

April 30, 2014



## FEDERAL RESERVE

### The Fed is not worried about weak economic growth

#### ACCORDING TO THE FEDERAL RESERVE (Fed)

- The Committee decided to keep the target range for the federal funds rate at 0.00% to 0.25%.
- The Fed has once again tapered its monthly securities purchases by US\$10B. As of May, the Fed will purchase US\$20B in mortgage-backed securities (instead of US\$25B), and US\$25B in Treasury securities (instead of US\$30B).
- The Committee today reaffirmed its view that a highly accommodative stance of monetary policy remains appropriate. In determining how long to maintain the current target range, the Committee will assess progress—both realized and expected—toward its objectives.
- Growth in economic activity has picked up recently, after having slowed sharply during the winter in part because of adverse weather conditions. Labor market indicators were mixed but on balance showed further improvement. The unemployment rate, however, remains elevated. Household spending appears to be rising more quickly. Business fixed investment edged down, while the recovery in the housing sector remained slow. Fiscal policy is restraining economic growth, although the extent of restraint is diminishing.
- Inflation has been running below the Committee's longer-run objective, but longer-term inflation expectations have remained stable. The Committee is monitoring inflation developments carefully for evidence that inflation will move back toward its objective.
- The Committee sees the risks to the outlook for the economy and the labor market as nearly balanced. If incoming information broadly supports the Committee's expectation, the Committee will likely reduce the pace of asset purchases in further measured steps at future meetings.

#### COMMENTS

After the Fed made several changes in March, particularly modifying its forward guidance, it decided to keep a low profile today. The only adjustments announced were based on Fed leaders' reading of economic growth. On one hand, they noted improved economic indicators following adverse weather conditions around the new year that resulted in disappointing 0.1% real GDP growth in the first quarter.

They didn't seem too worried about such weak economic growth, emphasizing instead recent positive developments in the economic situation, allowing them to stay the course, tapering securities purchases another US\$10B as they did since the December 2013 meeting.

On the other hand, they continued to point out the real estate market's disappointing performance, repeated from March. This market's recovery has been in a sorry state since last fall and home sales plummeted, even in regions that were spared from bad weather. The minimal change in the statement and the lack of change on what will eventually happen with rates once the securities purchases are concluded should limit surges in financial markets, which were rattled after the March meeting. Janet Yellen and her colleagues thereby avoided interpretations that could have rightly or wrongly triggered increases in bond yields and mortgage rates, adding to the problems in the housing market.

This meeting did not produce an update to the forecast from the members of the monetary policy committee. It should nonetheless be noted that weak first quarter growth further complicates reaching the Fed's March forecast of annual real GDP growth of between 2.8% and 3.0% in the final quarter of 2014. It would take quarterly annualized increases of close to 4% in each of the three coming quarters for the forecast to materialize.

**Implications:** The absence of any notable change in the Fed's statement helps us stay the course on our own expectations for monetary policy. Securities tapering will keep the same pace of US\$10B per meeting, and we don't anticipate key rate increases before September 2015.

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NOTE TO READERS: The letters **k**, **M** and **B** are used in texts and tables to refer to thousands, millions and billions respectively.

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## Schedule 2014 of Central Bank meetings

	<u>Decision</u>	<u>Rate</u>		<u>Decision</u>	<u>Rate</u>	
<b>JANUARY</b>			<b>JULY</b>			
9	European Central Bank	s.q.	0.25	1	Reserve Bank of Australia	
9	Bank of England	s.q.	0.50	3	European Central Bank	
15	Bank of Brazil	+50 b.p.	10.50	3	Bank of Sweden	
21-22	Bank of Japan	---	---	10	Bank of England	
22	Bank of Canada	s.q.	1.00	11	Bank of Mexico	
29	Reserve Bank of New Zealand	s.q.	2.50	14-15	Bank of Japan	
29	Federal Reserve	s.q.	0.25	16	Bank of Brazil	
31	Bank of Mexico	s.q.	3.50	16	Bank of Canada	
<b>FEBRUARY</b>			<b>AUGUST</b>			
3	Reserve Bank of Australia	s.q.	2.50	5	Reserve Bank of Australia	
6	European Central Bank	s.q.	0.25	7	European Central Bank	
6	Bank of England	s.q.	0.50	7	Bank of England	
13	Bank of Sweden	s.q.	0.75	7-8	Bank of Japan	
17-18	Bank of Japan	---	---	<b>SEPTEMBER</b>		
26	Bank of Brazil	+25 b.p.	10.75	2	Reserve Bank of Australia	
<b>MARCH</b>			<b>OCTOBER</b>			
3	Reserve Bank of Australia	s.q.	2.50	2	European Central Bank	
5	Bank of Canada	s.q.	1.00	6	Reserve Bank of Australia	
6	European Central Bank	s.q.	0.25	6-7	Bank of Japan	
6	Bank of England	s.q.	0.50	9	Bank of England	
10-11	Bank of Japan	---	---	22	Bank of Canada	
12	Reserve Bank of New Zealand	+25 b.p.	2.75	23	Bank of Norway	
19	Federal Reserve	s.q.	0.25	28	Bank of Sweden	
20	Swiss National Bank	s.q.	0.00	29	Reserve Bank of New Zealand	
21	Bank of Mexico	s.q.	3.50	29	Bank of Brazil	
27	Bank of Norway	s.q.	1.50	29	Federal Reserve	
31	Reserve Bank of Australia	s.q.	2.50	31	Bank of Japan	
<b>APRIL</b>			<b>NOVEMBER</b>			
2	Bank of Brazil	+25 b.p.	11.00	3	Reserve Bank of Australia	
3	European Central Bank	s.q.	0.25	6	European Central Bank	
7-8	Bank of Japan	---	---	6	Bank of England	
9	Bank of Sweden	s.q.	0.75	18-19	Bank of Japan	
10	Bank of England	s.q.	0.50	<b>DECEMBER</b>		
16	Bank of Canada	s.q.	1.00	1	Reserve Bank of Australia	
23	Reserve Bank of New Zealand	+25 b.p.	3.00	3	Bank of Brazil	
25	Bank of Mexico	s.q.	3.50	3	Bank of Canada	
30	Bank of Japan	---	---	4	European Central Bank	
30	Federal Reserve	s.q.	0.25	4	Bank of England	
<b>MAY</b>			<b>NOVEMBER</b>			
6	Reserve Bank of Australia			5	Bank of Mexico	
8	European Central Bank			10	Reserve Bank of New Zealand	
8	Bank of England			11	Bank of Norway	
8	Bank of Norway			11	Swiss National Bank	
20-21	Bank of Japan			16	Bank of Sweden	
28	Bank of Brazil			17	Federal Reserve	
<b>JUNE</b>			<b>NOVEMBER</b>			
3	Reserve Bank of Australia			18-19	Bank of Japan	
4	Bank of Canada			<b>DECEMBER</b>		
5	European Central Bank			1	Reserve Bank of Australia	
5	Bank of England			3	Bank of Brazil	
6	Bank of Mexico			3	Bank of Canada	
11	Reserve Bank of New Zealand			4	European Central Bank	
12-13	Bank of Japan			4	Bank of England	
18	Federal Reserve			5	Bank of Mexico	
19	Bank of Norway			10	Reserve Bank of New Zealand	
19	Swiss National Bank			11	Bank of Norway	

NOTE: Certain banks may decide to change rates in-between the scheduled meetings. The abbreviations s.q. and b.p. correspond to status quo and basis points respectively.