

## Essentials of Monetary Policy

# Federal Reserve: A More Cautious 25bps Rate Cut

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### According to the Federal Reserve (Fed)

The Committee decided to lower the target range for the federal funds rate by  $\frac{1}{4}$  percentage point to 4.50% to 4.75%.

Recent indicators suggest that economic activity has continued to expand at a solid pace. Since earlier in the year, labor market conditions have generally eased, and the unemployment rate has moved up but remains low. Inflation has made progress toward the Committee's 2% objective but remains somewhat elevated.

The Committee 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

As expected, the Fed extended the monetary easing cycle it kicked off in September, cutting interest rates by 25 basis points—a move called by the vast majority (84/96) of the forecasters surveyed by Bloomberg.

It made just a couple of changes to the press release compared to September's statement, including a bit more detail about the labour market slowdown. It also dropped the language about the committee having greater confidence that inflation is moving sustainably toward the 2% target. This could just reflect the fact that as inflation nears its target, Powell and company are focusing on the two parts of their dual inflation/employment mandate in a more balanced way. Powell said the omission shouldn't really be taken as forward guidance.

Of course, the Fed probably hasn't yet factored in the economic and inflationary implications of a second Trump term. If Trump is able to pass his whole agenda, including new tax cuts, high tariffs and lower immigration, it could fuel inflation down the line. We might get a glimpse of the Fed's thinking about this in its December projections. But until Trump makes official policy announcements, the Fed is unlikely to shift its monetary policy in any way that would show up in its projections. During today's press conference, Powell said, "the election will have no effects on our policy decisions" and "we don't guess, we don't speculate and we don't assume" when it comes to the consequences of future policy decisions.

In the meantime, he reiterated that "we are not on any preset course. We will continue to make our decisions meeting by meeting." That said, aside from the recent jobs numbers, which were affected by two hurricanes and a strike, the Fed is encouraged by the strong economic indicators. At the same time, Powell said that monetary policy remains restrictive. So even though growth is solid and there's no real rush to get back to the neutral rate, we can expect more rate cuts to come.

## Implications

While the election may have added uncertainty to the outlook, it shouldn't really change things for the Fed in the immediate term, at least until the new Trump administration announces measures that could affect the economy and the inflation rate. In the meantime, we expect more 25-basis-point rate cuts at upcoming meetings.

But the pace of monetary easing should slow in 2025, especially if policies are announced that could fuel inflation.

