

June 15, 2016



## FEDERAL RESERVE

### Employment and Brexit keep key rates from going up

#### 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 April indicates that the pace of improvement in the labor market has slowed while growth in economic activity appears to have picked up. Although the unemployment rate has declined, job gains have diminished. Growth in household spending has strengthened. Since the beginning of the year, the housing sector has continued to improve and the drag from net exports appears to have lessened, but business fixed investment has been soft.
- Inflation has continued to run below the Committee's 2% longer-run objective, partly reflecting earlier declines in energy prices and in prices of non-energy imports. Market-based measures of inflation compensation declined; most survey-based measures of longer-term inflation expectations are little changed, on balance, in recent months.

#### COMMENTS

The expectations for this Fed meeting changed a lot over the last month. Between the publication of the minutes of April's Fed meeting and the release of May's jobs figures, a rate hike seemed plausible, but the job market's poor performance shut down that possibility. It even seems to have cooled the ardours of the most hawkish members of the Fed's monetary policy committee. April's dissident—who wanted an immediate 0.25% rate increase—has returned to the fold. Moreover, only two meeting participants versus seven last March expect more than two rate increases in 2016. That being said, the median rate forecast for the end of 2016 remains unchanged, at two rate increases. Note, however, that Fed leaders seem a little less confident about the coming years. The median forecast now signals three rate increases in 2017 and three more in 2018. In March,

it stood at four rate increases next year, and four to five 25 basis point increases in 2018.

These downside changes to interest rate forecasts are not reflected in the economic forecasts. Overall, they call for weaker growth, but the changes are not very substantial. For example, real GDP growth for the fourth quarter of 2016 has been downgraded from 2.2% to 2.0%. The forecast for 2017 has been lowered 0.1 percentage points to 2.0%. The expectations for core inflation in 2017 and 2018 have been increased 0.1%.

The Fed acknowledges the loss of momentum in the job market. At the press conference, however, Janet Yellen did not show much concern about May's poor performance in hiring, saying that we shouldn't overblow the significance of one data point. The Fed's median forecasts for the unemployment rate remain unchanged for 2016 and 2017. In its statement, the Fed reiterates that it thinks job market indicators will strengthen. On the other hand, the Fed Chair clearly indicated that the uncertainty surrounding the British referendum on the country's membership in the European Union was one factor that had influenced the decision not to change interest rates.

**Implications:** It has been clear that the Fed would maintain the status quo at this meeting since May's employment numbers were released. The door has not been fully closed for July (not impossible, according to Janet Yellen) and two key rate increases are still expected this year. However, for that to happen, the U.S. job market would have to improve promptly, and the Brits' decision would have to not send too much upheaval into international financial markets.

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## Schedule 2016 of Central Bank meetings

	<u>Decision</u>	<u>Rate</u>		<u>Decision</u>	<u>Rate</u>	
<b>JANUARY</b>			<b>JULY</b>			
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	s.q.	2.50	21	European Central Bank	
29	Bank of Japan	s.q.	-0.10	27	Federal Reserve	
<b>FEBRUARY</b>			<b>AUGUST</b>			
1	Reserve Bank of Australia	s.q.	2.00	2	Reserve Bank of Australia	
4	Bank of England	s.q.	0.50	4	Bank of England	
4	Bank of Mexico	s.q.	3.25	10	Bank of Korea	
11	Bank of Sweden	-15 b.p.	-0.50	10	Reserve Bank of New Zealand	
15	Bank of Korea	s.q.	1.50	11	Bank of Mexico	
17	Bank of Mexico	+50 b.p.	3.75	31	Bank of Brazil	
29	Reserve Bank of Australia	s.q.	2.00	<b>SEPTEMBER</b>		
<b>MARCH</b>			<b>OCTOBER</b>			
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	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	Bank of Japan	
17	Bank of Norway	-25 b.p.	0.50	21	Reserve Bank of New Zealand	
17	Swiss National Bank	s.q.	-0.75	21	Federal Reserve	
18	Bank of Mexico	s.q.	3.75	22	Bank of Norway	
<b>APRIL</b>			<b>NOVEMBER</b>			
5	Reserve Bank of Australia	s.q.	2.00	3	Reserve Bank of Australia	
13	Bank of Canada	s.q.	0.50	12	Bank of Korea	
14	Bank of England	s.q.	0.50	13	Bank of England	
18	Bank of Korea	s.q.	1.50	19	Bank of Brazil	
21	European Central Bank	s.q.	0.00	19	Bank of Canada	
21	Bank of Sweden	s.q.	-0.50	20	European Central Bank	
27	Reserve Bank of New Zealand	s.q.	2.25	27	Bank of Norway	
27	Bank of Brazil	s.q.	14.25	27	Bank of Sweden	
27	Bank of Japan	s.q.	-0.10	31	Reserve Bank of Australia	
27	Federal Reserve	s.q.	0.50	31	Bank of Japan	
<b>MAY</b>			<b>DECEMBER</b>			
3	Reserve Bank of Australia	-25 b.p.	1.75	5	Reserve Bank of Australia	
5	Bank of Mexico	s.q.	3.75	7	Bank of Canada	
12	Bank of England	s.q.	0.50	8	European Central Bank	
12	Bank of Korea	s.q.	1.50	14	Bank of Korea	
12	Bank of Norway	s.q.	0.50	14	Federal Reserve	
25	Bank of Canada	s.q.	0.50	15	Bank of England	
<b>JUNE</b>			<b>NOVEMBER</b>			
2	European Central Bank	s.q.	0.00	2	Federal Reserve	
7	Reserve Bank of Australia	s.q.	1.75	3	Bank of England	
8	Bank of Korea	-25 b.p.	1.25	9	Reserve Bank of New Zealand	
8	Reserve Bank of New Zealand	s.q.	2.25	10	Bank of Korea	
8	Bank of Brazil	s.q.	14.25	17	Bank of Mexico	
15	Federal Reserve	s.q.	0.50	30	Bank of Brazil	
15	Bank of Japan			<b>DECEMBER</b>		
16	Bank of England			5	Reserve Bank of Australia	
16	Swiss National Bank			7	Bank of Canada	
23	Bank of Norway			8	European Central Bank	
30	Bank of Mexico			14	Bank of Korea	
				14	Federal Reserve	
				15	Bank of England	
				15	Bank of Norway	
				15	Bank of Mexico	
				15	Swiss National Bank	
				19	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.