

ESSENTIALS OF THE MONETARY POLICY

Federal Reserve (Fed) One Last Rate Cut?

ACCORDING TO THE FED

- ▶ The Committee decided to lower the target range for the federal funds rate to 1.50% to 1.75%.
- ▶ Information received since the Federal Open Market Committee met in September 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 remain weak.
- ▶ 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.
- ▶ The Committee will continue to monitor the implications of incoming information for the economic outlook as it assesses the appropriate path of the target range for the federal funds rate.

COMMENTS

As widely anticipated, the Fed's leaders decided today to reduce the key rate by 25 points for a third time. This change follows on the heels of similar steps in July and September. The markets very much saw this coming. The futures market pegged this probability at 94%, while 85 of the 104 forecasters involved in the Bloomberg consensus expected this rate drop.

Therefore, it was not the fact that the rate would change but rather the Fed's tone that was significant today. At first glance, the statement released by Jerome Powell and his colleagues is rather short on changes compared to the one released in September. The only wording that did change significantly was nevertheless the most telling. Since June, the Fed has been

saying that it was ready to "act as appropriate to sustain the expansion" of the economy. This short phrase had become the signal for future rate reductions. It has now been dropped from the statement. Given this fact, it is possible to think that the Fed has just shifted from an accommodative bias to a neutral bias. Consequently, the mid-cycle adjustment that began in July appears to be over. As was the case in 1995 and 1998, the "insurance policy" for growth will have endured for three meetings only. In the past, rate hikes would arrive in fairly soon after, but Jerome Powell indicated that this is not the Fed's current intention.

That being said, everything depends on the future economic situation. This morning we saw from the third-quarter GDP results that growth remains relatively modest, with notable challenges from an investment standpoint, but with a degree of resilience on the part of households. We also noted that the housing market has regained some strength thanks to lower mortgage rates, supported in turn by the Fed's monetary easing. All that remains now is to see whether this balance will continue in the face of continued high risk and uncertainty.

IMPLICATIONS

The Fed is signalling that the current rate level will be appropriate for a period of time. In this way, it is closing the door on another rate reduction in December, but not locking it. If economic conditions were to deteriorate, Jerome Powell and his colleagues would certainly react. Except for this risk scenario, the status quo could continue for a number of quarters.

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 • 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
January				July			
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
February				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	August			
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
March				29	Bank of Korea	s.q.	1.50
4	Reserve Bank of Australia	s.q.	1.50	September			
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	Bank of Brazil	-50 b.p.	5.50
21	Bank of England	s.q.	0.75	18	Bank of Japan	s.q.	-0.10
21	Bank of Norway	+25 b.p.	1.00	18	Federal Reserve	-25 b.p.	2.00
21	Swiss National Bank	s.q.	-0.75	19	Bank of England	s.q.	0.75
26	Reserve Bank of New Zealand	s.q.	1.75	19	Bank of Norway	+25 b.p.	1.50
28	Bank of Mexico	s.q.	8.25	19	Swiss National Bank	s.q.	-0.75
April				24	Reserve Bank of New Zealand	s.q.	1.00
1	Reserve Bank of Australia	s.q.	1.50	26	Bank of Mexico	-25 b.p.	7.75
10	European Central Bank	s.q.	0.00	October			
17	Bank of Korea	s.q.	1.75	1	Reserve Bank of Australia	-25 b.p.	0.75
24	Bank of Canada*	s.q.	1.75	15	Bank of Korea	-25 b.p.	1.25
24	Bank of Japan	s.q.	-0.10	24	European Central Bank	s.q.	0.00
25	Bank of Sweden	s.q.	-0.25	24	Bank of Norway	s.q.	1.50
May				24	Bank of Sweden	s.q.	-0.25
1	Federal Reserve	s.q.	2.50	30	Bank of Canada*	s.q.	1.75
2	Bank of England	s.q.	0.75	30	Federal Reserve	-25 b.p.	1.75
7	Reserve Bank of Australia	s.q.	1.50	30	Bank of Brazil		
7	Reserve Bank of New Zealand	-25 b.p.	1.50	30	Bank of Japan		
8	Bank of Brazil	s.q.	6.50	November			
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		
June				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	December			
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.