



FEDERAL RESERVE

One of the many breaks to be taken by the Federal Reserve

ACCORDING TO THE FEDERAL RESERVE (Fed)

- The Committee decided to maintain the target range for the federal funds rate at 0.25% to 0.50%.
- The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate.
- Information received since the Federal Open Market Committee met in December suggests that labor market conditions improved further even as economic growth slowed late last year. Household spending and business fixed investment have been increasing at moderate rates in recent months, and the housing sector has improved further; however, net exports have been soft and inventory investment slowed. A range of recent labor market indicators, including strong job gains, points to some additional decline in underutilization of labor resources.
- Inflation has continued to run below the Committee's 2% longer-run objective, partly reflecting declines in energy prices and in prices of non-energy imports. Market-based measures of inflation compensation declined further; survey-based measures of longer-term inflation expectations are little changed, on balance, in recent months.
- The Committee is closely monitoring global economic and financial developments.

COMMENTS

With the first rate increase since 2006 announced in December, the Fed's January monetary policy committee meeting was not expected to be very eventful. The Fed leaders' often-repeated promise to gradually raise key rates has for some time seemed incompatible with consecutive increases. As such, none of the 104 forecasters surveyed by Bloomberg were expecting another rate hike today.

Aside from this so-called commitment by the Fed, the current economic and financial climate did not justify such haste either; in fact, it was just the opposite. The ground lost by key global stock exchanges since the start of the year and high financial market volatility had the potential to make the most eager Fed leaders hesitate. Yet, even though the

new composition of the monetary policy committee seems somewhat more hawkish than the 2015 committee, there was no dissidence.

The statement accompanying the decision raised some concerns about the U.S. economy. It clearly sets out the weaknesses that hampered growth at the end of 2015, i.e. slowing consumption and investment and weaker growth by business inventories. Based on these factors, we expect annualized real GDP growth for the last quarter of 2015 to be under 1%.

The Fed put a little more emphasis on the fact that inflation will continue to be weak in the short term. The new drop in oil prices and the strength of the U.S. dollar are the main reasons for this. These disinflationary pressures form a large part of the main argument calling for very gradual key rate increases. This is in addition, at least in the short term, to financial market volatility and fears about the global economy. The meeting minutes, which will be released in a few weeks, is where we will be able to see if these motivations are significant enough to prevent another rate hike in March.

Implications: There was nothing surprising in the status quo ordered today. The Fed leaders' previous comments as well as the current conditions did call for such caution. A rate hike may still be in the works for the March meeting, but it seems that in the current economic and financial climate, the Fed will wait longer. We only forecast two 25-point increases in U.S. key rates in 2016.

Francis Généreux
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

Schedule 2016 of Central Bank meetings

	<u>Decision</u>	<u>Rate</u>		<u>Decision</u>	<u>Rate</u>
JANUARY			JULY		
13	Bank of Korea	s.q.	1.50	5	Reserve Bank of Australia
14	Bank of England	s.q.	0.50	6	Bank of Sweden
20	Bank of Brazil	s.q.	14.25	13	Bank of Korea
20	Bank of Canada	s.q.	0.50	13	Bank of Canada
21	European Central Bank	s.q.	0.05	14	Bank of England
27	Federal Reserve	s.q.	0.50	20	Bank of Brazil
28	Reserve Bank of New Zealand			21	European Central Bank
28-29	Bank of Japan			27	Federal Reserve
FEBRUARY			AUGUST		
1	Reserve Bank of Australia			2	Reserve Bank of Australia
4	Bank of England			4	Bank of England
4	Bank of Mexico			10	Bank of Korea
11	Bank of Sweden			11	Reserve Bank of New Zealand
15	Bank of Korea			11	Bank of Mexico
29	Reserve Bank of Australia			31	Bank of Brazil
MARCH			SEPTEMBER		
2	Bank of Brazil			6	Reserve Bank of Australia
9	Bank of Korea			7	Bank of Sweden
9	Bank of Canada			7	Bank of Canada
10	European Central Bank			8	European Central Bank
10	Reserve Bank of New Zealand			8	Bank of Korea
14-15	Bank of Japan			15	Bank of England
16	Federal Reserve			15	Swiss National Bank
17	Bank of England			20-21	Bank of Japan
17	Bank of Norway			21	Federal Reserve
17	Swiss National Bank			22	Bank of Norway
18	Bank of Mexico			22	Reserve Bank of New Zealand
APRIL			OCTOBER		
5	Reserve Bank of Australia			3	Reserve Bank of Australia
13	Bank of Canada			12	Bank of Korea
14	Bank of England			13	Bank of England
15	Bank of Korea			19	Bank of Brazil
21	European Central Bank			19	Bank of Canada
21	Bank of Sweden			20	European Central Bank
27	Bank of Brazil			27	Bank of Norway
27	Federal Reserve			27	Bank of Sweden
27-28	Bank of Japan			31	Reserve Bank of Australia
28	Reserve Bank of New Zealand			31-1	Bank of Japan
MAY			NOVEMBER		
3	Reserve Bank of Australia			2	Federal Reserve
5	Bank of Mexico			3	Bank of England
12	Bank of England			10	Bank of Korea
12	Bank of Korea			10	Reserve Bank of New Zealand
12	Bank of Norway			17	Bank of Mexico
25	Bank of Canada			30	Bank of Brazil
JUNE			DECEMBER		
2	European Central Bank			5	Reserve Bank of Australia
7	Reserve Bank of Australia			7	Bank of Canada
8	Bank of Korea			8	European Central Bank
8	Bank of Brazil			14	Bank of Korea
9	Reserve Bank of New Zealand			14	Federal Reserve
15	Federal Reserve			15	Bank of England
15-16	Bank of Japan			15	Bank of Norway
16	Bank of England			15	Bank of Mexico
16	Swiss National Bank			15	Swiss National Bank
23	Bank of Norway			19-20	Bank of Japan
30	Bank of Mexico			21	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.