

Essentials of Monetary Policy

With Rates at Their Peak, the Fed Turns Its Attention to Cuts in the New Year

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According to the Federal Reserve (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 growth of economic activity has slowed from its strong pace in the third quarter. Job gains have moderated since earlier in the year but remain strong, and the unemployment rate has remained low. Inflation has eased over the past year but remains elevated.
- The U.S. banking system is sound and resilient. Tighter financial and 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 any 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 held interest rates steady today. It had telegraphed as much, and all 109 forecasters surveyed by Bloomberg called the hold.

With the outcome of the rate-setting meeting a foregone conclusion, policy watchers and markets were instead focused on 2024. The big takeaway? Barring a major surprise, the Fed is done raising rates. It held the target for the federal funds rate at its cyclical high, where it's been since August. Jerome Powell alluded to this during his press conference, saying "we are likely at or near the peak rate for this cycle."

But how long will the Fed keep rates there? The latest projections provide some hints. According to the dot plot released today, we can expect three 25 basis point cuts in the next year. Four are pencilled in for 2025 and three more for 2026. That means interest rates will come down over the next few years, but it will happen gradually. The Fed is expecting real GDP growth to slow next year before picking up in 2025 and 2026. The economic slowdown it's anticipating in 2024 is slightly more moderate than the one we called for in [our recent forecast](#). The Fed is also expecting an uptick in unemployment next year along with slower inflation.

The gradual rate cuts suggested by today's economic projections reflect the continued uncertainty surrounding the US economy. At his press conference, Jerome Powell said "[i]nflation has eased from its highs, and this has come without a significant increase in unemployment. That's very good news. But inflation is still too high; ongoing progress in bringing it down is not assured; and the path forward is uncertain." He added, "[i]n light of the uncertainties and risks and how far we have come, the Committee is proceeding carefully. We will continue to make our decisions meeting by meeting."

Implications

As expected, the Fed continued its hold today. Now that interest rates seem to have peaked, the Fed is starting to think about rate cuts. But monetary easing will be a very gradual process that probably won't begin until next summer.

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	-50 b.p.	12.75
20	Federal Reserve	unchanged	5.50
21	Bank of England	unchanged	5.25
21	Bank of Norway	+25 b.p.	4.25
21	Bank of Sweden	+25 b.p.	4.00
21	Bank of Japan	unchanged	-0.10
21	Swiss National Bank	unchanged	1.75
28	Bank of Mexico	unchanged	11.25
October			
2	Reserve Bank of Australia	unchanged	4.10
3	Reserve Bank of New Zealand	unchanged	5.50
18	Bank of Korea	unchanged	3.50
25	Bank of Canada*	unchanged	5.00
26	European Central Bank	unchanged	4.50
30	Bank of Japan	unchanged	-0.10
November			
1	Bank of Brazil	-25 b.p.	12.25
1	Federal Reserve	unchanged	5.50
2	Bank of England	unchanged	5.25
2	Bank of Norway	unchanged	4.25
6	Reserve Bank of Australia	+25 b.p.	4.35
9	Bank of Mexico	unchanged	11.25
23	Bank of Sweden	unchanged	4.00
28	Reserve Bank of New Zealand	unchanged	5.50
29	Bank of Korea	unchanged	3.50
December			
4	Reserve Bank of Australia	unchanged	4.35
6	Bank of Canada	unchanged	5.00
13	Federal Reserve	unchanged	5.50
13	Bank of Brazil		
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.