The Federal Reserve Is Holding Its Course
The Target for the Overnight Rate Remains Unchanged

- The target for the Fed fund rate remains at 1.00%
- The Fed believes that the risk of disinflation over the next few months is almost equal to the probability of a rise in the rate of inflation
- Votes: For = 12; Against = 0.

1) Several signs show that production is speeding up vigorously. On the other hand, even though job losses have slowed down, job creation is taking its time to have an effect.
2) The upside and downside risks to the goal of sustainable economic growth are equal. The risk of an unwelcome fall in inflation is practically equal to the probability of a rise in prices.
3) However, given the low inflation rate and the resource use slack, the Fed can be patient before it reduces the current level of accommodation of its monetary policy.

Conclusion: The US Federal Reserve (Fed) is definitely holding its course. In fact, the press release published today differs from the press release of the last meeting by only 16 words. However, there are a few nuances. First, the Fed seems a little less optimistic about economic growth that “is continuing to expand at a solid pace.” Second, the monetary authorities seem more cautious with regard to a potential recovery of the job market. While it indicated last January that certain indicators were suggesting an improvement in the job market, it mentions nothing at this point except for the hiring lag in spite of the slowdown in layoffs. Bottom line, the Fed remains cautious in the face of the most recent developments in the US economy. Our latest forecasts indicate, on the other hand, that the economy’s vitality will eventually be able to shake the job market out of its stupor and that inflation could soon rise for our neighbours.

The FOMC's next meeting is scheduled for May 4 and, without any shadow of a doubt, the Federal Reserve will once again leave its interest key rates unchanged. We feel that we will have to wait for the end of fall 2004 or the beginning of 2005 before Fed fund rates are raised. In the meantime, the job market should get back on its feet and inflation will take an upward trend.

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