

July 29, 2015



## FEDERAL RESERVE

### The Federal Reserve stretches the suspense to September

#### 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 some 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 (FOMC) met in June indicates that economic activity has been expanding moderately in recent months. Growth in household spending has been moderate and the housing sector has shown additional improvement; however, business fixed investment and net exports stayed soft. The labor market continued to improve, with solid job gains and declining unemployment. On balance, a range of labor market indicators suggests that underutilization of labor resources has diminished since early this year.
- 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.
- The Committee continues to see the risks to the outlook for economic activity and the labor market as nearly balanced.

#### COMMENTS

It was a given that the Fed would maintain its key rate unchanged today. However, investors were hoping the statement would contain additional indications on the possibility of monetary tightening at the next meeting on September 17. To no great surprise, Fed leaders refused to commit, preferring instead to see how the economic situation will evolve before making a decision.

The entire section of the statement concerning the future of monetary policy was the same as in the last statement, with one exception. The Fed still says it wants the job market to improve more before increasing its rates, but it added the qualifier *some* before *further improvement*. This seems to

suggest that not very much improvement is needed, a subtle sign that monetary tightening could start soon.

The paragraph describing the state of the U.S. economy follows along the same lines. The terms used to describe the job market are more positive than in June, the statement now talk about solid job gains and a diminution of the underutilization of labor resources. The Fed also highlights improvement in the housing sector. But not everything is positive, as consumption remains moderate and investments and exports continue to be soft.

The comments on inflation are practically unchanged from the last statement. A sentence signalling that energy prices seem to be stabilizing was removed, as oil prices fell more than US\$10 a barrel since the June meeting. This new decrease in oil prices could slow inflation's return to the Fed's 2% target.

Given the numerous uncertainties surrounding the U.S. economy and the situation internationally, the Fed is wise to hold onto all of its latitude. Since Janet Yellen has already clearly indicated that a rate hike is probable by the end of the year, and that it could happen at any meeting, it would have been counterproductive for the Fed to tie its hands today.

**Implications:** We are still calling for gradual monetary tightening to begin in September. This scenario assumes, however, that job market statistics will continue to be strong and that the U.S. economy will display other positive signs in the coming weeks. Should the opposite happen, the Fed will not hesitate to wait one or two more meetings before taking action. In this context, markets could react strongly to the next statistics released in the United States.

**Mathieu D'Anjou, CFA**  
Senior Economist

**François Dupuis**  
Vice-President and Chief Economist

**Mathieu D'Anjou**  
Senior Economist

**Francis Généreux**  
Senior Economist

**Jimmy Jean**  
Senior Economist

**Hendrix Vachon**  
Senior Economist

514-281-2336 or 1 866 866-7000, ext. 2336  
E-mail: [desjardins.economics@desjardins.com](mailto:desjardins.economics@desjardins.com)

