

Economic Commentary

August 10, 2004

Federal Reserve Poised to Raise Rates to 1.50% Today

The Federal Reserve is holding its regularly scheduled interest rate policy meeting this morning and is widely expected to announce a second hike in short-term interest rates to 1.50% from 1.25%. On June 30th the Fed made its first quarter point hike in almost four years.

However, given the recent evidence of softness in the US economy, especially the poor June and July labour reports, the Fed is also expected to move more slowly than previously expected in its drive to return monetary policy toward a more neutral setting. Although markets had initially interpreted a “measured” pace to mean quarter point hikes at each meeting, they have now come around to the understanding that it could also mean that the Fed will skip raising rates at meetings in between. In my June 22nd Commentary I had predicted that the Fed will do just that. At this point, it looks that the Fed will not raise rates when it meets next time on September 21st and may make the next rate hike on November 10th, after the US Presidential election. Today’s Fed announcement should provide further clues as to the intentions of senior monetary policy officials.

The Bank of Canada’s next rate setting meeting is scheduled for September 8th. Analysts on this side of the border are split evenly as to whether the Bank will raise rates at its September or its October 19th meeting.

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