



FEDERAL RESERVE

Not ready for a second rate hike

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 January suggests that economic activity has been expanding at a moderate pace despite the global economic and financial developments of recent months. Household spending has been increasing at a moderate rate, and the housing sector has improved further; however, business fixed investment and net exports have been soft. A range of recent indicators, including strong job gains, points to additional strengthening of the labor market.
- Inflation picked up in recent months; however, it 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 remain low; survey-based measures of longer-term inflation expectations are little changed, on balance, in recent months.
- Global economic and financial developments continue to pose risks.

COMMENTS

Because the financial markets had calmed down and even improved in the last few weeks, some analysts thought the Fed could clearly open the door to a second key rate increase in April or June. However, the Fed statement, Chair Janet Yellen's remarks and, in particular, the new forecasts from Fed leaders close the door on April. In doing so, the Fed stressed the risks arising from the international economic and financial situation. Although this factor does not seem to be doing too much damage to U.S. economic growth so far, the risk persists and seems to be making monetary policy committee members more cautious.

In December, the mean forecast of Fed leaders for key rate movement suggested four 25-basis-point key rate increases

in 2016, and a further four in 2017. The new, more modest forecasts are now calling for two rate hikes by the end of 2016. The Fed still anticipates four increases in 2017 and four to five increases in 2018.

In terms of the economic outlook, Fed leaders are expecting slower growth in 2016 than they forecast in December. For the fourth quarter of 2016, the forecast for annual real GDP change has been downgraded from 2.4% to 2.2%. The forecast for 2017 has been trimmed by 0.1 percentage point to 2.1%. In keeping with the drop in energy prices, the inflation outlook for 2016 has been downgraded, while the forecast for core inflation remains the same. At the press conference, the recent upswing by some price indicators did not seem to worry (or encourage) Janet Yellen. She signalled that there are both upside and downside risks to the inflation outlook.

Note that the rate hike trajectory the Fed was calling for last December was steeper than the futures markets anticipated, as well as what our own scenarios included. Cutting the increases predicted for this year in half means that Janet Yellen and her colleagues are closer to what the markets expect, and in line with our own scenarios.

Implications: Although the financial situation has calmed down in the last few weeks, today's status quo is unsurprising. There will be no key rate increase in April, as the Fed remains concerned about the situation internationally. This can also be seen in its leaders' forecasts, which were downgraded. Only two increases are expected in 2016; our scenarios call for rates to rise in June and December.

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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 Canada
20	Bank of Canada	s.q.	0.50	13-14	Bank of Korea
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	s.q.	2.50	21	European Central Bank
29	Bank of Japan	s.q.	-0.10	27	Federal Reserve
FEBRUARY			28-29 Bank of Japan		
1	Reserve Bank of Australia	s.q.	2.00	AUGUST	
4	Bank of England	s.q.	0.50	2	Reserve Bank of Australia
4	Bank of Mexico	s.q.	3.25	4	Bank of England
11	Bank of Sweden	-15 b.p.	-0.50	10-11	Bank of Korea
15	Bank of Korea	s.q.	1.50	10-11	Reserve Bank of New Zealand
29	Reserve Bank of Australia	s.q.	2.00	11	Bank of Mexico
MARCH			31 Bank of Brazil		
2	Bank of Brazil	s.q.	14.25	SEPTEMBER	
9	Bank of Korea	s.q.	1.50	6	Reserve Bank of Australia
9	Reserve Bank of New Zealand	-25 b.p.	2.25	7	Bank of Sweden
9	Bank of Canada	s.q.	0.50	7	Bank of Canada
10	European Central Bank	-5 b.p.	0.00	8	European Central Bank
14	Bank of Japan	s.q.	-0.10	8-9	Bank of Korea
16	Federal Reserve	s.q.	0.50	15	Bank of England
17	Bank of England			15	Swiss National Bank
17	Bank of Norway			20-21	Bank of Japan
17	Swiss National Bank			21	Federal Reserve
18	Bank of Mexico			21-22	Reserve Bank of New Zealand
APRIL			22 Bank of Norway		
5	Reserve Bank of Australia			29	Bank of Mexico
13	Bank of Canada			OCTOBER	
14	Bank of England			3	Reserve Bank of Australia
18-19	Bank of Korea			12-13	Bank of Korea
21	European Central Bank			13	Bank of England
21	Bank of Sweden			19	Bank of Brazil
27	Bank of Brazil			19	Bank of Canada
27	Federal Reserve			20	European Central Bank
27-28	Reserve Bank of New Zealand			27	Bank of Norway
27-28	Bank of Japan			27	Bank of Sweden
MAY			31 Reserve Bank of Australia		
3	Reserve Bank of Australia			31-1	Bank of Japan
5	Bank of Mexico			NOVEMBER	
12	Bank of England			2	Federal Reserve
12	Bank of Norway			3	Bank of England
12-13	Bank of Korea			9-10	Bank of Korea
25	Bank of Canada			10-11	Reserve Bank of New Zealand
JUNE			17 Bank of Mexico		
2	European Central Bank			30	Bank of Brazil
7	Reserve Bank of Australia			DECEMBER	
8	Bank of Brazil			5	Reserve Bank of Australia
8-9	Bank of Korea			7	Bank of Canada
8-9	Reserve Bank of New Zealand			8	European Central Bank
15	Federal Reserve			14	Federal Reserve
15-16	Bank of Japan			14-15	Bank of Korea
16	Bank of England			15	Bank of England
16	Swiss National Bank			15	Bank of Norway
23	Bank of Norway			15	Bank of Mexico
30	Bank of Mexico			15	Swiss National Bank
				19-20	Bank of Japan
				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.