

FEDERAL RESERVE

Still some doubt about a rate hike in June

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 March indicates that labor market conditions have improved further even as growth in economic activity appears to have slowed. Growth in household spending has moderated, although households' real income has risen at a solid rate and consumer sentiment remains high. Since the beginning of the year, the housing sector has improved further but 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 has continued to run below the Committee's 2% longer-run objective, partly reflecting earlier declines in energy prices and falling 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.

COMMENTS

Expectations were not very high for this Fed meeting. Any movement in key interest rates had been largely ruled out by forecasters and financial markets. Contrary to the previous meeting, and to the next one in June, today's press release was not accompanied by new forecasts by Fed leaders or by a press briefing by Chair Janet Yellen. The most that could be hoped for was a clearer indication about the timing of the next interest rate hike.

But today's press release was vague. On the one hand, the Fed is tight-lipped about the main concerns surrounding "global economic and financial developments" that posed risks, whereas in March they constituted one of the main reasons for not raising interest rates. Now, the Fed is merely closely monitoring global developments. This change seems to leave the door open to a rate hike in June.

On the other hand, the Fed is commenting on the disappointing economic conditions in the United States. The labour market is indeed doing well, but the Fed is also noting a poor performance by the economy as a whole. Thus, it is blowing hot and cold: household income is growing quickly, but consumption is moderating. Housing is picking up steam, but business investment and foreign trade will make negative contributions to growth. Casting more gloom on this already blurry picture, the Fed is still talking about the weakness of inflation, which is languishing below the Fed's targets. These factors seem to suggest that the Fed could bide its time and wait later than June to raise interest rates again, after the first hike of last December.

As signals go, the Fed was much more specific in October 2015 when, to prepare the markets for a rate hike in December, the press release stated: "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". This time, as was the case in January and in March, it merely mentions "the timing and size of future adjustments" to key interest rates.

Implications: The Fed has decided to remain vague about its intentions. The press release does not rule out a rate hike in June, but nor does it open the door any further. It should be mentioned, though, that after the anaemic real GDP growth that was expected for the first quarter, our own scenarios call for the U.S. economy to rebound. If the indicators really point in that direction over the next two months, and if the nearing British referendum on membership in the European Union does not generate too much turmoil, an increase in key interest rates in June is still in the cards. It would be followed by another 25 basis point hike in 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
17	Bank of Mexico	+50 b.p.	3.75	11	Bank of Mexico
29	Reserve Bank of Australia	s.q.	2.00	31	Bank of Brazil
MARCH			SEPTEMBER		
2	Bank of Brazil	s.q.	14.25	6	Reserve Bank of Australia
9	Bank of Korea	s.q.	1.50	7	Bank of Sweden
9	Reserve Bank of New Zealand	-25 b.p.	2.25	7	Bank of Canada
9	Bank of Canada	s.q.	0.50	8	European Central Bank
10	European Central Bank	-5 b.p.	0.00	8-9	Bank of Korea
14	Bank of Japan	s.q.	-0.10	15	Bank of England
16	Federal Reserve	s.q.	0.50	15	Swiss National Bank
17	Bank of England	s.q.	0.50	20-21	Bank of Japan
17	Bank of Norway	-25 b.p.	0.50	21	Federal Reserve
17	Swiss National Bank	s.q.	-0.75	21-22	Reserve Bank of New Zealand
18	Bank of Mexico	s.q.	3.75	22	Bank of Norway
APRIL			29 Bank of Mexico		
5	Reserve Bank of Australia	s.q.	2.00	OCTOBER	
13	Bank of Canada	s.q.	0.50	3	Reserve Bank of Australia
14	Bank of England	s.q.	0.50	12-13	Bank of Korea
18	Bank of Korea	s.q.	1.50	13	Bank of England
21	European Central Bank	s.q.	0.00	19	Bank of Brazil
21	Bank of Sweden	s.q.	-0.50	19	Bank of Canada
27	Federal Reserve	s.q.	0.50	20	European Central Bank
27	Reserve Bank of New Zealand			27	Bank of Norway
27	Bank of Brazil			27	Bank of Sweden
27-28	Bank of Japan			31	Reserve Bank of Australia
MAY			31-1 Bank of Japan		
3	Reserve Bank of Australia			NOVEMBER	
5	Bank of Mexico			2	Federal Reserve
12	Bank of England			3	Bank of England
12	Bank of Norway			10-11	Bank of Korea
12-13	Bank of Korea			10-11	Reserve Bank of New Zealand
25	Bank of Canada			17	Bank of Mexico
JUNE			30 Bank of Brazil		
2	European Central Bank			DECEMBER	
7	Reserve Bank of Australia			5	Reserve Bank of Australia
8	Bank of Brazil			7	Bank of Canada
8-9	Bank of Korea			8	European Central Bank
8-9	Reserve Bank of New Zealand			14	Federal Reserve
15	Federal Reserve			14-15	Bank of Korea
15-16	Bank of Japan			15	Bank of England
16	Bank of England			15	Bank of Norway
16	Swiss National Bank			15	Bank of Mexico
23	Bank of Norway			15	Swiss National Bank
30	Bank of Mexico			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. * To be determined.