



## FEDERAL RESERVE

### The door is still ajar

#### 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. In determining whether it will be appropriate to raise the target range at its next meeting, the Committee will assess progress—both realized and expected—toward its objectives.
- Information received since the Federal Open Market Committee met in September suggests that economic activity has been expanding at a moderate pace. Household spending and business fixed investment have been increasing at solid rates in recent months, and the housing sector has improved further; however, net exports have been soft. The pace of job gains slowed and the unemployment rate held steady. Nonetheless, labor market indicators, on balance, show that underutilization of labor resources has diminished since early this year.
- Inflation has continued to run below the Committee's longer-run objective, partly reflecting declines in energy prices and in prices of non-energy imports. Market-based measures of inflation compensation moved slightly lower; survey-based measures of longer-term inflation expectations have remained stable.

#### COMMENTS

In September, the Fed primarily based its decision not to raise key rates on the risks that could arise from the global financial and economic situation. The statement released today shows that Fed leaders' attention is back on the situation in the United States. The Fed continues to paint a relatively positive picture of the economy, but also underscores rather disappointing job market results. Remember that average job creation for September and August was only 139,000, while average hires were 213,000 for the first half of 2015 and 260,000 in 2014. Many other economic indicators saw setbacks recently. Consider the ISM manufacturing index, which is flirting with the 50 mark, total inflation, which

is 0%, and new capital goods orders, which have shrunk recently. The consensus forecast for third-quarter real GDP, which will be released tomorrow, is calling for much weaker growth than the strong annualized 3.9% gain recorded in the spring.

These elements were probably sufficient for most members of the monetary policy committee to opt for the status quo at the meeting that concluded today. Only one leader voted for an immediate increase. It must be said that once the decision was made in September, markets and forecasters no longer expected any increase at all in October.

All eyes are now turned to the last meeting of 2015. Until recently, both the median of Fed leaders' interest rate forecasts and most of their statements suggested an increase at the end of the year. The less-than-stellar economic context of recent weeks has, however, changed the picture, and some leaders have publicly questioned the relevance of such a decision. In one sentence, the Fed is keeping the door ajar by highlighting the decision it will have to make at its next meeting. However, we must wonder if, until today, the door was more open or more closed. If it was more open, this sentence calls into question the rate increase, as the Fed seemed truly inclined to raise its key rate. If it was more closed, it signals that the option to raise rates has not been ruled out. Everything therefore hinges on the economic situation.

**Implications:** Unlike in September, a rate increase was not really expected today, but the statement keeps the door open for December. However, the somewhat disappointing economic context instead suggests that the Fed should wait until next year before initiating monetary firming. Our scenarios call for a first increase in March 2016.

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## 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	s.q.	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	Bank of Brazil	+50 b.p.	14.25
29	Bank of Mexico	s.q.	3.00	29	Federal Reserve	s.q.	0.25
				30	Bank of Mexico	s.q.	3.00
<b>FEBRUARY</b>			<b>AUGUST</b>				
2	Reserve Bank of Australia	-25 b.p.	2.25	4	Reserve Bank of Australia	s.q.	2.00
5	Bank of England	s.q.	0.50	6	Bank of England	s.q.	0.50
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	s.q.	1.50
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	s.q.	2.00
4	Bank of Brazil	+50 b.p.	12.75	2	Bank of Brazil	s.q.	14.25
4	Bank of Canada	s.q.	0.75	3	European Central Bank	s.q.	0.05
5	European Central Bank	s.q.	0.05	3	Bank of Sweden	s.q.	-0.35
5	Bank of England	s.q.	0.50	9	Reserve Bank of New Zealand	-25 b.p.	2.75
11	Bank of Korea	-25 b.p.	1.75	9	Bank of Canada	s.q.	0.50
11	Reserve Bank of New Zealand	s.q.	3.50	10	Bank of England	s.q.	0.50
16-17	Bank of Japan	---	---	10	Bank of Korea	s.q.	1.50
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	s.q.	-0.75
19	Bank of Norway	s.q.	1.25	17	Federal Reserve	s.q.	0.25
19	Swiss National Bank	s.q.	-0.75	21	Bank of Mexico	s.q.	3.00
26	Bank of Mexico	s.q.	3.00	24	Bank of Norway	-25 b.p.	0.75
<b>APRIL</b>			<b>OCTOBER</b>				
7	Reserve Bank of Australia	s.q.	2.25	5	Reserve Bank of Australia	s.q.	2.00
7-8	Bank of Japan	---	---	6-7	Bank of Japan	---	---
9	Bank of England	s.q.	0.50	8	Bank of England	s.q.	0.50
9	Bank of Korea	s.q.	1.75	14	Bank of Korea	s.q.	1.50
15	European Central Bank	s.q.	0.05	21	Bank of Brazil	s.q.	14.25
15	Bank of Canada	s.q.	0.75	21	Bank of Canada	s.q.	0.50
29	Reserve Bank of New Zealand	s.q.	3.50	22	European Central Bank	s.q.	0.05
29	Bank of Sweden	s.q.	-0.25	28	Bank of Sweden	s.q.	-0.35
29	Bank of Brazil	+50 b.p.	13.25	28	Federal Reserve	s.q.	0.25
29	Federal Reserve	s.q.	0.25	28	Reserve Bank of New Zealand	s.q.	3.00
30	Bank of Japan	---	---	29	Bank of Mexico	s.q.	3.00
30	Bank of Mexico	s.q.	3.00	30	Bank of Japan	s.q.	3.00
<b>MAY</b>			<b>NOVEMBER</b>				
5	Reserve Bank of Australia	-25 b.p.	2.00	2	Reserve Bank of Australia	s.q.	2.00
7	Bank of Norway	s.q.	1.25	5	Bank of England	s.q.	0.50
11	Bank of England	s.q.	0.50	5	Bank of Norway	s.q.	1.50
15	Bank of Korea	s.q.	1.75	11	Bank of Korea	s.q.	1.50
21-22	Bank of Japan	---	---	18-19	Bank of Japan	---	---
27	Bank of Canada	s.q.	0.75	25	Bank of Brazil	s.q.	14.25
				30	Reserve Bank of Australia	s.q.	2.00
<b>JUNE</b>			<b>DECEMBER</b>				
2	Reserve Bank of Australia	s.q.	2.00	2	Bank of Canada	s.q.	0.75
3	European Central Bank	s.q.	0.05	3	European Central Bank	s.q.	0.05
3	Bank of Brazil	+50 b.p.	13.75	9	Bank of Korea	s.q.	1.50
4	Bank of England	s.q.	0.50	9	Reserve Bank of New Zealand	s.q.	3.00
4	Bank of Mexico	s.q.	3.00	10	Bank of England	s.q.	0.50
10	Bank of Korea	-25 b.p.	1.50	10	Swiss National Bank	s.q.	-0.75
10	Reserve Bank of New Zealand	-25 b.p.	3.25	15	Bank of Sweden	s.q.	0.25
17	Federal Reserve	s.q.	0.25	16	Federal Reserve	s.q.	0.25
18	Bank of Norway	-25 b.p.	1.00	17	Bank of Norway	s.q.	1.25
18	Swiss National Bank	s.q.	-0.75	17	Bank of Mexico	s.q.	3.00
18-19	Bank of Japan	---	---	17-18	Bank of Japan	s.q.	3.00

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.