

ESSENTIALS OF THE MONETARY POLICY

Federal Reserve (Fed)

The Start of a Status Quo Period

ACCORDING TO THE FED

- ▶ The Committee decided to maintain the target range for the federal funds rate at 1.50% to 1.75%.
- ▶ Information received since the Federal Open Market Committee met in October indicates that the labour 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, including global developments and muted inflation pressures, as it assesses the appropriate path of the target range for the federal funds rate.

COMMENTS

Today, after three straight 25-point key rate cuts, the Fed opted for the status quo. This is not surprising: the latest statements from Jerome Powell and Fed leaders indicated fairly clearly that they now want to keep an eye on how the situation evolves, and that the recent cuts are probably enough to deal with the challenges created by the upswing in trade tensions and weaker global growth. Moreover, the futures market had 99.8% priced in a status quo, and all 97 forecasters in the Bloomberg consensus had predicted that the Fed would not alter its rates today.

The statement released with this decision is almost identical to October's. The only noteworthy difference is the removal of the remark that "uncertainties about this outlook remain." The Fed is thus firmly in observation mode, sending no signals about an upcoming move.

The new monetary policy forecasts from Fed leaders suggest that the status quo could prevail throughout 2020. Of the 17 forecasts included, only 4 expect a rate increase next year and none expect a decrease. One rate increase is projected for 2021, with one more in 2022. No participants expect any decreases during these two years.

The economic forecasts have not changed at all with respect to real GDP growth and inflation until 2022. The growth forecast for the end of 2020 remains at 2.0%, which is still higher than our forecast (1.5%). The jobless rate forecast for the next few years has been trimmed slightly.

This means that, for the Fed to start lowering its key rates again, the economy would have to diverge from the Fed's current projections... or the markets would have to show new concerns. In the other direction, Jerome Powell signalled that inflation would have to become persistent for rate increases to begin. If we compare our own projections with the Fed's, we could be inclined to think that the risks are still tilted to the downside.

IMPLICATIONS

Fed leaders seem particularly comfortable with where key rates are right now, and their forecasts are showing some stability. Under these circumstances, key rates should be stable throughout 2020.

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.economicstudies@desjardins.com • desjardins.com/economicstudies

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

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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 Brazil	-50 b.p.	5.00
2	Bank of England	s.q.	0.75	30	Bank of Canada*	s.q.	1.75
7	Reserve Bank of Australia	s.q.	1.50	30	Bank of Japan	s.q.	-0.10
7	Reserve Bank of New Zealand	-25 b.p.	1.50	30	Federal Reserve	-25 b.p.	1.75
8	Bank of Brazil	s.q.	6.50	November			
16	Bank of Mexico	s.q.	8.25	4	Reserve Bank of Australia	s.q.	0.75
29	Bank of Canada	s.q.	1.75	7	Bank of England	s.q.	0.75
30	Bank of Korea	s.q.	1.75	12	Reserve Bank of New Zealand	s.q.	1.00
June				14	Bank of Mexico	-25 b.p.	7.50
4	Reserve Bank of Australia	-25 b.p.	1.25	28	Bank of Korea	s.q.	1.25
6	European Central Bank	s.q.	0.00	December			
13	Swiss National Bank	s.q.	-0.75	3	Reserve Bank of Australia	s.q.	0.75
19	Bank of Brazil	s.q.	6.50	4	Bank of Canada	s.q.	1.75
19	Bank of Japan	s.q.	-0.10	11	Federal Reserve	s.q.	1.75
19	Federal Reserve	s.q.	2.50	11	Bank of Brazil	s.q.	0.75
20	Bank of England	s.q.	0.75	12	European Central Bank	s.q.	0.00
20	Bank of Norway	+25 b.p.	1.25	12	Swiss National Bank	s.q.	0.00
25	Reserve Bank of New Zealand	s.q.	1.50	18	Bank of Japan	s.q.	0.00
27	Bank of Mexico	s.q.	8.25	19	Bank of England	s.q.	0.75
				19	Bank of Norway	s.q.	0.75
				19	Bank of Sweden	s.q.	0.75
				19	Bank of Mexico	s.q.	0.75

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.