



FEDERAL RESERVE

A solid pace for economic growth, but...

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 Committee judges that it can be patient in beginning to normalize the stance of monetary policy. However, if incoming information indicates faster progress toward the Committee's employment and inflation objectives than the Committee now expects, then increases in the target range for the federal funds rate are likely to occur sooner than currently anticipated. Conversely, if progress proves slower than expected, then increases in the target range are likely to occur later than currently anticipated.
- Information received since the Federal Open Market Committee met in December suggests that economic activity has been expanding at a solid pace. Labor market conditions have improved further, with strong job gains and a lower unemployment rate. On balance, a range of labor market indicators suggests that underutilization of labor resources continues to diminish. Household spending is rising moderately; recent declines in energy prices have boosted household purchasing power. Business fixed investment is advancing, while the recovery in the housing sector remains slow.
- Inflation has declined further below the Committee's longer-run objective, largely reflecting declines in energy prices. Market-based measures of inflation compensation have declined substantially in recent months; survey-based measures of longer-term inflation expectations have remained stable.

COMMENTS

After the explosive action of several other central banks, the Fed continues to show prudence. As expected, it did not change the “patience” remark that it started using at its last meeting in December. We should therefore not expect Janet Yellen and her colleagues to call for a first increase in key rates in the next two meetings, based on the interpretation provided by the Chair at December's press conference. This patience is shared by all committee members, as unlike in previous meetings, there was no dissent this time. It should be noted that the makeup of the monetary policy committee, which changes with the annual

rotation of regional members, echoes the dovish sentiments of the Chair.

The Fed is rather encouraged by U.S. economic conditions. It noted that economic activity expanded at a solid pace, which contrasts with the “moderate” qualification that has been used since September. With annualized increases in real GDP of 4.6% in the spring, 5.0% in the summer and another 3.0% estimated for the fall, growth could not be qualified as simply moderate. The Fed also made note of strong gains in employment and paid special attention to the positive effects falling gas prices are having on the situation for households. Note that consumer confidence indexes are currently rising sharply.

From another perspective, movement in energy prices overshadows the picture for inflation. The annual change in consumer prices was only 0.8% in December 2014 and we expect it to fall into negative territory when January's results are released. Triggered by falling oil prices and a quick recovery that may not materialize, this “deflation” could persist until the summer. The Fed has confidence that in the medium term inflation will near its target of 2%. However, in the very short term, these developments prevent the Fed from quickly calling for a hike in rates. In addition, international financial and economic conditions also call for low rates for a longer period. The Fed also included in its statement that it would review international developments (among other things) in setting its monetary policy.

Implications: The Fed continues to stay the course, even if it is further encouraged by U.S. economic conditions. Deflationary pressure stemming from oil prices, low wages despite strong performance in employment and international development should continue to prevent it from raising rates before the September meeting.

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Schedule 2015 of Central Bank meetings

	<u>Decision</u>	<u>Rate</u>		<u>Decision</u>	<u>Rate</u>
JANUARY			JULY		
8	Bank of England	s.q.	0.50	1	Bank of Sweden
14	Bank of Korea	s.q.	2.00	7	Reserve Bank of Australia
15	Swiss National Bank	-50 b.p.	-0.75	9	Bank of England
20-21	Bank of Japan	---	---	9	Bank of Korea
21	Bank of Brazil	+50 b.p.	12.25	15	Bank of Canada
21	Bank of Canada	-25 b.p.	0.75	16	European Central Bank
22	European Central Bank	s.q.	0.05	23	Reserve Bank of New Zealand
28	Federal Reserve	s.q.	0.25	23	Bank of Mexico
29	Reserve Bank of New Zealand			29	Bank of Brazil
29	Bank of Mexico			29	Federal Reserve
				*	Bank of Japan
FEBRUARY			AUGUST		
3	Reserve Bank of Australia			6	Bank of England
5	Bank of England			4	Reserve Bank of Australia
11	Bank of Sweden			13	Bank of Korea
17	Bank of Korea			*	Bank of Japan
17-18	Bank of Japan				
MARCH			SEPTEMBER		
3	Reserve Bank of Australia			1	Reserve Bank of Australia
4	Bank of Brazil			2	Bank of Brazil
4	Bank of Canada			3	European Central Bank
5	European Central Bank			3	Bank of Mexico
5	Bank of England			9	Bank of Canada
12	Bank of Korea			10	Bank of England
12	Reserve Bank of New Zealand			10	Reserve Bank of New Zealand
16-17	Bank of Japan			11	Bank of Korea
18	Federal Reserve			17	Swiss National Bank
19	Bank of Norway			17	Federal Reserve
19	Swiss National Bank			24	Bank of Norway
26	Bank of Mexico			*	Bank of Japan
				*	Bank of Sweden
APRIL			OCTOBER		
7	Reserve Bank of Australia			6	Reserve Bank of Australia
7-8	Bank of Japan			8	Bank of England
9	Bank of England			15	Bank of Korea
9	Bank of Korea			15	Bank of Mexico
15	European Central Bank			21	Bank of Brazil
15	Bank of Canada			21	Bank of Canada
28	Bank of Sweden			22	European Central Bank
29	Bank of Brazil			28	Federal Reserve
29	Federal Reserve			29	Reserve Bank of New Zealand
30	Reserve Bank of New Zealand			*	Bank of Japan
30	Bank of Japan			*	Bank of Japan
30	Bank of Mexico			*	Bank of Sweden
MAY			NOVEMBER		
5	Reserve Bank of Australia			3	Reserve Bank of Australia
7	Bank of Norway			5	Bank of England
11	Bank of England			5	Bank of Norway
15	Bank of Korea			12	Bank of Korea
21-22	Bank of Japan			25	Bank of Brazil
27	Bank of Canada			*	Bank of Japan
JUNE			DECEMBER		
2	Reserve Bank of Australia			1	Reserve Bank of Australia
3	European Central Bank			2	Bank of Canada
3	Bank of Brazil			3	European Central Bank
4	Bank of England			3	Bank of Mexico
4	Bank of Mexico			10	Bank of England
11	Bank of Korea			10	Bank of Korea
11	Reserve Bank of New Zealand			10	Reserve Bank of New Zealand
17	Federal Reserve			10	Swiss National Bank
18	Bank of Norway			16	Federal Reserve
18	Swiss National Bank			17	Bank of Norway
18-19	Bank of Japan			*	Bank of Japan
				*	Bank of Sweden

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. * To be determined.