

June 17, 2015



## FEDERAL RESERVE

### The Fed seems encouraged and ready to raise key rates this year

#### 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 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 Federal Open Market Committee (FOMC) met in April suggests that economic activity has been expanding moderately after having changed little during the first quarter. The pace of job gains picked up while the unemployment rate remained steady. On balance, a range of labor market indicators suggests that underutilization of labor resources diminished somewhat. Growth in household spending has been moderate and the housing sector has shown some improvement; however, business fixed investment and net exports stayed soft.
- Inflation continued to run below the Committee's longer-run objective, partly reflecting earlier declines in energy prices and decreasing prices of non-energy imports; energy prices appear to have stabilized. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations have remained stable.

#### COMMENTS

The statement released at the end of the meeting today suggests that Fed leaders are less worried about economic conditions. As April's statement focused on the bad news released during the first quarter (that resulted in real GDP decreasing 0.7%), Janet Yellen and her colleagues seem more optimistic now. Growth had slowed, but is progressing moderately now. Hires had moderated, but have now picked up. Advances in consumption had declined, but have now picked up. Recovery in housing had been slow, but is now showing improvement.

These more positive outlooks do not translate into more positive forecasts. Due to the impact of the first quarter's weakness, the Fed itself had to downgrade its forecast for real GDP growth in 2015. The expected economic growth

was cut short, ending up ranging from 1.8% to 2.0% instead of 2.3% to 2.7% as estimated in March. Forecasts for 2016 have not changed, and those for 2017 have been somewhat upgraded. The unemployment rate forecast for the end of 2015 is higher, going from between 5.0% and 5.2% to between 5.2% and 5.3%. Unemployment rate forecasts for the following years, like most inflation forecasts, were practically unchanged.

Stuck between a better opinion on economic conditions and less stellar forecasts, Fed leaders kept their key rate change forecasts practically the same. Fifteen out of 17 participants believe that an initial rate increase will be necessary in 2015. The median for the centre of the federal fund target range for the end of 2015 remains 0.625%. However, only four increases are forecast in 2016, rather than the five forecast in March. As such, rates could reach 1.625% by the end of next year. Five rate increases are forecast for 2017, ending up at 2.875%.

**Implications:** The Fed's comments and forecasts for key rates issued by the monetary policy committee members do not signal any change in tone regarding the direction of monetary policy. In her press conference, Janet Yellen reported that the Fed was waiting for conclusive proof that growth can achieve a better pace. A rebound in real GDP growth in the second quarter and good monthly indicators over the summer could therefore open the door to an initial rate increase in September, followed by slow and intermittent increases afterwards.

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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	8	Bank of Korea	
20-21	Bank of Japan	---	---	9	Bank of England	
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	13	Bank of Korea	
17-18	Bank of Japan	---	---	<b>SEPTEMBER</b>		
<b>MARCH</b>			1	Reserve Bank of Australia		
2	Reserve Bank of Australia	s.q.	2.25	2	Bank of Brazil	
4	Bank of Brazil	+50 b.p.	12.75	3	European Central Bank	
4	Bank of Canada	s.q.	0.75	3	Bank of Sweden	
5	European Central Bank	s.q.	0.05	3	Bank of Mexico	
5	Bank of England	s.q.	0.50	9	Reserve Bank of New Zealand	
11	Bank of Korea	-25 b.p.	1.75	9	Bank of Canada	
11	Reserve Bank of New Zealand	s.q.	3.50	10	Bank of England	
16-17	Bank of Japan	---	---	10	Bank of Korea	
18	Bank of Sweden	-15 b.p.	-0.25	14-15	Bank of Japan	
18	Federal Reserve	s.q.	0.25	17	Swiss National Bank	
19	Bank of Norway	s.q.	1.25	17	Federal Reserve	
19	Swiss National Bank	s.q.	-0.75	24	Bank of Norway	
26	Bank of Mexico	s.q.	3.00	<b>OCTOBER</b>		
<b>APRIL</b>			5	Reserve Bank of Australia		
7	Reserve Bank of Australia	s.q.	2.25	6-7	Bank of Japan	
7-8	Bank of Japan	---	---	8	Bank of England	
9	Bank of England	s.q.	0.50	14	Bank of Korea	
9	Bank of Korea	s.q.	1.75	15	Bank of Mexico	
15	European Central Bank	s.q.	0.05	21	Bank of Brazil	
15	Bank of Canada	s.q.	0.75	21	Bank of Canada	
29	Reserve Bank of New Zealand	s.q.	3.50	22	European Central Bank	
29	Bank of Sweden	s.q.	-0.25	28	Reserve Bank of New Zealand	
29	Bank of Brazil	+50 b.p.	13.25	28	Bank of Sweden	
29	Federal Reserve	s.q.	0.25	28	Federal Reserve	
30	Bank of Japan	---	---	30	Bank of Japan	
30	Bank of Mexico	s.q.	3.00	<b>NOVEMBER</b>		
<b>MAY</b>			2	Reserve Bank of Australia		
5	Reserve Bank of Australia	-25 b.p.	2.00	5	Bank of England	
7	Bank of Norway	s.q.	1.25	5	Bank of Norway	
11	Bank of England	s.q.	0.50	11	Bank of Korea	
15	Bank of Korea	s.q.	1.75	18-19	Bank of Japan	
21-22	Bank of Japan	---	---	25	Bank of Brazil	
27	Bank of Canada	s.q.	0.75	30	Reserve Bank of Australia	
<b>JUNE</b>			<b>DECEMBER</b>			
2	Reserve Bank of Australia	s.q.	2.00	2	Bank of Canada	
3	European Central Bank	s.q.	0.05	3	European Central Bank	
3	Bank of Brazil	+50 b.p.	13.75	3	Bank of Mexico	
4	Bank of England	s.q.	0.50	9	Reserve Bank of New Zealand	
4	Bank of Mexico	s.q.	3.00	10	Bank of England	
10	Bank of Korea	-25 b.p.	1.50	10	Bank of Korea	
10	Reserve Bank of New Zealand	-25 b.p.	3.25	10	Swiss National Bank	
17	Federal Reserve	s.q.	0.25	15	Bank of Sweden	
18	Bank of Norway			16	Federal Reserve	
18	Swiss National Bank			17	Bank of Norway	
18-19	Bank of Japan			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.