



FEDERAL RESERVE

No rate increase yet, but the door is wide open

ACCORDING TO THE FEDERAL RESERVE (Fed)

- The Committee decided to maintain the target range for the federal funds rate at 0.25% to 0.50%.
- The Committee judges that the case for an increase in the federal funds rate has strengthened but decided, for the time being, to wait for further evidence of continued progress toward its objectives.
- Information received since the Federal Open Market Committee met in July indicates that the labor market has continued to strengthen and growth of economic activity has picked up from the modest pace seen in the first half of this year. Although the unemployment rate is little changed in recent months, job gains have been solid, on average. Household spending has been growing strongly but business fixed investment has remained soft.
- Inflation has continued to run below the Committee's 2% longer-run objective, partly reflecting earlier declines in energy prices and in prices of non-energy imports. Market-based measures of inflation compensation remain low; most survey-based measures of longer-term inflation expectations are little changed, on balance, in recent months.

COMMENTS

In light of recent remarks by Fed leaders and the release of some disappointing economic indicators for August (ISM, industrial output and retail sales), it was clear that the Fed would stay on hold at this meeting, keeping key rates steady. Today's decision did not come as a surprise, in other words. This morning, the futures market was only pricing in a 20% chance of a 25-basis-point increase. A month ago, the probability was nearly 40%.

However, we can sense that the Fed is now closer to a rate increase in the near future. The statement clearly says that arguments for further monetary firming have gained ground. Moreover—and more unusually—there were three dissenting votes in today's decision. Three regional Fed presidents (Kansas City's Esther George, Cleveland's Loretta Mester, and Boston's Eric Rosengren)

voted to raise the top of the target range from 0.50% to 0.75% immediately. Also, the median rate forecast for the end of 2016 is still showing a rate increase. Fourteen of 17 respondents expect an increase of 25 points or more in 2016.

The Fed's other forecasts have not changed much since June. The forecast for the annual change in real GDP in Q4 2016 has been downgraded from 2.0% to 1.8%, but that primarily comes from the weakness in the first half of the year. At the press conference, Fed Chair Janet Yellen stressed that there is "definite evidence that the economy is now responding more strongly." The changes to the other forecasts are minor, aside from a cut to the forecast long-term growth rate (1.8% beyond 2019).

We can therefore think that the Fed will soon be ready to start raising rates after the one move it made in December 2015. The next meeting is November 2, six days before the presidential election. The Fed is clear that it is apolitical, that the electoral calendar has no influence on its decisions, and that every meeting counts. However, we think that it would be more appropriate to make the next move after the election, especially if voting intentions remain tight and market uncertainty is high.

Implications: The door is clearly open for a key rate increase by the end of 2016. It remains to be seen whether the economic situation will be satisfactory enough to support such a decision, as the Fed tends to be extremely cautious. Our scenarios call for solid real GDP growth in the second half of the year. The Fed will probably be able to go ahead, likely at the December 14 meeting... if the outcome of the election does not generate too much upheaval.

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Schedule 2016 of Central Bank meetings

