



## FEDERAL RESERVE

### Heading toward a rate hike in December?

#### 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 judges that the case for an increase in the federal funds rate has continued to strengthen but decided, for the time being, to wait for some further evidence of continued progress toward its objectives.
- Information received since the Federal Open Market Committee met in September indicates that the labor market has continued to strengthen and growth of economic activity has picked up from the modest pace seen in the first half of this year. Although the unemployment rate is little changed in recent months, job gains have been solid. Household spending has been rising moderately but business fixed investment has remained soft.
- Inflation has increased somewhat since earlier this year but is still 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 have moved up but remain low; most survey-based measures of longer-term inflation expectations are little changed, on balance, in recent months.

#### COMMENTS

There was little chance that members of the Fed's monetary policy committee would opt for an increase today. Several factors argued in favour of this "wait and see" attitude. First, this week's meeting could be considered "minor," meaning Fed Chair Janet Yellen had no press conference planned and there was no change to Fed leaders' forecasts. Second, with the elections less than a week away, it is normal for the Fed to be cautious. In the past, rate changes decided in meetings before presidential elections were already on existing uptrends or downtrends. Third, economic data released since the end of September do not call for a rush to normalize rates. Job creation was just okay. Real GDP for the third quarter performed well, but final domestic demand slowed. ISM indexes improved, but the manufacturing index level is still low.

Today's Fed statement changed little compared with the one released on September 21. It notes that growth in household consumption is slower. However, it is somewhat more optimistic about seeing inflation approach its 2% target. Remember that the annual change in the consumer price index went from 0.9% in July to 1.5% in September. The consumer expenditure deflator advanced from 0.8% to 1.2%. We expect these two indexes to continue accelerating in the coming months to reflect the less negative base effects stemming from gas prices.

The November 8 election was obviously not addressed in today's statement. The Fed is clearly non-partisan, and Janet Yellen highlighted in September that the election calendar has no influence on her decisions. However, markets have been more volatile for the last few days, reflecting narrowing in the polls between the two main presidential candidates. This increase in uncertainty signals that the Fed's caution at this pivotal moment is adequate.

**Implications:** For two meetings now, the Fed has been signalling that there is increasing justification for upward movement. Since we do not expect growth to slow in the fourth quarter, it should be able to walk the talk. As such, unless the election results cause too much turmoil, Fed leaders should opt for a 25-point increase in key rates at the December 14 meeting.

