary policy’s neutral zone, we can assume that FOMC members are still concerned about inflation, though not concerned enough to start tightening monetary policy again.

For that matter, the statement that accompanied today’s decision does not rule out additional firming eventually. This is the loophole that Ben Bernanke and FOMC have left themselves. That is, they continue to make future decisions conditional on economic conditions and incoming statistics.

Given that the signs of economic deceleration in the United States are mounting, we can, however, believe that the status quo initiated in August and extended today should continue for a few more months. Firstly, inflation risks are slowly fading thanks to a marked decline by energy prices in recent weeks. Also, real estate market pressures on core inflation also seem to be in the process of moderating as shown by August’s results for consumer prices. Other factors, like producer prices, also attest to deceleration by inflation. Secondly, the economic outlooks for the coming quarters are becoming less and less pretty. The real estate market is rapidly becoming a burden on growth, as shown by the recent trend for housing starts. Adding the fact that the Fed, at the previous meeting, seemed to have an expansion scenario in which real GDP growth would be below potential (assessed at 3.2%) for over a year, it is hard to anticipate further rate hikes. We can even believe that the Fed will opt for rate decreases as of the winter of 2007, in response to the economy’s deceleration.

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U.S. Federal Reserve Press Release:

[...] The moderation in economic growth appears to be continuing, partly reflecting a cooling of the housing market.

Readings on core inflation have been elevated, and the high levels of resource utilization and of the prices of energy and other commodities have the potential to sustain inflation pressures. However, inflation pressures seem likely to moderate over time, reflecting reduced impetus from energy prices, contained inflation expectations, and the cumulative effects of monetary policy actions and other factors restraining aggregate demand.

Nonetheless, the Committee judges that some inflation risks remain. The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information. [...]