

## Essentials of Monetary Policy

# The Federal Reserve Jumpstarts the Easing Cycle with a Bigger Cut than Expected

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**Francis Généreux**  
Principal Economist

### According to the Federal Reserve (Fed)

The Committee decided to lower the target range for the federal funds rate by ½ percentage point to 4.25% to 5.00%.

Recent indicators suggest that economic activity has continued to expand at a solid pace. Job gains have slowed, and the unemployment rate has moved up but remains low. Inflation has made further progress toward the Committee's 2% objective but remains somewhat elevated.

The Committee has gained greater confidence that inflation is moving sustainably toward 2%, and judges that the risks to achieving its employment and inflation goals are roughly in balance.

In considering additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2% objective.

## Comments

It's been clear for several weeks that the Fed was going to kick off its monetary easing cycle at this month's meeting. But some doubts over the size of the rate cut lingered, with markets and forecasters split between a 25-point or a 50-point drop. In fact, pundits and politicians were pushing the Fed to make an even bigger move. Ultimately, the Fed's monetary policy committee (FOMC) voted 11-1 to cut rates by half a percentage point. This is the first time it has cut rates since March 2020.

The FOMC statement announcing the decision observed that economic conditions haven't changed much, aside from a slowdown in the labour market. But the Fed believes the latest inflation data has been promising. Both of these factors probably prompted the Fed to opt for a 50-point cut. There was one notable change to the FOMC statement: Back in July, the Fed stated that it was "strongly committed" to its inflation target. But this month's statement added the goal of "supporting maximum employment" to that same sentence.

We don't expect this to be the only rate cut for this year. The statement wasn't clear on this point, but the projections made by FOMC members shed a little more light on the issue. During a press conference, Jerome Powell reiterated that the Fed isn't "on any set course." The FOMC projections nevertheless suggest rates will be 50 points lower by the end of the year. This means we can expect two 25-point cuts: one on November 7 and then another on December 18. They would be followed by four more 25-point cuts in 2025.

The Fed doesn't believe the US economy is crashing or at risk of doing so. The slightly bigger-than-expected move isn't a sign of panic. According to Jerome Powell, "The US economy is in good shape. It's growing at a solid pace, inflation is coming down. The labor market is at a strong pace. We want to keep it there. That's what we're doing."

This belief is reflected in the latest FOMC projections. The forecast for this year's real GDP growth was almost unchanged, dropping by just 0.1 percentage points (from 2.1% to 2.0%) The change in projected unemployment compared to June was slightly bigger. Fed officials see 4.4% unemployment at the end of both this year (compared to the June forecast of 4.0%) and the next (June forecast of 4.2%). But they also anticipate

that inflation will cool more than they expected three months ago. They predict that the year-on-year change in the Personal Consumption Expenditures deflator will amount to 2.3% in the fourth quarter of 2024 (previously 2.6%) and 2.1% at the end of next year (previously 2.3%). Core inflation for this year was also revised downward.

Jerome Powell reiterated that monetary policy remains restrictive. But he also said the Fed was ready to respond if the situation requires: "If the labour market were to slow unexpectedly, then we have the ability to react to that by cutting faster." So it's quite possible that if upcoming economic readings, especially job numbers, turn out to be disappointing, the Fed may opt for more 50-point cuts.

## 📌 Implications

The Fed lowered rates more than expected with a 50-point cut. Based on the latest FOMC projections, we can expect the US central bank to cut rates by 25 points at each of its next two meetings. But that all depends on how the economy, inflation and the job market evolve.



