The Federal Reserve Keeps Its Key Lending Rates Unchanged, But Makes Its Stance Accommodating

Emphasis is, for the first time, on there being possibly too big a drop in inflation

- Federal funds rate remains at 1.25%
- New stance in favour of a future drop in rates

Votes: For = 12 ; Against = 0.

1) Even though the timing and extent of the economic recovery remain uncertain, the risks are balanced with regard to economic growth in the quarters that lie ahead.

2) However, the probability of a drop in the inflation rate, however minor, occurring over the next few quarters, exceeds that of a pickup in inflation.

**Conclusion:** Today's decision is not truly a surprise since the vast majority of observers on the financial scene were expecting the Federal Reserve not to touch its key interest rates. But the fears of the Federal Reserve with regard to an overly marked probability in disinflation took many by surprise. Thus, the US monetary regulatory bodies seem to dread that a drop in global and US demand, together with the falling price of oil, will spark an overly abrupt decline in the growth in prices in the United States. In such circumstances, the FOMC today opted to bring back an accommodating stance in favour of an early drop in the key interest rates. Let us remind readers that the Federal Reserve had abstained from precisely stating a bias at its preceding meeting. At the time, the war with Iraq and the surrounding uncertainties scrambled the image we could have had of the trend in the US economy. Nevertheless, we cannot help but note that, had these uncertainties not existed, the bias decreed today would instead have been decreed at its meeting of last March 18.

If, as we believe, the US economy gradually gets back on its feet by the end of 2003, the Federal Reserve should not need to further loosen its monetary policy. However, should this become necessary, the resumption of an accommodating bias confirms that it is prepared to act promptly in the event greater weakness is palpable in the economy.