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EcoFlash

US: The Fed funds target left unchanged at 5.25%

- For the seventh consecutive time, the FOMC left the Fed funds target unchanged at 5.25% on the 9 of May (chart 1).

- Regarding activity, the FOMC underlined that “economic growth slowed in the first part of this year” (a reference to low growth in the first quarter, in particular) and that the “adjustment in the housing sector is ongoing”.

- Activity data have been mixed since the previous FOMC meeting. In particular, whereas the ISM surveys were more favourable than expected in April, GDP growth decelerated more than forecast by the FOMC in the first quarter and the latest employment report signalled weaker labour market conditions in April.

- Regarding prices, the FOMC took note of somewhat elevated core inflation (i.e. excluding food and energy), but it still expects it to moderate in the future.

- During the inter meeting period, core price indices, to which the FOMC pays much attention, have decelerated (in year-on-year terms: to 2.5% in March from 2.7% in February according to the consumer price index, and to 2.1% from 2.4% according to the core Personal Consumption Expenditure deflator – chart 2) and wage growth has slowed down. These data underline the weakening of underlying inflationary pressures, despite the acceleration in headline price indices caused by the upturn in energy prices.

- Whilst FOMC members still consider, at least formally, that inflation is their main concern (“*The Committee's predominant policy concern remains the risk that inflation will fail to moderate as expected*”), risks on prices and activity now look balanced (“*Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information*”). We expect the Fed funds target to be lowered from the summer onwards, when sluggish growth (and its consequences on the labour maket) and lower core inflation will be confirmed.

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- FOMC Statement, 9 May

"The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5-1/4 percent.

Economic growth slowed in the first part of this year and the adjustment in the housing sector is ongoing. Nevertheless, the economy seems likely to expand at a moderate pace over coming quarters.

Core inflation remains somewhat elevated. Although inflation pressures seem likely to moderate over time, the high level of resource utilization has the potential to sustain those pressures.

In these circumstances, the Committee's predominant policy concern remains the risk that inflation will fail to moderate as expected. Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; Timothy F. Geithner, Vice Chairman; Thomas M. Hoenig; Donald L. Kohn; Randall S. Kroszner; Cathy E. Minehan; Frederic S. Mishkin; Michael H. Moskow; William Poole; and Kevin M. Warsh."

- FOMC Statement, 20-21 March

"The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5-1/4 percent.

Recent indicators have been mixed and the adjustment in the housing sector is ongoing. Nevertheless, the economy seems likely to continue to expand at a moderate pace over coming quarters.

Recent readings on core inflation have been somewhat elevated. Although inflation pressures seem likely to moderate over time, the high level of resource utilization has the potential to sustain those pressures.

In these circumstances, the Committee's predominant policy concern remains the risk that inflation will fail to moderate as expected. Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.

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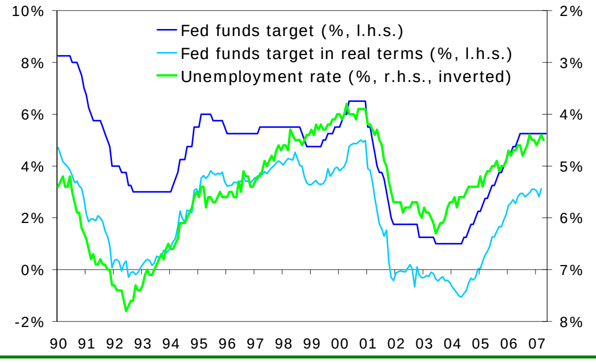
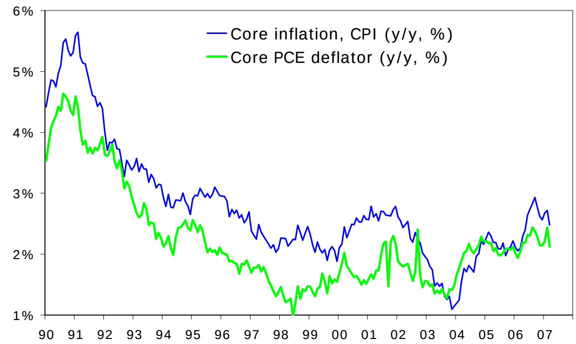
1. Fed funds target



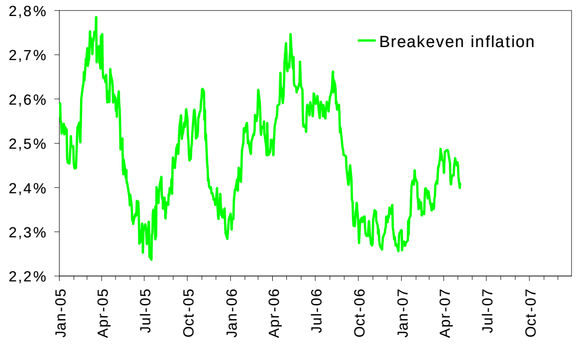
Sources : BLS, Ecowin

2. Prices ex. energy and food (CPI and PCE deflator)



Source : BLS

3. Breakeven inflation



Source : Ecowin

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