# 2024 Schedule of Central Bank Meetings

Central bank	Decision	Rate
<b>January</b>		
11 Bank of Korea	unchanged	3.50
22 Bank of Japan	unchanged	-0.10
24 Bank of Canada*	unchanged	5.00
25 European Central Bank	unchanged	4.00
25 Bank of Norway	unchanged	4.50
31 Bank of Brazil	unchanged	11.25
31 Federal Reserve	unchanged	5.50
<b>February</b>		
1 Bank of England	unchanged	5.25
1 Bank of Sweden	unchanged	4.00
5 Reserve Bank of Australia	unchanged	4.35
8 Bank of Mexico	unchanged	11.25
21 Bank of Korea	unchanged	3.50
27 Reserve Bank of New Zealand	unchanged	5.50
<b>March</b>		
6 Bank of Canada	unchanged	5.00
7 European Central Bank	unchanged	4.00
18 Reserve Bank of Australia	unchanged	4.35
18 Bank of Japan	+20 b.p.	0.10
20 Bank of Brazil	-50 b.p.	10.75
20 Federal Reserve	unchanged	5.50
21 Bank of England	unchanged	5.25
21 Bank of Norway	unchanged	4.50
21 Bank of Mexico	-25 b.p.	11.00
21 Swiss National Bank	-25 b.p.	1.50
27 Bank of Sweden	unchanged	4.00
<b>April</b>		
9 Reserve Bank of New Zealand	unchanged	5.50
10 Bank of Canada*	unchanged	5.00
11 European Central Bank	unchanged	4.00
11 Bank of Korea	unchanged	3.50
25 Bank of Japan	unchanged	0.10
<b>May</b>		
1 Federal Reserve	unchanged	5.50
3 Bank of Norway	unchanged	4.50
7 Reserve Bank of Australia	unchanged	4.35
8 Bank of Sweden	-25 b.p.	3.75
8 Bank of Brazil	-25 b.p.	10.50
9 Bank of England	unchanged	5.25
9 Bank of Mexico	unchanged	11.00
21 Reserve Bank of New Zealand	unchanged	5.50
22 Bank of Korea	unchanged	3.50
<b>June</b>		
5 Bank of Canada	-25 b.p.	4.75
6 European Central Bank	-25 b.p.	3.75
12 Federal Reserve	unchanged	5.50
13 Bank of Japan	unchanged	0.10
18 Reserve Bank of Australia	unchanged	4.35
19 Bank of Brazil	unchanged	10.50
20 Bank of England	unchanged	5.25
20 Bank of Norway	unchanged	4.50
20 Swiss National Bank	-25 b.p.	1.25
27 Bank of Sweden	unchanged	3.75
27 Bank of Mexico	unchanged	11.00

Central bank	Decision	Rate
<b>July</b>		
9 Reserve Bank of New Zealand	unchanged	5.50
10 Bank of Korea	unchanged	3.50
18 European Central Bank	unchanged	3.75
24 Bank of Canada*	-25 b.p.	4.50
30 Bank of Japan	+15 b.p.	0.25
31 Bank of Brazil	unchanged	10.50
31 Federal Reserve	unchanged	5.50
<b>August</b>		
1 Bank of England	-25 b.p.	5.00
6 Reserve Bank of Australia	unchanged	4.35
8 Bank of Mexico	-25 b.p.	10.75
13 Reserve Bank of New Zealand	-25 b.p.	5.25
15 Bank of Norway	unchanged	4.50
20 Bank of Sweden	-25 b.p.	3.50
21 Bank of Korea	unchanged	3.50
<b>September</b>		
4 Bank of Canada	-25 b.p.	4.25
12 European Central Bank	-25 b.p.	3.50
18 Federal Reserve	-50 b.p.	5.00
18 Bank of Brazil		
19 Bank of England		
19 Bank of Norway		
19 Bank of Japan		
24 Reserve Bank of Australia		
25 Bank of Sweden		
26 Bank of Mexico		
26 Swiss National Bank		
<b>October</b>		
8 Reserve Bank of New Zealand		
10 Bank of Korea		
17 European Central Bank		
23 Bank of Canada*		
30 Bank of Japan		
<b>November</b>		
4 Reserve Bank of Australia		
6 Bank of Brazil		
7 Bank of England		
7 Bank of Norway		
7 Bank of Sweden		
7 Federal Reserve		
14 Bank of Mexico		
26 Reserve Bank of New Zealand		
27 Bank of Korea		
<b>December</b>		
9 Reserve Bank of Australia		
11 Bank of Brazil		
11 Bank of Canada		
12 European Central Bank		
12 Swiss National Bank		
18 Bank of Japan		
18 Federal Reserve		
19 Bank of England		
19 Bank of Norway		
19 Bank of Sweden		
19 Bank of Mexico		

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