May 1, 2024

U.S. Fed held interest rates unchanged in May

- The U.S. Fed held the fed funds target rate unchanged (as widely expected) in its May policy announcement, but acknowledged that progress in slowing inflation has stalled in recent months.
- The statement continued to reiterate that policymakers think that risks to achieving its employment and inflation goals have moved into 'better balance' but with the added qualifier that the improvement is 'over the past year.'
- Inflation trends have, indeed, improved versus a year ago, but there have been worrying signs that a resilient consumer demand and labour market backdrop have reignited broader price growth in recent months.
- Chair Powell continued to point in his press conference to slowing job openings as evidence that broader wage and inflation pressures are returning to better balance without a substantial rise in unemployment - and cited that as evidence that the current level of interest rates is 'restrictive' enough to get inflation back to the 2% target.
- The rate statement reiterated that the committee is 'highly attentive to inflation risks' and does not expect to cut interest rates until there is 'greater confidence that inflation is moving sustainably toward 2 percent.'
- The Fed also opted to taper the pace of Quantitative Tightening -- cutting the pace of asset purchases from $60 billion per month to $25 billion. That change was flagged in earlier comments as likely to come 'fairly soon.'

- **Bottom Line:** Chair Powell continued to point to lower job openings as a sign that labour demand is softening, and said it is "unlikely that the next policy move will be a hike." Still, the policy statement reiterated that policymakers need to be confident that inflation pressures are moving sustainably back to 2% before shifting to lower interest rates, and it still looks increasingly unlikely that will happen quickly enough for the Fed to follow through on the 75 basis points worth of cuts to the fed funds target range by end of year expected by the median FOMC participant at the last meeting in March. Our own base case assumption is that the Fed won't cut the fed funds target until December, with that expected cut still contingent on economic growth and inflation pressures slowing.

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