## 2024 Schedule of Central Bank Meetings

Central bank	Decision	Rate	Central bank	Decision	Rate
<b>January</b>			<b>July</b>		
11 Bank of Korea	unchanged	3.50	9 Reserve Bank of New Zealand	unchanged	5.50
22 Bank of Japan	unchanged	-0.10	10 Bank of Korea	unchanged	3.50
24 Bank of Canada*	unchanged	5.00	18 European Central Bank	unchanged	3.75
25 European Central Bank	unchanged	4.00	24 Bank of Canada*	-25 b.p.	4.50
25 Bank of Norway	unchanged	4.50	30 Bank of Japan	+15 b.p.	0.25
31 Bank of Brazil	unchanged	11.25	31 Bank of Brazil	unchanged	10.50
31 Federal Reserve	unchanged	5.50	31 Federal Reserve	unchanged	5.50
<b>February</b>			<b>August</b>		
1 Bank of England	unchanged	5.25	1 Bank of England	-25 b.p.	5.00
1 Bank of Sweden	unchanged	4.00	6 Reserve Bank of Australia	unchanged	4.35
5 Reserve Bank of Australia	unchanged	4.35	8 Bank of Mexico	-25 b.p.	10.75
8 Bank of Mexico	unchanged	11.25	13 Reserve Bank of New Zealand	-25 b.p.	5.25
21 Bank of Korea	unchanged	3.50	15 Bank of Norway	unchanged	4.50
27 Reserve Bank of New Zealand	unchanged	5.50	20 Bank of Sweden	-25 b.p.	3.50
<b>March</b>			21 Bank of Korea	unchanged	3.50
6 Bank of Canada	unchanged	5.00	<b>September</b>		
7 European Central Bank	unchanged	4.00	4 Bank of Canada	-25 b.p.	4.25
18 Reserve Bank of Australia	unchanged	4.35	12 European Central Bank	-25 b.p.	3.50
18 Bank of Japan	+20 b.p.	0.10	18 Bank of Brazil	+25 b.p.	10.75
20 Bank of Brazil	-50 b.p.	10.75	18 Federal Reserve	-50 b.p.	5.00
20 Federal Reserve	unchanged	5.50	19 Bank of England	unchanged	5.00
21 Bank of England	unchanged	5.25	19 Bank of Norway	unchanged	4.50
21 Bank of Norway	unchanged	4.50	19 Bank of Japan	unchanged	0.25
21 Bank of Mexico	-25 b.p.	11.00	24 Reserve Bank of Australia	unchanged	4.35
21 Swiss National Bank	-25 b.p.	1.50	25 Bank of Sweden	-25 b.p.	3.25
27 Bank of Sweden	unchanged	4.00	26 Bank of Mexico	-25 b.p.	10.50
<b>April</b>			26 Swiss National Bank	-25 b.p.	1.00
9 Reserve Bank of New Zealand	unchanged	5.50	<b>October</b>		
10 Bank of Canada*	unchanged	5.00	8 Reserve Bank of New Zealand	-50 b.p.	4.75
11 European Central Bank	unchanged	4.00	10 Bank of Korea	-25 b.p.	3.25
11 Bank of Korea	unchanged	3.50	17 European Central Bank	-25 b.p.	3.25
25 Bank of Japan	unchanged	0.10	23 Bank of Canada*	-50 b.p.	3.75
<b>May</b>			30 Bank of Japan	unchanged	0.25
1 Federal Reserve	unchanged	5.50	<b>November</b>		
3 Bank of Norway	unchanged	4.50	4 Reserve Bank of Australia	unchanged	4.35
7 Reserve Bank of Australia	unchanged	4.35	6 Bank of Brazil	+50 b.p.	11.25
8 Bank of Sweden	-25 b.p.	3.75	7 Bank of England	-25 b.p.	4.75
8 Bank of Brazil	-25 b.p.	10.50	7 Bank of Norway	unchanged	4.50
9 Bank of England	unchanged	5.25	7 Bank of Sweden	-50 b.p.	2.75
9 Bank of Mexico	unchanged	11.00	7 Federal Reserve	-25 b.p.	4.75
21 Reserve Bank of New Zealand	unchanged	5.50	14 Bank of Mexico	unchanged	5.50
22 Bank of Korea	unchanged	3.50	26 Reserve Bank of New Zealand	unchanged	5.50
<b>June</b>			27 Bank of Korea	unchanged	3.50
5 Bank of Canada	-25 b.p.	4.75	<b>December</b>		
6 European Central Bank	-25 b.p.	3.75	9 Reserve Bank of Australia	unchanged	4.35
12 Federal Reserve	unchanged	5.50	11 Bank of Brazil	unchanged	11.25
13 Bank of Japan	unchanged	0.10	11 Bank of Canada	unchanged	5.00
18 Reserve Bank of Australia	unchanged	4.35	12 European Central Bank	unchanged	3.75
19 Bank of Brazil	unchanged	10.50	12 Swiss National Bank	unchanged	1.25
20 Bank of England	unchanged	5.25	18 Bank of Japan	unchanged	0.25
20 Bank of Norway	unchanged	4.50	18 Federal Reserve	unchanged	5.50
20 Swiss National Bank	-25 b.p.	1.25	19 Bank of England	unchanged	5.25
27 Bank of Sweden	unchanged	3.75	19 Bank of Norway	unchanged	4.50
27 Bank of Mexico	unchanged	11.00	19 Bank of Sweden	unchanged	3.50
			19 Bank of Mexico	unchanged	4.35

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