

ESSENTIALS OF MONETARY POLICY

Federal Reserve (Fed)

Steep but Steady Rate Hikes to Slow Growth Sharply in 2023

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ACCORDING TO THE FED

- ▶ As expected, the Federal Open Markets Committee – the Fed’s decision-making body – unanimously chose to raise the target range for the federal funds rate by 75bps again in July. It is now in a range of 2.25% to 2.50%, which is incidentally the peak of the last cycle.
- ▶ Citing elevated inflation and ongoing robust job gains, the Committee reiterated its commitment to returning inflation to its 2 percent objective. To do this, the Committee “... anticipates that ongoing increases in the target range will be appropriate ...” but remains data dependent.
- ▶ There was no change in the plan for reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. There were also no economic projections published with this announcement.

IMPLICATIONS

To restore price stability, Fed Chair Jerome Powell recognized that the US economy will need to go through a period of below-potential real GDP growth and more tepid employment gains. This comes against the backdrop of recession concerns, as engineering a soft landing would be challenging at the best of times. In this context, Powell reinforced the high level of uncertainty around the outlook for the economy, as well as the impact of rate hikes.

We are of the view that the US economy was not in recession in the first half of this year but has nearly even odds of going into recession in 2023 (see our recent [Economic Viewpoint](#)). Regardless if it’s an official recession or not, real GDP growth next year will be very weak, and is likely to prompt the Fed to reverse course by cutting rates before the end of 2023.

COMMENTS

Much like the well-telegraphed increase in the policy rate, the press release was little changed from the June announcement. And while the Bank of Canada opened the door to a 100bps rate hike, the Fed is instead taking a steep but steady approach hiking rates. Consequently, we view future rate hikes in excess of 75bps to be unlikely.

While inflation looks as though it may have peaked, it remains stubbornly high. As such, we expect another 75bps move in September, making it a hatricket of heavy-handed hikes. After that, the pace of rate hikes is expected to slow, particularly if inflation steadily slows. We currently anticipate that the range of the terminal value for the federal funds rate will reach 3.25% to 3.5% before the end of this year. That is below the median projection for the terminal rate published along with the June 2022 policy statement.

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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 |
| February | | | |
| 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 | | | |
| 2 | Bank of Canada | +25 b.p. | 0.50 |
| 10 | European Central Bank | s.q. | 0.00 |
| 16 | Bank of Brazil | +100 b.p. | 11.75 |
| 16 | Federal Reserve | +25 b.p. | 0.50 |
| 17 | Bank of England | +25 b.p. | 0.75 |
| 17 | Bank of Japan | s.q. | -0.10 |
| 24 | Bank of Norway | +25 b.p. | 0.75 |
| 24 | Bank of Mexico | +50 b.p. | 6.50 |
| 24 | Swiss National Bank | s.q. | -0.75 |
| April | | | |
| 5 | Reserve Bank of Australia | s.q. | 0.10 |
| 12 | Reserve Bank of New Zealand | +50 b.p. | 1.50 |
| 13 | Bank of Korea | +25 b.p. | 1.50 |
| 13 | Bank of Canada* | +50 b.p. | 1.00 |
| 14 | European Central Bank | 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 |
| 16 | Swiss National Bank | +50 b.p. | -0.25 |
| 23 | Bank of Norway | +50 b.p. | 1.25 |
| 23 | Bank of Mexico | +75 b.p. | 7.75 |
| 30 | Bank of Sweden | +50 b.p. | 0.75 |

| Date | Central banks | Decision | Rate |
|------------------|-----------------------------|-----------|-------|
| July | | | |
| 5 | Reserve Bank of Australia | +50 b.p. | 1.35 |
| 12 | Reserve Bank of New Zealand | +50 b.p. | 2.50 |
| 13 | Bank of Korea | +50 b.p. | 2.25 |
| 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 | | |
| 3 | Bank of Brazil | | |
| 4 | Bank of England | | |
| 11 | Bank of Mexico | | |
| 16 | Reserve Bank of New Zealand | | |
| 18 | Bank of Norway | | |
| 24 | Bank of Korea | | |
| September | | | |
| 6 | Reserve Bank of Australia | | |
| 7 | Bank of Canada | | |
| 8 | European Central Bank | | |
| 15 | Bank of England | | |
| 20 | Bank of Sweden | | |
| 21 | Bank of Brazil | | |
| 21 | Bank of Japan | | |
| 21 | Federal Reserve | | |
| 22 | Bank of Norway | | |
| 22 | Swiss National Bank | | |
| 29 | Bank of Mexico | | |
| October | | | |
| 3 | Reserve Bank of Australia | | |
| 4 | Reserve Bank of New Zealand | | |
| 13 | Bank of Korea | | |
| 26 | Bank of Brazil | | |
| 26 | Bank of Canada* | | |
| 27 | European Central Bank | | |
| 27 | Bank of Japan | | |
| 31 | Reserve Bank of Australia | | |
| November | | | |
| 2 | Federal Reserve | | |
| 3 | Bank of England | | |
| 3 | Bank of Norway | | |
| 10 | Bank of Mexico | | |
| 22 | Reserve Bank of New Zealand | | |
| 23 | Bank of Korea | | |
| 24 | Bank of Sweden | | |
| December | | | |
| 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.