

March 18, 2015



## FEDERAL RESERVE

### Neither patient, nor impatient

#### ACCORDING TO THE FEDERAL RESERVE (Fed)

- The Committee decided to keep the target range for the federal funds rate at 0.00% to 0.25%.
- The Committee judges that an increase in the target range for the federal funds rate remains unlikely at the April FOMC meeting. The Committee anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen further improvement in the labor market and is reasonably confident that inflation will move back to its 2% objective over the medium term.
- Information received since the FOMC met in January suggests that economic growth has moderated somewhat. Labor market conditions have improved further, with strong job gains and a lower unemployment rate. A range of labor market indicators suggests that underutilization of labor resources continues to diminish. Household spending is rising moderately; declines in energy prices have boosted household purchasing power. Business fixed investment is advancing, while the recovery in the housing sector remains slow and export growth has weakened.
- Inflation has declined further below the Committee's longer-run objective, largely reflecting declines in energy prices. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations have remained stable.

#### COMMENTS

Given the various comments made by key Fed leaders, including its President, Janet Yellen, it was clear that the monetary policy committee would decide to eliminate the word “patient” from its forward guidance. Therefore, the focus of the debate was what new signal the Fed might give. The Fed is putting aside any rate hike at its next meeting in April, but everything is on the table after that. So, even though the latest economic indicators released in the United States are disappointing, the Fed appears, at first glance, to be relatively ready to start normalizing its monetary policy.

However, some information found not in the press release, but in the forecasts of committee members, sends quite a

different message: if the Fed raises key interest rates this year, the extent of that raise will be more modest than what was recently anticipated. For one thing, economic forecasts have been broadly revised downwards. The economic growth expected for 2015 has been severed by 0.3 percentage point, to a range of between 2.3% and 2.7%. That is below our own expectations. In the same breath, the forecasts for 2016 and 2017 have also been lowered, along with inflation expectations. In parallel with these movements, we particularly note that Fed leaders have revised forecasts of key interest rate trends, downwards. The median for the federal fund target range at the end of 2015 has been lowered by 50 basis points, implying two fewer hikes. In fact, the median is now showing just two 25-point raises in 2015. As was the case in December, five 25-point increases are predicted for 2016.

Thus, even with a press release that makes very few observations of recent slackness in the economy (or of weather effects either) and that does not mention the strength of the U.S. dollar (apart from stressing the weakness of exports), the Fed is pushing key interest rate hikes a little further into the future. With just two rate hikes planned this year, it would be astonishing for them to start in June.

**Implications:** By eliminating the word “patience”, the Fed is giving itself more leeway for deciding when to start raising key interest rates. However, its own forecasts suggest that it will not use that new flexibility to rush into action. Renewed concerns about the current strength of the economy, and the fact that inflation will probably remain in negative territory until the summer, will likely prevent it from raising rates before its September meeting.

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## Schedule 2015 of Central Bank meetings

	<u>Decision</u>	<u>Rate</u>		<u>Decision</u>	<u>Rate</u>	
<b>JANUARY</b>			<b>JULY</b>			
8	Bank of England	s.q.	0.50	2	Bank of Sweden	
14	Bank of Korea	s.q.	2.00	7	Reserve Bank of Australia	
15	Swiss National Bank	-50 b.p.	-0.75	9	Bank of England	
20-21	Bank of Japan	---	---	9	Bank of Korea	
21	Bank of Brazil	+50 b.p.	12.25	14-15	Bank of Japan	
21	Bank of Canada	-25 b.p.	0.75	15	Bank of Canada	
22	European Central Bank	s.q.	0.05	16	European Central Bank	
28	Reserve Bank of New Zealand	s.q.	3.50	22	Reserve Bank of New Zealand	
28	Federal Reserve	s.q.	0.25	23	Bank of Mexico	
29	Bank of Mexico	s.q.	3.00	29	Bank of Brazil	
<b>FEBRUARY</b>			<b>AUGUST</b>			
2	Reserve Bank of Australia	-25 b.p.	2.25	4	Reserve Bank of Australia	
5	Bank of England	s.q.	0.50	6	Bank of England	
12	Bank of Sweden	-10 b.p.	-0.10	6-7	Bank of Japan	
16	Bank of Korea	s.q.	2.00	12	Bank of Korea	
17-18	Bank of Japan	---	---	<b>SEPTEMBER</b>		
<b>MARCH</b>			<b>SEPTEMBER</b>			
2	Reserve Bank of Australia	s.q.	2.25	1	Reserve Bank of Australia	
4	Bank of Brazil	+50 b.p.	12.75	2	Bank of Brazil	
4	Bank of Canada	s.q.	0.75	3	European Central Bank	
5	European Central Bank	s.q.	0.05	3	Bank of Sweden	
5	Bank of England	s.q.	0.50	3	Bank of Mexico	
11	Bank of Korea	-25 b.p.	1.75	9	Reserve Bank of New Zealand	
11	Reserve Bank of New Zealand	s.q.	3.50	9	Bank of Canada	
16-17	Bank of Japan	---	---	10	Bank of England	
18	Federal Reserve	s.q.	0.25	10	Bank of Korea	
19	Bank of Norway			14-15	Bank of Japan	
19	Swiss National Bank			17	Swiss National Bank	
26	Bank of Mexico			17	Federal Reserve	
<b>APRIL</b>			<b>OCTOBER</b>			
7	Reserve Bank of Australia			5	Reserve Bank of Australia	
7-8	Bank of Japan			6-7	Bank of Japan	
9	Bank of England			8	Bank of England	
9	Bank of Korea			14	Bank of Korea	
15	European Central Bank			15	Bank of Mexico	
15	Bank of Canada			21	Bank of Brazil	
29	Reserve Bank of New Zealand			21	Bank of Canada	
29	Bank of Sweden			22	European Central Bank	
29	Bank of Brazil			28	Reserve Bank of New Zealand	
29	Federal Reserve			28	Bank of Sweden	
30	Bank of Japan			28	Federal Reserve	
30	Bank of Mexico			30	Bank of Japan	
<b>MAY</b>			<b>NOVEMBER</b>			
5	Reserve Bank of Australia			2	Reserve Bank of Australia	
7	Bank of Norway			5	Bank of England	
11	Bank of England			5	Bank of Norway	
15	Bank of Korea			11	Bank of Korea	
21-22	Bank of Japan			18-19	Bank of Japan	
27	Bank of Canada			25	Bank of Brazil	
<b>JUNE</b>			<b>NOVEMBER</b>			
2	Reserve Bank of Australia			30	Reserve Bank of Australia	
3	European Central Bank			<b>DECEMBER</b>		
3	Bank of Brazil			2	Bank of Canada	
4	Bank of England			3	European Central Bank	
4	Bank of Mexico			3	Bank of Mexico	
10	Reserve Bank of New Zealand			9	Bank of Korea	
11	Bank of Korea			9	Reserve Bank of New Zealand	
17	Federal Reserve			10	Bank of England	
18	Bank of Norway			10	Swiss National Bank	
18	Swiss National Bank			15	Bank of Sweden	
18-19	Bank of Japan			16	Federal Reserve	
				17	Bank of Norway	
				17-18	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. \* To be determined.