

ESSENTIALS OF THE MONETARY POLICY

Federal Reserve (Fed)

The Fed Kicks Monetary Tightening into High Gear

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ACCORDING TO THE FED

- ▶ The Committee decided to raise the target range for the federal funds rate by 0.50%. It is now in a range of 0.75% to 1.00%.
- ▶ The Committee anticipates that ongoing increases in the target range will be appropriate.
- ▶ The Fed will seek to reduce its assets by a maximum of US\$47.5 billion per month starting June 1 and by a maximum of US\$95 billion per month starting in September.
- ▶ Although overall economic activity edged down in the first quarter, household spending and business fixed investment remained strong. Job gains have been robust 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. The invasion and related events are creating additional upward pressure on inflation and are likely to weigh on economic activity. In addition, COVID-related lockdowns in China are likely to exacerbate supply chain disruptions. The Committee is highly attentive to inflation risks.

COMMENTS

In March, the Fed initiated liftoff by raising the target for the federal funds rate by 25 basis points. Today, it kicked monetary tightening into high gear with a 50-point hike—the biggest increase since May 2000. This move came as no surprise. Of the 94 analysts surveyed by Bloomberg, 89 expected a 50-point hike. The other five called a more cautious 25-point increase.

The Fed also announced it will begin quantitative tightening in June, allowing up to US\$30B in government bonds and US\$17.5B in agency mortgage-backed securities to roll off its balance sheet each month, further tightening monetary conditions.

Inflation clocked in at a whopping 8.5% in March, and the Fed seems to be moving quickly to prevent inflation expectations from becoming unanchored. As Jerome Powell said at the top of his press conference today, “It is essential we bring inflation down if we are to have a sustained period of strong labor market conditions that benefit all.” Because “[i]nflation is much too high,” the Fed can’t raise interest rates incrementally as it did in the last economic cycle. So until inflation appears to be coming under control, we’ll likely see rates go up, possibly even above neutral. We expect to see additional 50-point hikes at the next two meetings. Jerome Powell suggested as much at today’s press conference. These should be followed by 25-point increases into next spring

IMPLICATIONS

The Fed remains focused on taming inflation, and rightly so. Expect more 50-point rate hikes at the next two meetings, if not beyond.

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 | Bank of Brazil | +100 b.p. | 11.75 |
| 16 | Federal Reserve | +25 b.p. | 0.50 |
| 17 | Bank of England | +25 b.p. | 0.75 |
| 17 | Bank of Japan | s.q. | -0.10 |
| 24 | Bank of Norway | +25 b.p. | 0.75 |
| 24 | Bank of Mexico | +50 b.p. | 6.50 |
| 24 | Swiss National Bank | s.q. | -0.75 |
| April | | | |
| 5 | Reserve Bank of Australia | s.q. | 0.10 |
| 12 | Reserve Bank of New Zealand | +50 b.p. | 1.50 |
| 13 | Bank of Korea | +25 b.p. | 1.50 |
| 13 | Bank of Canada* | +50 b.p. | 1.00 |
| 14 | European Central Bank | s.q. | 0.00 |
| 27 | Bank of Japan | s.q. | -0.10 |
| 28 | Bank of Sweden | +25 b.p. | 0.25 |
| May | | | |
| 3 | Reserve Bank of Australia | +25 b.p. | 0.35 |
| 4 | Federal Reserve | +50 b.p. | 1.00 |
| 4 | Bank of Brazil | | |
| 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.