Essentials of the Monetary Policy

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FEDERAL RESERVE

The Federal Reserve remains optimistic despite a gloomier view of economic conditions

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 anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen further improvement in the labor market and is reasonably confident that inflation will move back to its 2% objective over the medium term.
- Information received since the Federal Open Market Committee met in March suggests that economic growth slowed during the winter months, in part reflecting transitory factors. The pace of job gains moderated, and the unemployment rate remained steady. A range of labor market indicators suggests that underutilization of labor resources was little changed. Growth in household spending declined; households' real incomes rose strongly, partly reflecting earlier declines in energy prices, and consumer sentiment remains high. Business fixed investment softened, the recovery in the housing sector remained slow, and exports declined.
- Inflation continued to run below the Committee's longer-run objective, partly reflecting earlier declines in energy prices and decreasing prices of non-energy imports. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations have remained stable.

COMMENTS

It had already been decided that the members of the monetary policy committee would not order a key interest rate hike in April. The March press release clearly indicated that that possibility had been unanimously ruled out. After the word "patience" was eliminated in March, this was the only forward guidance that was left. The development of the U.S. economy has done nothing to make them regret that decision, and the main changes in the Fed's press release compared with that of the March meeting reflect gloomier economic conditions. Already in March, many economic indicators were quite lacklustre. Of those, few have posted rebounds since then, even though weather conditions have improved and the labour dispute at the west coast ports is over. First of all, job creation in March came out well below expectations. Second, first-quarter real GDP growth, at just 0.2%, proved to be weaker than most forecasters had predicted. In mentioning the modesty of household spending and the tribulations of investment and exports, the Fed is painting a negative, but realistic, picture.

Without referring directly to the strength of the dollar, the Fed reports the difficulties that the currency's appreciation is generating. It mentions the contraction in exports and points at the drop in import prices as one of the factors underlying the current low inflation. Keep in mind that the prices of imported goods excluding oil products have dipped by 2.7% over the past year.

Despite these findings, the Fed officials are still predicting that growth will pick up. However, given the current rather gloomy picture, it would be surprising if they were to start raising key interest rates at their June meeting. We are forecasting that some indicators will give better showings before then, but we will not have a complete overview until the second-quarter real GDP is released at the end of July. Before the Fed starts normalizing interest rates, it is reasonable to assume that it will want to make sure that growth has really turned the corner and that employment is gathering steam.

Implications: For the first time in a long while, the Fed is no longer making a commitment to keep its target range for the federal funds rate unchanged. In future, monetary policy will depend on the Fed members' reading of current economic conditions and outlooks. The current situation and uncertainties that are likely to last for a little while should preclude any interest rate hike in June and possibly in August as well. If growth firms up, the door could be opened further by the time the September meeting rolls around. After that, the pace of rate hikes is likely to be slow and irregular.

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Schedule 2015 of Central Bank meetings

		Decision	Rate
JANUARY			
8	Bank of England	s.q.	0.50
14	Bank of Korea	s.q.	2.00
15	Swiss National Bank	-50 b.p.	-0.75
20-21	Bank of Japan	---	---
21	Bank of Brazil	+50 b.p.	12.25
21	Bank of Canada	-25 b.p.	0.75
22	European Central Bank	s.q.	0.05
28	Reserve Bank of New Zealand	s.q.	3.50
28	Federal Reserve	s.q.	0.25
29	Bank of Mexico	s.q.	3.00
FEBRUARY			
2	Reserve Bank of Australia	-25 b.p.	2.25
5	Bank of England	s.q.	0.50
12	Bank of Sweden	-10 b.p.	-0.10
16	Bank of Korea	s.q.	2.00
17-18	Bank of Japan	---	---
MARCH			
2	Reserve Bank of Australia	s.q.	2.25
4	Bank of Brazil	+50 b.p.	12.75
4	Bank of Canada	s.q.	0.75
5	European Central Bank	s.q.	0.05
5	Bank of England	s.q.	0.50
11	Bank of Korea	-25 b.p.	1.75
11	Reserve Bank of New Zealand	s.q.	3.50
16-17	Bank of Japan	---	---
18	Bank of Sweden	-15 b.p.	-0.25
18	Federal Reserve	s.q.	0.25
19	Bank of Norway	s.q.	1.25
19	Swiss National Bank	s.q.	-0.75
26	Bank of Mexico	s.q.	3.00
APRIL			
7	Reserve Bank of Australia	s.q.	2.25
7-8	Bank of Japan	---	---
9	Bank of England	s.q.	0.50
9	Bank of Korea	s.q.	1.75
15	European Central Bank	s.q.	0.05
15	Bank of Canada	s.q.	0.75
29	Bank of Sweden	s.q.	-0.25
29	Federal Reserve	s.q.	0.25
29	Reserve Bank of New Zealand		
29	Bank of Brazil		
30	Bank of Japan		
30	Bank of Mexico		
MAY			
5	Reserve Bank of Australia		
7	Bank of Norway		
11	Bank of England		
15	Bank of Korea		
21-22	Bank of Japan		
27	Bank of Canada		
JUNE			
2	Reserve Bank of Australia		
3	European Central Bank		
3	Bank of Brazil		
4	Bank of England		
4	Bank of Mexico		
10	Reserve Bank of New Zealand		
11	Bank of Korea		
17	Federal Reserve		
18	Bank of Norway		
18	Swiss National Bank		
18-19	Bank of Japan		

		Decision	Rate
JULY			
2	Bank of Sweden		
7	Reserve Bank of Australia		
9	Bank of England		
9	Bank of Korea		
14-15	Bank of Japan		
15	Bank of Canada		
16	European Central Bank		
22	Reserve Bank of New Zealand		
23	Bank of Mexico		
29	Bank of Brazil		
29	Federal Reserve		
AUGUST			
4	Reserve Bank of Australia		
6	Bank of England		
6-7	Bank of Japan		
12	Bank of Korea		
SEPTEMBER			
1	Reserve Bank of Australia		
2	Bank of Brazil		
3	European Central Bank		
3	Bank of Sweden		
3	Bank of Mexico		
9	Reserve Bank of New Zealand		
9	Bank of Canada		
10	Bank of England		
10	Bank of Korea		
14-15	Bank of Japan		
17	Swiss National Bank		
17	Federal Reserve		
24	Bank of Norway		
OCTOBER			
5	Reserve Bank of Australia		
6-7	Bank of Japan		
8	Bank of England		
14	Bank of Korea		
15	Bank of Mexico		
21	Bank of Brazil		
21	Bank of Canada		
22	European Central Bank		
28	Reserve Bank of New Zealand		
28	Bank of Sweden		
28	Federal Reserve		
30	Bank of Japan		
NOVEMBER			
2	Reserve Bank of Australia		
5	Bank of England		
5	Bank of Norway		
11	Bank of Korea		
18-19	Bank of Japan		
25	Bank of Brazil		
30	Reserve Bank of Australia		
DECEMBER			
2	Bank of Canada		
3	European Central Bank		
3	Bank of Mexico		
9	Bank of Korea		
9	Reserve Bank of New Zealand		
10	Bank of England		
10	Swiss National Bank		
15	Bank of Sweden		
16	Federal Reserve		
17	Bank of Norway		
17-18	Bank of Japan		

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.