The Committee continues to believe that an accommodative stance of monetary policy, coupled with robust underlying growth in productivity, is providing important ongoing support to economic activity. The evidence accumulated over the intermeeting period indicates that output is continuing to expand at a solid rate and hiring appears to have picked up. Although incoming inflation data have moved somewhat higher, long-term inflation expectations appear to have remained well contained.

The Committee perceives the upside and downside risks to the attainment of sustainable growth for the next few quarters are roughly equal. Similarly, the risks to the goal of price stability have moved into balance. At this juncture, with inflation low and resource use slack, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured.

Conclusion: At first glance, even though the press release accompanying today’s Federal Reserve decision is not much different from the one last March, the fact remains that the Fed’s language contains a certain change of tone on the part of US monetary authorities. As well, the FOMC points out that job creation finally seems to be materializing and that inflation has accelerated a bit lately. Even if the risks to economic growth and price stability remain about equal, the Federal Reserve is gradually putting itself in a position from where it can raise its key interest rates. As a result, the FOMC is now stating that the degree of monetary ease should be lessened (tightening) in a way that still remains to be assessed (based on developments in the economic conditions).

In the light of developments in economic conditions, the advance in inflation and the Federal Reserve speech, we are now of the opinion that the FOMC will move its monetary tightening up in time. So, US interest key rates could be increased by 25% as early as August, or before the presidential elections are held. The rise in US key rates should continue this fall and throughout 2005. The target for the overnight rate, currently at 1 %, could then reach 1.75% at the end of 2004 and 3.25% in December 2005. The next meeting of the FOMC is scheduled on June 29 and 30. Even if the rates don’t change, the Fed will have to go one more step toward the monetary tightening mentioned in its press release.