

ESSENTIALS OF THE MONETARY POLICY

Federal Reserve (Fed)

Willing to Accept Higher Inflation, the Fed Signals Its Intent to Keep Rates at Their Effective Lower Bound for Some Time

ACCORDING TO THE FED

- ▶ The Committee decided to maintain the target range for the federal funds rate at 0.00% to 0.25%.
- ▶ The Committee expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time
- ▶ Over coming months, the Fed will increase its holdings of Treasury securities and agency mortgage-backed securities at least at the current pace
- ▶ The Fed is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.
- ▶ The COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world. Economic activity and employment have picked up in recent months but remain well below their levels at the beginning of the year. Weaker demand and significantly lower oil prices are holding down consumer price inflation. Overall financial conditions have improved in recent months.
- ▶ The path of the economy will depend significantly on the course of the virus. The ongoing public health crisis will continue to weigh on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term.

In fact, today, the Fed provided a few more details about the conditions under which it could begin to normalize its monetary policy. They reflect the Fed's newly revamped long-term objectives, which include full employment, as well as a desire for inflation to momentarily exceed the target of 2%.

However, these objectives are far from being achieved. According to the Fed leaders' updated forecasts, the jobless rate isn't expected to reach 4% until 2023. Furthermore, they aren't counting on inflation of above 2% for the next three years. That said, the forecasts have improved since the June exercise. Projected real GDP growth for the end of 2020 went from -6.5% to -3.7%. However, growth was downgraded from 5.0% to 4.0% for 2021 and from 3.5% to 3.0% for 2022. The forecasted jobless rate is generally better, down from 9.3% to 7.6% for the end of 2020, from 6.5% to 5.5% for 2021 and from 5.5% to 4.6% for 2022. Inflation forecasts were also upgraded.

Since, according to these forecasts, inflation and unemployment won't reach the Fed's targets, the vast majority of Fed leaders don't anticipate a hike in key rates until late 2023. Only 1 participant (out of 17) expects a rate increase in 2022, and only 4 foresee higher rates in 2023.

IMPLICATIONS

By clarifying these objectives, the Fed is sending a clear signal that key rates will stay at their effective lower bound for the long term. Changes to asset purchases are less clear, but for the next few months, they will at least maintain the current pace.

COMMENTS

The decision to keep key interest rates unchanged will come as no surprise. The policy appears to be in place for a good while.

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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 2020 of Central Bank Meetings

Date	Central banks	Decision	Rate
January			
16	Bank of Korea	s.q.	1.25
20	Bank of Japan	s.q.	-0.10
22	Bank of Canada*	s.q.	1.75
23	European Central Bank	s.q.	0.00
23	Bank of Norway	s.q.	1.50
29	Federal Reserve	s.q.	1.75
30	Bank of England	s.q.	0.75
February			
3	Reserve Bank of Australia	s.q.	0.75
5	Bank of Brazil	-25 b.p.	4.25
11	Reserve Bank of New Zealand	s.q.	1.00
12	Bank of Sweden	s.q.	0.00
13	Bank of Mexico	-25 b.p.	7.00
26	Bank of Korea	s.q.	1.25
March			
2	Reserve Bank of Australia	-25 b.p.	0.50
3	Federal Reserve	-50 b.p.	1.25
4	Bank of Canada	-50 b.p.	1.25
11	Bank of England	-50 b.p.	0.25
12	European Central Bank	s.q.	0.00
13	Bank of Norway	-50 b.p.	1.00
13	Bank of Canada	-50 b.p.	0.75
15	Reserve Bank of New Zealand	-75 b.p.	0.25
15	Federal Reserve	-100 b.p.	0.25
16	Bank of Korea	-50 b.p.	0.75
16	Bank of Japan	s.q.	-0.10
18	Reserve Bank of Australia	-25 b.p.	0.25
18	Bank of Brazil	-50 b.p.	3.75
19	Bank of England	-15 b.p.	0.10
19	Swiss National Bank	s.q.	-0.75
20	Bank of Norway	-75 b.p.	0.25
20	Bank of Mexico	-50 b.p.	6.50
26	Bank of England	s.q.	0.10
27	Bank of Canada	-50 b.p.	0.25
April			
7	Reserve Bank of Australia	s.q.	0.25
8	Bank of Korea	s.q.	0.75
15	Bank of Canada*	s.q.	0.25
21	Bank of Mexico	-50 b.p.	6.00
28	Bank of Sweden	s.q.	0.00
28	Bank of Japan	s.q.	-0.10
29	Federal Reserve	s.q.	0.25
30	European Central Bank	s.q.	0.00
May			
5	Reserve Bank of Australia	s.q.	0.25
6	Bank of Brazil	-75 b.p.	3.00
7	Bank of England	s.q.	0.10
7	Bank of Norway	-25 b.p.	0.00
12	Reserve Bank of New Zealand	s.q.	0.25
14	Bank of Mexico	-50 b.p.	5.50
27	Bank of Korea	-25 b.p.	0.50
June			
2	Reserve Bank of Australia	s.q.	0.25
3	Bank of Canada	s.q.	0.25
4	European Central Bank	s.q.	0.00
10	Federal Reserve	s.q.	0.25
15	Bank of Japan	s.q.	-0.10
17	Bank of Brazil	-75 b.p.	2.25
18	Bank of England	s.q.	0.10
18	Bank of Norway	s.q.	0.00
18	Swiss National Bank	s.q.	-0.75
23	Reserve Bank of New Zealand	s.q.	0.25
25	Bank of Mexico	-50 b.p.	5.00

Date	Central banks	Decision	Rate
July			
1	Bank of Sweden	s.q.	0.00
7	Reserve Bank of Australia	s.q.	0.25
14	Bank of Japan	s.q.	-0.10
15	Bank of Korea	s.q.	0.50
15	Bank of Canada*	s.q.	0.25
16	European Central Bank	s.q.	0.00
29	Federal Reserve	s.q.	0.25
August			
4	Reserve Bank of Australia	s.q.	0.25
5	Bank of Brazil	-25 b.p.	2.00
6	Bank of England	s.q.	0.10
11	Reserve Bank of New Zealand	s.q.	0.25
13	Bank of Mexico	-50 b.p.	4.50
20	Bank of Norway	s.q.	0.00
26	Bank of Korea	s.q.	0.50
September			
1	Reserve Bank of Australia	s.q.	0.25
9	Bank of Canada	s.q.	0.25
10	European Central Bank	s.q.	0.00
16	Federal Reserve	s.q.	0.25
16	Bank of Brazil		
16	Bank of Japan		
17	Bank of England		
22	Reserve Bank of New Zealand		
22	Bank of Sweden		
24	Bank of Norway		
24	Bank of Mexico		
24	Swiss National Bank		
October			
6	Reserve Bank of Australia		
13	Bank of Korea		
28	Bank of Brazil		
28	Bank of Canada*		
28	Bank of Japan		
29	European Central Bank		
November			
3	Reserve Bank of Australia		
5	Bank of England		
5	Bank of Norway		
5	Federal Reserve		
10	Reserve Bank of New Zealand		
12	Bank of Mexico		
25	Bank of Korea		
26	Bank of Sweden		
December			
1	Reserve Bank of Australia		
9	Bank of Brazil		
9	Bank of Canada		
10	European Central Bank		
16	Federal Reserve		
17	Bank of England		
17	Bank of Norway		
17	Bank of Japan		
17	Bank of Mexico		
17	Swiss National Bank		

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.