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ESSENTIALS OF MONETARY POLICY



Federal Reserve (Fed)

The Fed Raises Rates Another 75 Points in Its Ongoing Battle against Inflation

By Francis Généreux, Principal Economist

ACCORDING TO THE FED

- The Committee decided to raise the target range for the federal funds rate by 0.75 %. It is now in a range of 3.00% to 3.25%.
- The Committee anticipates that ongoing increases in the target range will be appropriate. The Committee is strongly committed to returning inflation to its 2% objective.
- Recent indicators point to modest growth in spending and production. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures.
- Russia's war against Ukraine is causing tremendous human and economic hardship. The war and related events are creating additional upward pressure on inflation and are weighing on global economic activity. The Committee is highly attentive to inflation risks.

COMMENTS

As expected, the Fed raised rates by 75 basis points today for the third straight meeting. This brings the upper limit of the target range to 3.25%, its highest level since January 2008. During the previous tightening cycles, rates peaked at 6.50% in 2000 and 5.25% in 2006. The current rate is considered restrictive as it is above the 2.50% estimated long-term neutral rate.

There were few changes to the Fed's statement this time around, but it did indicate that growth is likely to be more moderate. There was more movement in the Fed's projections, especially on the interest rate side. The median forecast now shows interest rates rising another 125 basis points this year, but just 25 points next year. It then predicts cuts of 75 points in 2024 and 100 points in 2025.

The ongoing inflation battle and rate hike campaign point to weakness in the US economy. The economy is already slowing, and in his remarks, Fed Chair Jerome Powell made it clear that "reducing inflation is likely to require a sustained period of below-trend growth and it will very likely be some softening of labor market conditions." That's why we saw the unemployment forecast revised upward and the growth forecast revised downward. The new figures aren't entirely consistent with a recession, however. The Fed seems to think a drop in job openings would temper the rise in unemployment, something we discussed in a recent <u>Economic Viewpoint</u>.

IMPLICATIONS

The Fed continues to fight inflation, and there's no sign it'll let up anytime soon. On the contrary, more rate hikes are on the way this year and maybe even next if inflation doesn't come down fast enough.

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

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 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
Februar	-		
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		27.1	
2	Bank of Canada	+25 b.p.	0.50
10 16	European Central Bank Bank of Brazil	s.q. +100 b.p.	0.00 11.75
16		•	
10	Federal Reserve	+25 b.p. +25 b.p.	0.50 0.75
17	Bank of England Bank of Japan		-0.10
24	Bank of Norway	s.q. +25 b.p.	-0.10
24	Bank of Mexico	+50 b.p.	6.50
24	Swiss National Bank	+30 0.p. s.q.	-0.75
		5.4.	-0.75
April 5	Reserve Bank of Australia	6.0	0.10
12	Reserve Bank of New Zealand	s.q. +50 b.p.	1.50
12	Bank of Korea	+30 b.p. +25 b.p.	1.50
13	Bank of Canada*	+50 b.p.	1.00
14	European Central Bank	+50 b.p. 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	Bank of Brazil	+100 b.p.	12.75
4	Federal Reserve	+50 b.p.	1.00
5	Bank of England	+25 b.p.	1.00
5	Bank of Norway	s.q.	0.75
12	Bank of Mexico	+50 b.p.	7.00
24	Reserve Bank of New Zealand	+50 b.p.	2.00
25	Bank of Korea	+25 b.p.	1.75
June			
1	Bank of Canada	+50 b.p.	1.50
7	Reserve Bank of Australia	+50 b.p.	0.85
9	European Central Bank	s.q.	0.00
15	Bank of Brazil	+50 b.p.	13.25
15	Federal Reserve	+75 b.p.	1.75
16	Bank of England	+25 b.p.	1.25
16	Bank of Japan	s.q.	-0.10
10	Swiss National Bank	+50 b.p.	-0.25
16			
23	Bank of Norway	+50 b.p.	1.25
	Bank of Norway Bank of Mexico	+50 b.p. +75 b.p.	1.25 7.75

Date	Central banks	Decision	Rate
July			
5	Reserve Bank of Australia	+50 b.p.	1.35
12	Bank of Korea	+50 b.p.	2.25
12	Reserve Bank of New Zealand	+50 b.p.	2.50
13	Bank of Canada*	+100 b.p.	2.50
20	Bank of Japan	s.q.	-0.10
21	European Central Bank	+50 b.p.	0.50
27	Federal Reserve	+75 b.p.	2.50
August			
2	Reserve Bank of Australia	+50 b.p.	1.85
3	Bank of Brazil	+50 b.p.	13.75
4	Bank of England	+50 b.p.	1.75
11	Bank of Mexico	+75 b.p.	8.50
16	Reserve Bank of New Zealand	+50 b.p.	3.00
18	Bank of Norway	+50 b.p.	1.75
24	Bank of Korea	+25 b.p.	2.50
Septem	ber		
. 6	Reserve Bank of Australia	+50 b.p.	2.35
7	Bank of Canada	+75 b.p.	3.25
8	European Central Bank	+75 b.p.	1.25
20	Bank of Sweden	+100 b.p.	1.75
21	Federal Reserve	+75 b.p.	3.25
21	Bank of Brazil		
21	Bank of Japan		
22	Bank of England		
22	Bank of Norway		
22	Swiss National Bank		
29	Bank of Mexico		
Octobe	r		
3	Reserve Bank of Australia		
4	Reserve Bank of New Zealand		
12	Bank of Korea		
26	Bank of Brazil		
26	Bank of Canada*		
27	European Central Bank		
27	Bank of Japan		
31	Reserve Bank of Australia		
Novem	ber		
2	Federal Reserve		
3	Bank of England		
3	Bank of Norway		
10	Bank of Mexico		
22	Reserve Bank of New Zealand		
24	Bank of Korea		
24	Bank of Sweden		
Decemb	ber		
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.