**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](mailto:desjardins.economics@desjardins.com)

## 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	s.q.	1.75
14	Bank of England	s.q.	0.50	6	Bank of Sweden	s.q.	-0.50
20	Bank of Brazil	s.q.	14.25	13	Bank of Korea	s.q.	1.25
20	Bank of Canada	s.q.	0.50	13	Bank of Canada	s.q.	0.50
21	European Central Bank	s.q.	0.05	14	Bank of England	s.q.	0.50
27	Federal Reserve	s.q.	0.50	20	Bank of Brazil	s.q.	14.25
28	Reserve Bank of New Zealand	s.q.	2.50	21	European Central Bank	s.q.	0.00
29	Bank of Japan	s.q.	-0.10	27	Federal Reserve	s.q.	0.50
<b>FEBRUARY</b>			<b>AUGUST</b>				
1	Reserve Bank of Australia	s.q.	2.00	2	Reserve Bank of Australia	-25 b.p.	1.50
4	Bank of England	s.q.	0.50	4	Bank of England	-25 b.p.	0.25
4	Bank of Mexico	s.q.	3.25	10	Bank of Korea	s.q.	1.25
11	Bank of Sweden	-15 b.p.	-0.50	10	Reserve Bank of New Zealand	-25 b.p.	2.00
15	Bank of Korea	s.q.	1.50	11	Bank of Mexico	s.q.	4.25
17	Bank of Mexico	+50 b.p.	3.75	31	Bank of Brazil	s.q.	14.25
29	Reserve Bank of Australia	s.q.	2.00	<b>SEPTEMBER</b>			
<b>MARCH</b>			<b>SEPTEMBER</b>				
2	Bank of Brazil	s.q.	14.25	6	Reserve Bank of Australia	s.q.	1.50
9	Bank of Korea	s.q.	1.50	7	Bank of Sweden	s.q.	-0.50
9	Reserve Bank of New Zealand	-25 b.p.	2.25	7	Bank of Canada	s.q.	0.50
9	Bank of Canada	s.q.	0.50	8	European Central Bank	s.q.	0.00
10	European Central Bank	-5 b.p.	0.00	8	Bank of Korea	s.q.	1.25
14	Bank of Japan	s.q.	-0.10	15	Bank of England	s.q.	0.25
16	Federal Reserve	s.q.	0.50	15	Swiss National Bank	s.q.	-0.75
17	Bank of England	s.q.	0.50	21	Reserve Bank of New Zealand	s.q.	2.00
17	Bank of Norway	-25 b.p.	0.50	21	Bank of Japan	s.q.	-0.10
17	Swiss National Bank	s.q.	-0.75	21	Federal Reserve	s.q.	0.50
18	Bank of Mexico	s.q.	3.75	22	Bank of Norway	s.q.	0.50
<b>APRIL</b>			<b>SEPTEMBER</b>				
5	Reserve Bank of Australia	s.q.	2.00	29	Bank of Mexico	+50 b.p.	4.75
13	Bank of Canada	s.q.	0.50	<b>OCTOBER</b>			
14	Bank of England	s.q.	0.50	3	Reserve Bank of Australia	s.q.	1.50
18	Bank of Korea	s.q.	1.50	12	Bank of Korea	s.q.	1.25
21	European Central Bank	s.q.	0.00	19	Bank of Brazil	-25 b.p.	14.00
21	Bank of Sweden	s.q.	-0.50	19	Bank of Canada	s.q.	0.50
27	Reserve Bank of New Zealand	s.q.	2.25	20	European Central Bank	s.q.	0.00
27	Bank of Brazil	s.q.	14.25	27	Bank of Norway	s.q.	0.50
27	Bank of Japan	s.q.	-0.10	27	Bank of Sweden	s.q.	-0.50
27	Federal Reserve	s.q.	0.50	31	Reserve Bank of Australia	s.q.	1.50
<b>MAY</b>			<b>NOVEMBER</b>				
3	Reserve Bank of Australia	-25 b.p.	1.75	2	Federal Reserve	s.q.	0.50
5	Bank of Mexico	s.q.	3.75	3	Bank of England		
12	Bank of England	s.q.	0.50	9	Reserve Bank of New Zealand		
12	Bank of Korea	s.q.	1.50	10	Bank of Korea		
12	Bank of Norway	s.q.	0.50	17	Bank of Mexico		
25	Bank of Canada	s.q.	0.50	30	Bank of Brazil		
<b>JUNE</b>			<b>DECEMBER</b>				
2	European Central Bank	s.q.	0.00	5	Reserve Bank of Australia		
7	Reserve Bank of Australia	s.q.	1.75	7	Bank of Canada		
8	Bank of Korea	-25 b.p.	1.25	8	European Central Bank		
8	Reserve Bank of New Zealand	s.q.	2.25	14	Bank of Korea		
8	Bank of Brazil	s.q.	14.25	14	Federal Reserve		
15	Bank of Japan	s.q.	-0.10	15	Bank of England		
15	Federal Reserve	s.q.	0.50	15	Bank of Norway		
16	Bank of England	s.q.	0.50	15	Bank of Mexico		
16	Swiss National Bank	s.q.	-0.75	15	Swiss National Bank		
23	Bank of Norway	s.q.	0.50	19	Bank of Japan		
30	Bank of Mexico	+50 b.p.	4.25	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.