

ESSENTIALS OF THE MONETARY POLICY

Federal Reserve (Fed)

The Fed Opens the Door to Future Rate Cuts

ACCORDING TO THE FED

- ▶ The Committee decided to maintain the target range for the federal funds rate at 2.25% to 2.50%.
- ▶ Information received since the Federal Open Market Committee met in May indicates that the labor market remains strong and that economic activity is rising at a moderate rate. Job gains have been solid, on average, in recent months, and the unemployment rate has remained low. Although growth of household spending appears to have picked up from earlier in the year, indicators of business fixed investment have been soft.
- ▶ On a 12-month basis, overall inflation and inflation for items other than food and energy are running below 2%. Market-based measures of inflation compensation have declined; survey-based measures of longer-term inflation expectations are little changed.
- ▶ Uncertainties about the outlook have increased. In light of these uncertainties and muted inflation pressures, the Committee will closely monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion.

COMMENTS

The pressures were strong for Fed leaders to clearly suggest that they are prepared to soften the U.S. monetary policy. Expectations were not so much of an immediate rate cut, but rather of greater openness to a movement at the end of July. Before today's meeting, the futures market pegged the likelihood of a 25-point decrease in July at 82.3%.

The Fed partly fulfilled these expectations. The statement released today opens the door to Fed action meant to "sustain the expansion" of the economy. However, this action would be dependent on developments in economic and financial news.

What comes to mind, of course, are not only the main growth and inflation indicators, but also political events, such as the talks between the presidents of China and the United States taking place at the G20 meeting at the end of the month. If these talks fail, continued escalation in protectionism could be one more argument for the Fed to cut rates.

However, the message coming out of the Fed leaders' updated forecasts is less clear. The Fed has kept its growth projection for real GDP for the end of 2019 unchanged and has raised it slightly for 2020. It is forecasting a slightly lower jobless rate in 2019 and 2020. Inflation forecasts were downgraded further for 2019 (from 1.8% to 1.5%) and for 2020 (from 2.0% to 1.9%). The median forecast for key rates at the end of 2019 does not signal a rate change between now and then. There are nonetheless eight leaders who see at least one cut (including seven who see two), with the President of the St. Louis Fed even voting for a cut today. The balance is therefore precarious, and it would likely not take much to tip it. The median signals a decrease of 25 basis points in 2020.

IMPLICATIONS

The Fed has decidedly opened the door to key rate cuts very soon if economic circumstances so demand. However, not all leaders are currently convinced of this possibility. While a rate cut is likely in the third quarter, perhaps even in July, everything will depend on how the economic and political situation changes by then.

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Schedule 2019 of Central Bank Meetings

Date	Central banks	Decision	Rate
January			
9	Bank of Canada*	s.q.	1.75
22	Bank of Japan	s.q.	-0.10
23	Bank of Korea	s.q.	1.75
24	European Central Bank	s.q.	0.00
24	Bank of Norway	s.q.	0.75
30	Federal Reserve	s.q.	2.50
February			
4	Reserve Bank of Australia	s.q.	1.50
6	Bank of Brazil	s.q.	6.50
7	Bank of England	s.q.	0.75
7	Bank of Mexico	s.q.	8.25
12	Reserve Bank of New Zealand	s.q.	1.75
13	Bank of Sweden	s.q.	-0.25
27	Bank of Korea	s.q.	1.75
March			
4	Reserve Bank of Australia	s.q.	1.50
6	Bank of Canada	s.q.	1.75
7	European Central Bank	s.q.	0.00
14	Bank of Japan	s.q.	-0.10
20	Bank of Brazil	s.q.	6.50
20	Federal Reserve	s.q.	2.50
21	Bank of England	s.q.	0.75
21	Bank of Norway	+25 b.p.	1.00
21	Swiss National Bank	s.q.	-0.75
26	Reserve Bank of New Zealand	s.q.	1.75
28	Bank of Mexico	s.q.	8.25
April			
1	Reserve Bank of Australia	s.q.	1.50
10	European Central Bank	s.q.	0.00
17	Bank of Korea	s.q.	1.75
24	Bank of Canada*	s.q.	1.75
24	Bank of Japan	s.q.	-0.10
25	Bank of Sweden	s.q.	-0.25
May			
1	Federal Reserve	s.q.	2.50
2	Bank of England	s.q.	0.75
7	Reserve Bank of Australia	s.q.	1.50
7	Reserve Bank of New Zealand	-25 b.p.	1.50
8	Bank of Brazil	s.q.	6.50
16	Bank of Mexico	s.q.	8.25
29	Bank of Canada	s.q.	1.75
30	Bank of Korea	s.q.	1.75
June			
4	Reserve Bank of Australia	-25 b.p.	1.25
6	European Central Bank	s.q.	0.00
13	Swiss National Bank	s.q.	-0.75
19	Federal Reserve	s.q.	2.50
19	Bank of Brazil		
19	Bank of Japan		
20	Bank of England		
20	Bank of Norway		
25	Reserve Bank of New Zealand		
27	Bank of Mexico		

Date	Central banks	Decision	Rate
July			
2	Reserve Bank of Australia		
3	Bank of Sweden		
10	Bank of Canada*		
17	Bank of Korea		
25	European Central Bank		
29	Bank of Japan		
31	Bank of Brazil		
31	Federal Reserve		
August			
1	Bank of England		
6	Reserve Bank of Australia		
6	Reserve Bank of New Zealand		
15	Bank of Mexico		
29	Bank of Korea		
September			
3	Reserve Bank of Australia		
4	Bank of Canada		
5	Bank of Sweden		
12	European Central Bank		
18	Bank of Brazil		
18	Bank of Japan		
18	Federal Reserve		
19	Bank of England		
19	Bank of Norway		
19	Swiss National Bank		
24	Reserve Bank of New Zealand		
26	Bank of Mexico		
October			
1	Reserve Bank of Australia		
16	Bank of Korea		
24	European Central Bank		
24	Bank of Sweden		
30	Bank of Brazil		
30	Bank of Canada*		
30	Bank of Japan		
30	Federal Reserve		
November			
5	Reserve Bank of Australia		
7	Bank of England		
12	Reserve Bank of New Zealand		
14	Bank of Mexico		
28	Bank of Korea		
December			
3	Reserve Bank of Australia		
4	Bank of Canada		
11	Bank of Brazil		
11	Federal Reserve		
12	European Central Bank		
12	Swiss National Bank		
18	Bank of Japan		
19	Bank of England		
19	Bank of Norway		
19	Bank of Sweden		
19	Bank of Mexico		

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. * Monetary Policy Report published.