

January 31, 2024

## U.S. Fed holds rates unchanged again

- The U.S. Fed (as expected) held the fed funds target unchanged for fourth consecutive policy meeting but dropped an explicit bias to push interest rates higher.
- The assessment of current economic conditions was upgraded to "expanding at a solid pace." But inflation has also shown enough signs of easing that policymakers still judge that risks to the Fed's inflation and employment goals "are moving into better balance."
- With more balanced risks around the Fed's policy goals, the reference in previous statements that the Fed will be "determining the extent of any additional policy firming that may be appropriate" was dropped.
- Still, with the economy running hot and the unemployment rate still low, the committee also pushed back explicitly against expectations for a pivot to outright interest rate cuts too quickly. The committee "does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainable toward 2 percent"
- Chair Powell clarified in his press conference that most participants expect the Fed will be in a position to begin cutting interest rates this year. The timing of a potential pivot to interest rate cuts will be highly data dependent, but Powell suggested recent inflation numbers have been tracking consistent with a sustainable path to the 2% inflation objective and the Fed essentially wants to see those trends sustained before pivoting to rate cuts.
- **Bottom line:** The Fed is still concerned that inflation could reaccelerate with the economy running hot. But inflation has been slowing and labour markets have shown signs of moving into better 'balance', to-date through a slowing in excess hiring demand (eg. lower job openings) rather than significant increases in the unemployment rate. We continue to expect the unemployment rate to edge higher in the first half of this year and for inflation to continue to ease back towards the 2% inflation objective. Chair Powell said directly that a rate cut in March is "not the most likely case." But we continue to expect a pivot to interest rate cuts by mid-year.

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