

ESSENTIALS OF THE MONETARY POLICY

Federal Reserve (Fed)

The Fed Upgrades Its Economic Forecasts but Signals No Monetary Policy Change

ACCORDING TO THE FED

- ▶ The Committee decided to keep the target range for the federal funds rate at 0.00% to 0.25%.
- ▶ The Committee expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time.
- ▶ The Fed will continue to increase its holdings of Treasury securities by at least US\$80B per month and of agency mortgage backed securities by at least US\$40B per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals.
- ▶ The Fed is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.
- ▶ The COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world. Following a moderation in the pace of the recovery, indicators of economic activity and employment have turned up recently, although the sectors most adversely affected by the pandemic remain weak. Inflation continues to run below 2%. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.
- ▶ The path of the economy will depend significantly on the course of the virus, including progress on vaccinations. The ongoing public health crisis continues to weigh on economic activity, employment, and inflation, and poses considerable risks to the economic outlook.

COMMENTS

With the adoption and rollout of the new federal relief plan, the Fed clearly had to show a more positive picture of the economic situation. This shows slightly in its statement, but particularly in the changes to its projections. Fed leaders sharply increased their projections for the annual variation in real GDP in the fourth quarter of 2021, taking it from 4.2% last December to 6.5%. The outlooks for real GDP growth have been increased slightly for 2022, and trimmed slightly for 2023. At the same time, the Fed downgraded its projections for the jobless rate, putting it at 4.5% in the final quarter of this year, and taking it to 3.5% at the end of 2023. Inflation was also covered by the changes: the annual variation in the expenditure deflator forecast for the end of 2021 goes from 1.8% to 2.2%. The variation would be 2.0% in 2022 and 2.1% in 2023.

Despite the improvement to the projections, triggered by solid progress on the vaccination campaign and substantial assistance from the federal government, the Fed did not signal any changes to the conduct of its monetary policy. A few leaders anticipate key rate increases in 2022 and 2023, but they are a minority; the median rate forecast is unchanged at its current level.

IMPLICATIONS

It seems that despite the improved economic outlooks, the Fed has decided to keep erring on the side of caution. It is not signalling any changes to its policy, even though, according to its own projections, inflation will be over 2% in the coming years. In fact, it wants to be sure that the improvement in the economic indicators is quite real and observable in published data before it announces policy changes. Our own forecasts, however, call for quantitative purchases to decline as of next fall, and expect the first key rate increases at the end of 2022.

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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 2021 of Central Bank Meetings

Date	Central banks	Decision	Rate
January			
14	Bank of Korea	s.q.	0.50
20	Bank of Brazil	s.q.	2.00
20	Bank of Canada*	s.q.	0.25
20	Bank of Japan	s.q.	-0.10
21	European Central Bank	s.q.	0.00
21	Bank of Norway	s.q.	0.00
27	Federal Reserve	s.q.	0.25
February			
1	Reserve Bank of Australia	s.q.	0.10
4	Bank of England	s.q.	0.10
10	Bank of Sweden	s.q.	0.00
11	Bank of Mexico	-25 b.p.	4.00
23	Reserve Bank of New Zealand	s.q.	0.25
24	Bank of Korea	s.q.	0.50
March			
1	Reserve Bank of Australia	s.q.	0.10
10	Bank of Canada	s.q.	0.25
11	European Central Bank	s.q.	0.00
17	Federal Reserve	s.q.	0.25
17	Bank of Brazil		
18	Bank of England		
18	Bank of Norway		
19	Bank of Japan		
25	Bank of Mexico		
25	Swiss National Bank		
April			
6	Reserve Bank of Australia		
13	Reserve Bank of New Zealand		
14	Bank of Korea		
21	Bank of Canada*		
22	European Central Bank		
27	Bank of Sweden		
27	Bank of Japan		
28	Federal Reserve		
May			
4	Reserve Bank of Australia		
5	Bank of Brazil		
6	Bank of England		
6	Bank of Norway		
13	Bank of Mexico		
25	Reserve Bank of New Zealand		
26	Bank of Korea		
June			
1	Reserve Bank of Australia		
9	Bank of Canada		
10	European Central Bank		
16	Bank of Brazil		
16	Federal Reserve		
17	Bank of Norway		
17	Swiss National Bank		
18	Bank of Japan		
24	Bank of England		
24	Bank of Mexico		

Date	Central banks	Decision	Rate
July			
1	Bank of Sweden		
6	Reserve Bank of Australia		
13	Reserve Bank of New Zealand		
14	Bank of Korea		
14	Bank of Canada*		
16	Bank of Japan		
22	European Central Bank		
28	Federal Reserve		
August			
3	Reserve Bank of Australia		
4	Bank of Brazil		
5	Bank of England		
12	Bank of Mexico		
17	Reserve Bank of New Zealand		
19	Bank of Norway		
25	Bank of Korea		
September			
7	Reserve Bank of Australia		
8	Bank of Canada		
9	European Central Bank		
22	Bank of Brazil		
22	Bank of Japan		
22	Federal Reserve		
23	Bank of England		
23	Bank of Norway		
23	Swiss National Bank		
30	Bank of Mexico		
**	Bank of Sweden		
October			
4	Reserve Bank of Australia		
5	Reserve Bank of New Zealand		
11	Bank of Korea		
27	Bank of Brazil		
27	Bank of Canada*		
28	European Central Bank		
28	Bank of Japan		
November			
1	Reserve Bank of Australia		
3	Federal Reserve		
4	Bank of England		
4	Bank of Norway		
11	Bank of Mexico		
23	Reserve Bank of New Zealand		
24	Bank of Korea		
**	Bank of Sweden		
December			
6	Reserve Bank of Australia		
8	Bank of Brazil		
8	Bank of Canada		
15	Federal Reserve		
16	European Central Bank		
16	Bank of England		
16	Bank of Norway		
16	Bank of Mexico		
16	Swiss National Bank		
17	Bank of Japan		

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; ** To be determined.