The Federal Reserve reiterates the same message
An overly low inflation rate is still the major main risk faced

- The target overnight rate remains at 1.00%.
- The risk of an unwelcome fall in inflation is at the heart of the Federal Reserve’s concerns.
Votes: For = 12; Against = 0.

1) The signs observed since the last meeting of the FOMC confirm that spending is firming up and the labour market is stabilizing.
2) Business pricing power and increases in the core Consumer Price Index are still muted.
3) Even though risks are balanced in terms of economic growth, the likelihood that the inflation rate descends too low remains at the crux of the Fed’s concerns.
4) In such circumstances, the monetary policy can be maintained at the same level for a considerable period of time.

Conclusion: Today’s decision is not really surprising since all of the 99 analysts surveyed by Bloomberg were expecting US key interest rates to remain stable. And, despite the many signs that point to a true recovery, there remain several risks looming over the US economy. On the one hand, a false start of the US economy has not been entirely ruled out. On the other hand, the US economy is still feeling the brunt of a deceleration in the inflation rate. Even if the Federal Reserve has no real target in terms of inflation, we are obliged to note that US monetary authorities still appear to be very preoccupied with slowly rising prices. We might point out that the rise in the Consumer Price Index, excluding food and energy, reached 1.2% last September, the lowest level since January 1966! We will certainly have to wait several more months before these uncertainties fade away. Further, despite the forecast of acceleration in economic growth, the production capacity excess will be felt for several quarters still. Hence it would be astonishing if the Federal Reserve changed its key interest rates in the next few quarters. According to our most recent financial and economic outlook, the US key interest rates are poised to rise in the best case scenario only as of the fourth quarter de 2004, after the holding of the presidential election.

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