



FEDERAL RESERVE

No tapering of asset purchases

ACCORDING TO THE FEDERAL RESERVE (Fed)

- The Committee decided to keep the target range for the federal funds rate at 0 to ¼ percent.
- The Fed will continue to buy US\$40B of mortgage securities and US\$45B of Treasuries. The Committee decided to await more evidence that progress will be sustained before adjusting the pace of its purchases.
- The exceptionally low rates are likely to be warranted as long as 1) the jobless rate remains above 6.5%, 2) the 1- to 2-year inflation outlook does not exceed 2.5%, and 3) long-term inflation expectations remain well anchored.
- Information received since the Federal Open Market Committee met in July suggests that economic activity has been expanding at a moderate pace. Some indicators of labor market conditions have shown further improvement in recent months, but the unemployment rate remains elevated. Household spending and business fixed investment advanced, and the housing sector has been strengthening, but mortgage rates have risen further and fiscal policy is restraining economic growth.
- Apart from fluctuations due to changes in energy prices, inflation has been running below the Committee's longer-run objective, but longer-term inflation expectations have remained stable.
- In judging when to moderate the pace of asset purchases, the Committee will, at its coming meetings, assess whether incoming information continues to support the Committee's expectation. Asset purchases are not on a preset course. A highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens.

COMMENTS

After months of speculation in the financial markets, the Fed has finally decided not to proceed at this time with a first tapering of asset purchases. Based on today's press release, we will have to wait a while longer before seeing the Fed start to wind down its purchases. Apparently, the latest economic indicators did not give Ben Bernanke and his colleagues a clear enough picture for them to feel confident that the U.S. economy was ready to start doing without the support of the current monetary policy.

This may be seen in the new forecasts issued by the members of the monetary policy committee. They have revised their forecast of real GDP growth for 2013 downwards. The Fed now expects that real GDP will show annual growth of between 2.0% and 2.3% in the fourth quarter, i.e. less than the range of 2.3% to 2.6% that was stated in June. The forecast of real GDP growth in 2014 has also been revised downwards. Meanwhile, the forecast for inflation in 2013 is slightly higher, and that for the unemployment rate has barely budged.

As far as interest rates are concerned, the horizon for an initial rate hike has not changed, and the median of Fed officials' forecasts is pointing to three rate hikes of 0.25 point in 2015, and four hikes in 2016.

So the main changes to monetary policy remain on the drawing board. Clearly, the majority of the Fed officials consider that economic conditions are still too uncertain for them to make a decision about tapering asset purchases at this point. Based on the press release and on B. Bernanke's speech, we get the feeling that this decision will not be an easy one to make. The Fed seems to be waiting for some clarity in economic conditions, but they are still clouded by rising market interest rates and budget policy (including the uncertainty stemming from the debate over the financing of federal operations and the debt ceiling). The horizon that B. Bernanke had suggested in June for purchases to begin tapering off in the fall and come to a complete halt by mid-2014 is therefore postponed, and no other scenario has been put forward. Still, it is not impossible that the Fed may start tapering between now and the end of the year.

Implications: Tapering of asset purchases is delayed, but could still begin, on a small scale, at the end of the year. However, any disappointment in economic growth or employment will likely trigger further postponements. As far as key interest rates are concerned, we do not expect any hike before mid-2015.

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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 2013 of Central Bank meetings