## Schedule 2015 of Central Bank meetings

	<u>Decision</u>	<u>Rate</u>		<u>Decision</u>	<u>Rate</u>		
<b>JANUARY</b>			<b>JULY</b>				
8	Bank of England	s.q.	0.50	2	Bank of Sweden	-10 b.p.	-0.35
14	Bank of Korea	s.q.	2.00	7	Reserve Bank of Australia	s.q.	2.00
15	Swiss National Bank	-50 b.p.	-0.75	8	Bank of Korea		1.50
20-21	Bank of Japan	---	---	9	Bank of England	s.q.	0.50
21	Bank of Brazil	+50 b.p.	12.25	14-15	Bank of Japan	---	---
21	Bank of Canada	-25 b.p.	0.75	15	Bank of Canada	-25 b.p.	0.50
22	European Central Bank	s.q.	0.05	16	European Central Bank	s.q.	0.05
28	Reserve Bank of New Zealand	s.q.	3.50	22	Reserve Bank of New Zealand	-25 b.p.	3.00
28	Federal Reserve	s.q.	0.25	29	Federal Reserve	s.q.	0.25
29	Bank of Mexico	s.q.	3.00	29	Bank of Brazil		
				30	Bank of Mexico		
<b>FEBRUARY</b>			<b>AUGUST</b>				
2	Reserve Bank of Australia	-25 b.p.	2.25	4	Reserve Bank of Australia		
5	Bank of England	s.q.	0.50	6	Bank of England		
12	Bank of Sweden	-10 b.p.	-0.10	6-7	Bank of Japan		
16	Bank of Korea	s.q.	2.00	12	Bank of Korea		
17-18	Bank of Japan	---	---				
<b>MARCH</b>			<b>SEPTEMBER</b>				
2	Reserve Bank of Australia	s.q.	2.25	1	Reserve Bank of Australia		
4	Bank of Brazil	+50 b.p.	12.75	2	Bank of Brazil		
4	Bank of Canada	s.q.	0.75	3	European Central Bank		
5	European Central Bank	s.q.	0.05	3	Bank of Sweden		
5	Bank of England	s.q.	0.50	9	Reserve Bank of New Zealand		
11	Bank of Korea	-25 b.p.	1.75	9	Bank of Canada		
11	Reserve Bank of New Zealand	s.q.	3.50	10	Bank of England		
16-17	Bank of Japan	---	---	11	Bank of Korea		
18	Bank of Sweden	-15 b.p.	-0.25	14-15	Bank of Japan		
18	Federal Reserve	s.q.	0.25	17	Swiss National Bank		
19	Bank of Norway	s.q.	1.25	17	Federal Reserve		
19	Swiss National Bank	s.q.	-0.75	21	Bank of Mexico		
26	Bank of Mexico	s.q.	3.00	24	Bank of Norway		
<b>APRIL</b>			<b>OCTOBER</b>				
7	Reserve Bank of Australia	s.q.	2.25	5	Reserve Bank of Australia		
7-8	Bank of Japan	---	---	6-7	Bank of Japan		
9	Bank of England	s.q.	0.50	8	Bank of England		
9	Bank of Korea	s.q.	1.75	14	Bank of Korea		
15	European Central Bank	s.q.	0.05	21	Bank of Brazil		
15	Bank of Canada	s.q.	0.75	21	Bank of Canada		
29	Reserve Bank of New Zealand	s.q.	3.50	22	European Central Bank		
29	Bank of Sweden	s.q.	-0.25	28	Reserve Bank of New Zealand		
29	Bank of Brazil	+50 b.p.	13.25	28	Bank of Sweden		
29	Federal Reserve	s.q.	0.25	28	Federal Reserve		
30	Bank of Japan	---	---	29	Bank of Mexico		
30	Bank of Mexico	s.q.	3.00	30	Bank of Japan		
<b>MAY</b>			<b>NOVEMBER</b>				
5	Reserve Bank of Australia	-25 b.p.	2.00	2	Reserve Bank of Australia		
7	Bank of Norway	s.q.	1.25	5	Bank of England		
11	Bank of England	s.q.	0.50	5	Bank of Norway		
15	Bank of Korea	s.q.	1.75	11	Bank of Korea		
21-22	Bank of Japan	---	---	18-19	Bank of Japan		
27	Bank of Canada	s.q.	0.75	25	Bank of Brazil		
<b>JUNE</b>			<b>DECEMBER</b>				
2	Reserve Bank of Australia	s.q.	2.00	2	Bank of Canada		
3	European Central Bank	s.q.	0.05	3	European Central Bank		
3	Bank of Brazil	+50 b.p.	13.75	9	Bank of Korea		
4	Bank of England	s.q.	0.50	9	Reserve Bank of New Zealand		
4	Bank of Mexico	s.q.	3.00	10	Bank of England		
10	Bank of Korea	-25 b.p.	1.50	9	Bank of Korea		
10	Reserve Bank of New Zealand	-25 b.p.	3.25	10	Swiss National Bank		
17	Federal Reserve	s.q.	0.25	15	Bank of Sweden		
18	Bank of Norway	-25 b.p.	1.00	16	Federal Reserve		
18	Swiss National Bank	s.q.	-0.75	17	Bank of Norway		
18-19	Bank of Japan	---	---	17	Bank of Mexico		
				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.