	<u>Decision</u>	<u>Rate</u>		<u>Decision</u>	<u>Rate</u>		
JANUARY			JULY				
13	Bank of Korea	s.q.	1.50	5	Reserve Bank of Australia	s.q.	1.75
14	Bank of England	s.q.	0.50	6	Bank of Sweden	s.q.	-0.50
20	Bank of Brazil	s.q.	14.25	13	Bank of Korea	s.q.	1.25
20	Bank of Canada	s.q.	0.50	13	Bank of Canada	s.q.	0.50
21	European Central Bank	s.q.	0.05	14	Bank of England	s.q.	0.50
27	Federal Reserve	s.q.	0.50	20	Bank of Brazil	s.q.	14.25
28	Reserve Bank of New Zealand	s.q.	2.50	21	European Central Bank	s.q.	0.00
29	Bank of Japan	s.q.	-0.10	27	Federal Reserve	s.q.	0.50
FEBRUARY			AUGUST				
1	Reserve Bank of Australia	s.q.	2.00	2	Reserve Bank of Australia	-25 b.p.	1.50
4	Bank of England	s.q.	0.50	4	Bank of England	-25 b.p.	0.25
4	Bank of Mexico	s.q.	3.25	10	Bank of Korea	s.q.	1.25
11	Bank of Sweden	-15 b.p.	-0.50	10	Reserve Bank of New Zealand	-25 b.p.	2.00
15	Bank of Korea	s.q.	1.50	11	Bank of Mexico	s.q.	4.25
17	Bank of Mexico	+50 b.p.	3.75	31	Bank of Brazil	s.q.	14.25
29	Reserve Bank of Australia	s.q.	2.00	SEPTEMBER			
MARCH			OCTOBER				
2	Bank of Brazil	s.q.	14.25	6	Reserve Bank of Australia	s.q.	1.50
9	Bank of Korea	s.q.	1.50	7	Bank of Canada	s.q.	0.50
9	Reserve Bank of New Zealand	-25 b.p.	2.25	7	Bank of Sweden	s.q.	-0.50
9	Bank of Canada	s.q.	0.50	8	European Central Bank	s.q.	0.00
10	European Central Bank	-5 b.p.	0.00	8	Bank of Korea	s.q.	1.25
14	Bank of Japan	s.q.	-0.10	15	Bank of England	s.q.	0.25
16	Federal Reserve	s.q.	0.50	15	Swiss National Bank	s.q.	-0.75
17	Bank of England	s.q.	0.50	21	Federal Reserve	s.q.	0.50
17	Bank of Norway	-25 b.p.	0.50	21	Bank of Japan	s.q.	-0.10
17	Swiss National Bank	s.q.	-0.75	21	Reserve Bank of New Zealand		
18	Bank of Mexico	s.q.	3.75	22	Bank of Norway		
APRIL			NOVEMBER				
5	Reserve Bank of Australia	s.q.	2.00	3	Federal Reserve		
13	Bank of Canada	s.q.	0.50	3	Bank of England		
14	Bank of England	s.q.	0.50	9	Reserve Bank of New Zealand		
18	Bank of Korea	s.q.	1.50	10	Bank of Korea		
21	European Central Bank	s.q.	0.00	17	Bank of Mexico		
21	Bank of Sweden	s.q.	-0.50	30	Bank of Brazil		
27	Reserve Bank of New Zealand	s.q.	2.25	DECEMBER			
27	Bank of Brazil	s.q.	14.25	5	Reserve Bank of Australia		
27	Bank of Japan	s.q.	-0.10	7	Bank of Canada		
27	Federal Reserve	s.q.	0.50	8	European Central Bank		
MAY			NOVEMBER				
3	Reserve Bank of Australia	-25 b.p.	1.75	14	Bank of Korea		
5	Bank of Mexico	s.q.	3.75	14	Federal Reserve		
12	Bank of England	s.q.	0.50	15	Bank of England		
12	Bank of Korea	s.q.	1.50	15	Bank of Norway		
12	Bank of Norway	s.q.	0.50	15	Bank of Mexico		
25	Bank of Canada	s.q.	0.50	15	Swiss National Bank		
JUNE			NOVEMBER				
2	European Central Bank	s.q.	0.00	30	Bank of Brazil		
7	Reserve Bank of Australia	s.q.	1.75	DECEMBER			
8	Bank of Korea	-25 b.p.	1.25	5	Reserve Bank of Australia		
8	Reserve Bank of New Zealand	s.q.	2.25	7	Bank of Canada		
8	Bank of Brazil	s.q.	14.25	8	European Central Bank		
15	Bank of Japan	s.q.	-0.10	14	Bank of Korea		
15	Federal Reserve	s.q.	0.50	14	Federal Reserve		
16	Bank of England	s.q.	0.50	15	Bank of England		
16	Swiss National Bank	s.q.	-0.75	15	Bank of Norway		
23	Bank of Norway	s.q.	0.50	15	Bank of Mexico		
30	Bank of Mexico	+50 b.p.	4.25	15	Swiss National Bank		
				19	Bank of Japan		
				21	Bank of Sweden		

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.