The Federal Reserve is still concerned with falling inflation
US key interest rates are cut by 25 basis points

- The federal funds rate is cut from 1.25% to 1.00%.
- The bias in favour of a future rate drop is retained due to the disinflation issue.

Votes: For, 11; Against, 1.

1) Some signs attest to a firming of spending, an improvement in financial conditions and a stabilization in labour and product markets. However, a return to sustained growth is slow to materialize.

2) What the US monetary authorities are most keenly interested in monitoring is the possibility, slim but nevertheless real, of a significant and undesirable fall in inflation.

Conclusion: Today's decision by the US Federal Reserve was widely anticipated by the financial markets and the probability of a drop of 25 basis points was as high as 100%, according to futures market. Accordingly, despite an improvement in the economic outlook, which would generally promote a certain stability in monetary policy, falling inflation, especially once energy and food prices are dropped, has been a source of worry to the members of the FOMC over the last few months. Indeed, lacklustre business investments, combined with less robust consumer spending, has been dampening US aggregate demand for several quarters, thereby fanning a deceleration in the inflation rate. To reverse this trend, growth in the US economy must certainly be triggered, which explains the drop in interest rates decreed today.

Unless the economic indicators released in the coming weeks show an appreciable improvement in the US economic situation, the Federal Reserve might well opt for another rate cut in its key lending rates at the upcoming meeting on August 12. Thereafter, the pace of economic expansion, in the absence of inflationary pressures, ought to pick up and pave the way for a period of stability in the key lending rates for several months.

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