

ESSENTIALS OF MONETARY POLICY

Federal Reserve (Fed)

The Fed Holds Again, but Signals One Last Increase

By Francis Généreux, Principal Economist

ACCORDING TO THE FED

- ▶ The Committee decided to maintain the target for the federal funds rate in a range of 5.25% to 5.50%.
- ▶ Recent indicators suggest that economic activity has been expanding at a solid pace. Job gains have slowed in recent months but remain strong, and the unemployment rate has remained low. Inflation remains elevated.
- ▶ The U.S. banking system is sound and resilient. Tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain. The Committee remains highly attentive to inflation risks.
- ▶ In determining the extent of additional policy firming that may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments.

COMMENTS

As expected, the Fed kept interest rates unchanged. That makes two holds in three meetings, as the Fed paused in June as well. It's taking a wait-and-see approach, seemingly basing its rate decisions largely on the economic indicators and inflation data. This suggests we're nearing the end of the rate hiking cycle—if we aren't there already.

But by the looks of today's Summary of Economic Projections (SEP), the Fed is leaving the door wide open to another 25-point increase before the year is out. It's also forecasting stronger GDP growth in 2023 and 2024 than it did in June's SEP. This isn't surprising given the solid second quarter real GDP print and the Q3 estimate. And in its statement, the Fed said economic activity

has been expanding at a solid pace, a change from modest in June and moderate in July. Stronger growth seems to be pushing the Fed to take a slightly more hawkish stance. The economic resilience projected for 2024 in today's SEP also has the Fed thinking fewer rate cuts will be needed next year to get inflation closer to target. The inflation projections didn't change much, but the GDP projections were revised significantly higher and unemployment projections revised lower. Big takeaway: rates will stay higher for longer than initially expected. The Fed is now projecting just two rate cuts next year instead of four, followed by four or five in 2025.

At the press conference, Jerome Powell said the Fed is "actually in a position to be able to proceed carefully as we assess the incoming data and the evolving outlooks and risks and make these decisions meeting by meeting."

It's therefore possible that today is the start of an extended pause and that we've reached the terminal rate in the US. But that's predicated on a clear economic slowdown in the coming months—something more in line with our [forecasts](#) than the Fed projections released today.

IMPLICATIONS

As expected, the Fed held rates steady today. It also signalled that at least one more hike is possible. It will all depend on how the economy and inflation evolve between now and the next two meetings.

2023 Schedule of Central Bank Meetings

	Central bank	Decision	Rate
January			
12	Bank of Korea	+25 b.p.	3.50
17	Bank of Japan	unchanged	-0.10
19	Bank of Norway	unchanged	2.75
25	Bank of Canada*	+25 b.p.	4.50
February			
1	Bank of Brazil	unchanged	13.75
1	Federal Reserve	+25 b.p.	4.75
2	European Central Bank	+50 b.p.	3.00
2	Bank of England	+50 b.p.	4.00
6	Reserve Bank of Australia	+25 b.p.	3.35
9	Bank of Sweden	+50 b.p.	3.00
9	Bank of Mexico	+50 b.p.	11.00
21	Reserve Bank of New Zealand	+50 b.p.	4.75
22	Bank of Korea	unchanged	3.50
March			
6	Reserve Bank of Australia	+25 b.p.	3.60
8	Bank of Canada	unchanged	4.50
9	Bank of Japan	unchanged	-0.10
16	European Central Bank	+50 b.p.	3.50
22	Bank of Brazil	unchanged	13.75
22	Federal Reserve	+25 b.p.	5.00
23	Bank of England	+25 b.p.	4.25
23	Bank of Norway	+25 b.p.	3.00
23	Swiss National Bank	+50 b.p.	1.50
30	Bank of Mexico	+25 b.p.	11.25
April			
4	Reserve Bank of Australia	unchanged	3.60
4	Reserve Bank of New Zealand	+50 b.p.	5.25
10	Bank of Korea	unchanged	3.50
12	Bank of Canada*	unchanged	4.50
26	Bank of Sweden	+50 b.p.	3.50
28	Bank of Japan	unchanged	-0.10
May			
2	Reserve Bank of Australia	+25 b.p.	3.85
3	Bank of Brazil	unchanged	13.75
3	Federal Reserve	+25 b.p.	5.25
4	European Central Bank	+25 b.p.	3.75
4	Bank of Norway	+25 b.p.	3.25
11	Bank of England	+25 b.p.	4.50
18	Bank of Mexico	unchanged	11.25
23	Reserve Bank of New Zealand	+25 b.p.	5.50
24	Bank of Korea	unchanged	3.50
June			
6	Reserve Bank of Australia	+25 b.p.	4.10
7	Bank of Canada	+25 b.p.	4.75
14	Federal Reserve	unchanged	5.25
15	European Central Bank	+25 b.p.	4.00
15	Bank of Japan	unchanged	-0.10
21	Bank of Brazil	unchanged	13.75
22	Bank of England	+50 b.p.	5.00
22	Bank of Norway	+50 b.p.	3.75
22	Bank of Mexico	unchanged	11.25
22	Swiss National Bank	+25 b.p.	1.75
29	Bank of Sweden	+25 b.p.	3.75

	Central bank	Decision	Rate
July			
4	Reserve Bank of Australia	unchanged	4.10
11	Reserve Bank of New Zealand	unchanged	5.50
12	Bank of Korea	unchanged	3.50
12	Bank of Canada*	+25 b.p.	5.00
26	Federal Reserve	+25 b.p.	5.50
27	European Central Bank	+25 b.p.	4.25
27	Bank of Japan	unchanged	-0.10
August			
1	Reserve Bank of Australia	unchanged	4.10
2	Bank of Brazil	-50 b.p.	13.25
3	Bank of England	+25 b.p.	5.25
10	Bank of Mexico	unchanged	11.25
15	Reserve Bank of New Zealand	unchanged	5.50
17	Bank of Norway	+25 b.p.	4.00
23	Bank of Korea	unchanged	3.50
September			
5	Reserve Bank of Australia	unchanged	4.10
6	Bank of Canada	unchanged	5.00
14	European Central Bank	+25 b.p.	4.50
20	Bank of Brazil		
20	Federal Reserve	unchanged	5.50
21	Bank of England		
21	Bank of Norway		
21	Bank of Sweden		
21	Bank of Japan		
21	Swiss National Bank		
28	Bank of Mexico		
October			
2	Reserve Bank of Australia		
3	Reserve Bank of New Zealand		
18	Bank of Korea		
25	Bank of Canada*		
26	European Central Bank		
30	Bank of Japan		
November			
1	Bank of Brazil		
1	Federal Reserve		
2	Bank of England		
2	Bank of Norway		
6	Reserve Bank of Australia		
9	Bank of Mexico		
23	Bank of Sweden		
28	Reserve Bank of New Zealand		
29	Bank of Korea		
December			
4	Reserve Bank of Australia		
6	Bank of Canada		
13	Bank of Brazil		
13	Federal Reserve		
14	European Central Bank		
14	Bank of England		
14	Bank of Norway		
14	Bank of Mexico		
14	Swiss National Bank		
18	Bank of Japan		

NOTE: Central banks may decide to change rates between the scheduled meetings. The abbreviation b.p. stands for basis points. * Monetary Policy Report published; ** To be determined.