

ESSENTIALS OF THE MONETARY POLICY

Federal Reserve (Fed)

We Have Liftoff—and More Rate Hikes to Come

By Francis Génèreux, Senior Economist

ACCORDING TO THE FED

- ▶ The Committee decided to raise the target range for the federal funds rate by 0.25%. It is now in a range of 0.25% to 0.50%.
- ▶ The Committee anticipates that ongoing increases in the target range will be appropriate.
- ▶ The Committee expects to begin reducing its holdings of securities at a coming meeting.
- ▶ Indicators of economic activity and employment have continued to strengthen. Job gains have been strong in recent months, and the unemployment rate has declined substantially. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher energy prices, and broader price pressures.
- ▶ The invasion of Ukraine by Russia is causing tremendous human and economic hardship. The implications for the U.S. economy are highly uncertain, but in the near term the invasion and related events are likely to create additional upward pressure on inflation and weigh on economic activity.

downgraded its forecast for real GDP growth from 4.0% to 2.8%.

The Fed said it expects to raise interest rates another 100 basis points next year as well.

But the war in Ukraine has cast a shadow of uncertainty on these forecasts like everything else. The invasion will likely add to inflationary pressures and pose downside risks to economic growth. Our 2022 forecasts call for lower inflation and less real GDP growth than the Fed's outlook, however.

IMPLICATIONS

The Fed is committed to fighting inflation a bit more aggressively than we expected. The Committee appears poised to carry out a series of rate hikes over the coming months and start trimming its balance sheet.

COMMENTS

As expected, the Fed today raised its key rate for the first time since 2018. Based on recent Fed comments, inflation readings and other economic indicators, it was time.

But the Committee also penciled in several short-term rate hikes, which came as a surprise. The Fed's new dot plot shows rates hitting 2.00% (higher bound of the target range) by the end of the year. That means the Fed plans to raise rates 25 points at each of its next six meetings—more than the three rate hikes telegraphed in December. It also upgraded its inflation forecast sharply. It raised its end of 2022 outlook for the Personal Consumption Expenditures Deflator from 2.6% to 4.3% and

Schedule 2022 of Central Bank Meetings

Date	Central banks	Decision	Rate
January			
13	Bank of Korea	+25 b.p.	1.25
17	Bank of Japan	s.q.	-0.10
20	Bank of Norway	s.q.	0.50
26	Bank of Canada*	s.q.	0.25
26	Federal Reserve	s.q.	0.25
31	Reserve Bank of Australia	s.q.	0.10
February			
2	Bank of Brazil	+150 b.p.	10.75
3	European Central Bank	s.q.	0.00
3	Bank of England	+25 b.p.	0.50
10	Bank of Sweden	s.q.	0.00
10	Bank of Mexico	+50 b.p.	6.00
22	Reserve Bank of New Zealand	+25 b.p.	1.00
23	Bank of Korea	s.q.	1.25
28	Reserve Bank of Australia	s.q.	0.10
March			
2	Bank of Canada	+25 b.p.	0.50
10	European Central Bank	s.q.	0.00
16	Federal Reserve	+25 b.p.	0.50
16	Bank of Brazil		
17	Bank of England		
17	Bank of Japan		
24	Bank of Norway		
24	Bank of Mexico		
24	Swiss National Bank		
April			
5	Reserve Bank of Australia		
12	Reserve Bank of New Zealand		
13	Bank of Korea		
13	Bank of Canada*		
14	European Central Bank		
27	Bank of Japan		
28	Bank of Sweden		
May			
3	Reserve Bank of Australia		
4	Bank of Brazil		
4	Federal Reserve		
5	Bank of England		
5	Bank of Norway		
12	Bank of Mexico		
24	Reserve Bank of New Zealand		
25	Bank of Korea		
June			
1	Bank of Canada		
7	Reserve Bank of Australia		
9	European Central Bank		
15	Bank of Brazil		
15	Federal Reserve		
16	Bank of England		
16	Bank of Japan		
16	Swiss National Bank		
23	Bank of Norway		
23	Bank of Mexico		
30	Bank of Sweden		

Date	Central banks	Decision	Rate
July			
5	Reserve Bank of Australia		
12	Reserve Bank of New Zealand		
13	Bank of Korea		
13	Bank of Canada*		
20	Bank of Japan		
21	European Central Bank		
27	Federal Reserve		
August			
2	Reserve Bank of Australia		
3	Bank of Brazil		
4	Bank of England		
11	Bank of Mexico		
16	Reserve Bank of New Zealand		
18	Bank of Norway		
24	Bank of Korea		
September			
6	Reserve Bank of Australia		
7	Bank of Canada		
8	European Central Bank		
15	Bank of England		
20	Bank of Sweden		
21	Bank of Brazil		
21	Bank of Japan		
21	Federal Reserve		
22	Bank of Norway		
22	Swiss National Bank		
29	Bank of Mexico		
October			
3	Reserve Bank of Australia		
4	Reserve Bank of New Zealand		
13	Bank of Korea		
26	Bank of Brazil		
26	Bank of Canada*		
27	European Central Bank		
27	Bank of Japan		
31	Reserve Bank of Australia		
November			
2	Federal Reserve		
3	Bank of England		
3	Bank of Norway		
10	Bank of Mexico		
22	Reserve Bank of New Zealand		
23	Bank of Korea		
24	Bank of Sweden		
December			
5	Reserve Bank of Australia		
7	Bank of Brazil		
7	Bank of Canada		
14	Federal Reserve		
15	European Central Bank		
15	Bank of England		
15	Bank of Norway		
15	Bank of Mexico		
15	Swiss National Bank		
19	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.