	<u>Decision</u>	<u>Rate</u>		<u>Decision</u>	<u>Rate</u>		
JANUARY			JULY				
10	European Central Bank	s.q.	0.75	2	Reserve Bank of Australia	s.q.	2.75
10	Bank of England	s.q.	0.50	3	Bank of Sweden	s.q.	1.00
16	Bank of Brazil	s.q.	7.25	4	European Central Bank	s.q.	0.50
18	Bank of Mexico	s.q.	4.50	4	Bank of England	s.q.	0.50
21	Bank of Japan	s.q.	0.10	10	Bank of Brazil	+50 b.p.	8.50
23	Bank of Canada	s.q.	1.00	11	Bank of Japan	s.q.	0.10
30	Reserve Bank of New Zealand	s.q.	2.50	12	Bank of Mexico	s.q.	4.00
30	Federal Reserve	s.q.	0.25	17	Bank of Canada	s.q.	1.00
FEBRUARY			AUGUST				
4	Reserve Bank of Australia	s.q.	3.00	1	European Central Bank	s.q.	0.50
7	European Central Bank	s.q.	0.75	1	Bank of England	s.q.	0.50
7	Bank of England	s.q.	0.50	6	Reserve Bank of Australia	-25 b.p.	2.50
13	Bank of Sweden	s.q.	1.00	8	Bank of Japan	s.q.	0.10
13	Bank of Japan	s.q.	0.10	28	Bank of Brazil	+50 b.p.	9.00
MARCH			SEPTEMBER				
4	Reserve Bank of Australia	s.q.	3.00	3	Reserve Bank of Australia	s.q.	2.50
6	Bank of Brazil	s.q.	7.25	4	Bank of Canada	s.q.	1.00
6	Bank of Canada	s.q.	1.00	5	European Central Bank	s.q.	0.50
6	Bank of Japan	s.q.	0.10	5	Bank of England	s.q.	0.50
7	European Central Bank	s.q.	0.75	5	Bank of Sweden	s.q.	1.00
7	Bank of England	s.q.	0.50	5	Bank of Japan	s.q.	0.10
8	Bank of Mexico	-50 b.p.	4.00	6	Bank of Mexico	-25 b.p.	3.75
13	Reserve Bank of New Zealand	s.q.	2.50	11	Reserve Bank of New Zealand	s.q.	2.50
14	Bank of Norway	s.q.	1.50	18	Federal Reserve	s.q.	0.25
14	Swiss National Bank	s.q.	0.00	19	Bank of Norway		
20	Federal Reserve	s.q.	0.25	19	Swiss National Bank		
APRIL			OCTOBER				
1	Reserve Bank of Australia	s.q.	3.00	1	Reserve Bank of Australia		
4	European Central Bank	s.q.	0.75	2	European Central Bank		
4	Bank of England	s.q.	0.50	4	Bank of Japan		
4	Bank of Japan	s.q.	0.10	9	Bank of Brazil		
17	Bank of Sweden	s.q.	1.00	10	Bank of England		
17	Bank of Brazil	+25 b.p.	7.50	23	Bank of Canada		
17	Bank of Canada	s.q.	1.00	24	Bank of Norway		
23	Reserve Bank of New Zealand	s.q.	2.50	24	Bank of Sweden		
26	Bank of Japan	s.q.	0.10	25	Bank of Mexico		
26	Bank of Mexico	s.q.	4.00	30	Reserve Bank of New Zealand		
MAY			NOVEMBER				
1	Federal Reserve	s.q.	0.25	30	Federal Reserve		
2	European Central Bank	-25 b.p.	0.50	31	Bank of Japan		
7	Reserve Bank of Australia	-25 b.p.	2.75	DECEMBER			
8	Bank of Norway	s.q.	1.50	2	Reserve Bank of Australia		
9	Bank of England	s.q.	0.50	4	Bank of Canada		
22	Bank of Japan	s.q.	0.10	5	European Central Bank		
29	Bank of Brazil	+50 b.p.	8.00	5	Bank of England		
29	Bank of Canada	s.q.	1.00	5	Bank of Norway		
JUNE			NOVEMBER				
4	Reserve Bank of Australia	s.q.	2.75	21	Bank of Japan		
6	European Central Bank	s.q.	0.50	27	Bank of Brazil		
6	Bank of England	s.q.	0.50	DECEMBER			
7	Bank of Mexico	s.q.	4.00	2	Reserve Bank of Australia		
11	Bank of Japan	s.q.	0.10	4	Bank of Canada		
12	Reserve Bank of New Zealand	s.q.	2.50	5	European Central Bank		
19	Federal Reserve	s.q.	0.25	5	Bank of England		
20	Bank of Norway	s.q.	1.50	5	Bank of Norway		
20	Swiss National Bank	s.q.	0.00	6	Bank of Mexico		
				11	Reserve Bank of New Zealand		
				12	Swiss National Bank		
				17	Bank of Sweden		
				18	Federal Reserve		
				20	Bank of Japan		