

# ESSENTIALS OF THE MONETARY POLICY

## Federal Reserve (Fed) The Mid-Cycle Adjustment Continues

### ACCORDING TO THE FED

- ▶ The Committee decided to lower the target range for the federal funds rate to 1.75% to 2.00%.
- ▶ Information received since the Federal Open Market Committee met in July indicates that the labor market remains strong and that economic activity has been rising at a moderate rate. Job gains have been solid, on average, in recent months, and the unemployment rate has remained low. Although household spending has been rising at a strong pace, business fixed investment and exports have weakened.
- ▶ 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 remain low; survey-based measures of longer-term inflation expectations are little changed.
- ▶ Uncertainties about the outlook remain. The Committee will continue to monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion.

### COMMENTS

It came as no surprise that the Fed leaders decided to continue the mid-cycle adjustment begun at the end of July. The futures market and the consensus forecast fully anticipated such a move. Three members of the Fed's monetary policy committee were in dissent, however. One regional president would have preferred an immediate 50-point drop, while two others opted for no change in the rates.

The focus is now on the Fed's next steps. In the release accompanying today's decision, Jerome Powell and his colleagues held back on any changes in relation to July's statement. Stronger consumption was noted, along with weaker investments and

exports. Apart from those slight changes, the release is no different.

Not much is new in the Fed leaders' predictions for the economy. Forecast real GDP growth for the end of 2019 has risen slightly from 2.1% to 2.2%. It remains at 2.0% for 2020 and has edged up from 1.8% to 1.9% for 2021. It seems the Fed is not too worried about the economy slumping. The unemployment rate forecast for the end of 2019 has risen slightly from 3.6% to 3.7%. None of the other predictions about unemployment or about inflation have changed since June.

When it comes to monetary policy, the new forecasts are ambiguous, to say the least. The median forecast for key rates at the end of 2019 does not signal a rate change between now and then. The same holds true for 2020. However, seven leaders foresee another drop in 2019 (although none of them see two such drops). Conversely, five leaders feel that today's reduction is an overreaction. Jerome Powell's statement indicates that they are leaning toward reductions, but the forecasts show no urgency.

### IMPLICATIONS

The door has been left open to lower rates, but no movement is likely at the next meeting in October. Under these circumstances, and considering the risks that are still plaguing the global economy and the U.S. situation, we should see another 25-point drop in key rates in December.

**Francis Généreux**, Senior Economist

François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist  
Francis Généreux, Senior Economist • Hendrix Vachon, Senior Economist

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • [desjardins.economics@desjardins.com](mailto:desjardins.economics@desjardins.com) • [desjardins.com/economics](https://desjardins.com/economics)

NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2019, Desjardins Group. All rights reserved.

# Schedule 2019 of Central Bank Meetings

Date	Central banks	Decision	Rate	Date	Central banks	Decision	Rate
<b>January</b>				<b>July</b>			
9	Bank of Canada*	s.q.	1.75	2	Reserve Bank of Australia	-25 b.p.	1.00
22	Bank of Japan	s.q.	-0.10	3	Bank of Sweden	s.q.	-0.25
23	Bank of Korea	s.q.	1.75	10	Bank of Canada*	s.q.	1.75
24	European Central Bank	s.q.	0.00	17	Bank of Korea	-25 b.p.	1.50
24	Bank of Norway	s.q.	0.75	25	European Central Bank	s.q.	0.00
30	Federal Reserve	s.q.	2.50	29	Bank of Japan	s.q.	-0.10
<b>February</b>				31	Bank of Brazil	-50 b.p.	6.00
4	Reserve Bank of Australia	s.q.	1.50	31	Federal Reserve	-25 b.p.	2.25
6	Bank of Brazil	s.q.	6.50	<b>August</b>			
7	Bank of England	s.q.	0.75	1	Bank of England	s.q.	0.75
7	Bank of Mexico	s.q.	8.25	6	Reserve Bank of Australia	s.q.	1.00
12	Reserve Bank of New Zealand	s.q.	1.75	6	Reserve Bank of New Zealand	-50 b.p.	1.00
13	Bank of Sweden	s.q.	-0.25	15	Bank of Norway	s.q.	1.25
27	Bank of Korea	s.q.	1.75	15	Bank of Mexico	-25 b.p.	8.00
<b>March</b>				29	Bank of Korea	s.q.	1.50
4	Reserve Bank of Australia	s.q.	1.50	<b>September</b>			
6	Bank of Canada	s.q.	1.75	3	Reserve Bank of Australia	s.q.	1.00
7	European Central Bank	s.q.	0.00	4	Bank of Canada	s.q.	1.75
14	Bank of Japan	s.q.	-0.10	5	Bank of Sweden	s.q.	-0.25
20	Bank of Brazil	s.q.	6.50	12	European Central Bank	s.q.	0.00
20	Federal Reserve	s.q.	2.50	18	Federal Reserve	-25 b.p.	2.00
21	Bank of England	s.q.	0.75	18	Bank of Brazil		
21	Bank of Norway	+25 b.p.	1.00	18	Bank of Japan		
21	Swiss National Bank	s.q.	-0.75	19	Bank of England		
26	Reserve Bank of New Zealand	s.q.	1.75	19	Bank of Norway		
28	Bank of Mexico	s.q.	8.25	19	Swiss National Bank		
<b>April</b>				24	Reserve Bank of New Zealand		
1	Reserve Bank of Australia	s.q.	1.50	26	Bank of Mexico		
10	European Central Bank	s.q.	0.00	<b>October</b>			
17	Bank of Korea	s.q.	1.75	1	Reserve Bank of Australia		
24	Bank of Canada*	s.q.	1.75	15	Bank of Korea		
24	Bank of Japan	s.q.	-0.10	24	European Central Bank		
25	Bank of Sweden	s.q.	-0.25	24	Bank of Norway		
<b>May</b>				24	Bank of Sweden		
1	Federal Reserve	s.q.	2.50	30	Bank of Brazil		
2	Bank of England	s.q.	0.75	30	Bank of Canada*		
7	Reserve Bank of Australia	s.q.	1.50	30	Bank of Japan		
7	Reserve Bank of New Zealand	-25 b.p.	1.50	30	Federal Reserve		
8	Bank of Brazil	s.q.	6.50	<b>November</b>			
16	Bank of Mexico	s.q.	8.25	5	Reserve Bank of Australia		
29	Bank of Canada	s.q.	1.75	7	Bank of England		
30	Bank of Korea	s.q.	1.75	12	Reserve Bank of New Zealand		
<b>June</b>				14	Bank of Mexico		
4	Reserve Bank of Australia	-25 b.p.	1.25	28	Bank of Korea		
6	European Central Bank	s.q.	0.00	<b>December</b>			
13	Swiss National Bank	s.q.	-0.75	3	Reserve Bank of Australia		
19	Bank of Brazil	s.q.	6.50	4	Bank of Canada		
19	Bank of Japan	s.q.	-0.10	11	Bank of Brazil		
19	Federal Reserve	s.q.	2.50	11	Federal Reserve		
20	Bank of England	s.q.	0.75	12	European Central Bank		
20	Bank of Norway	+25 b.p.	1.25	12	Swiss National Bank		
25	Reserve Bank of New Zealand	s.q.	1.50	18	Bank of Japan		
27	Bank of Mexico	s.q.	8.25	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.