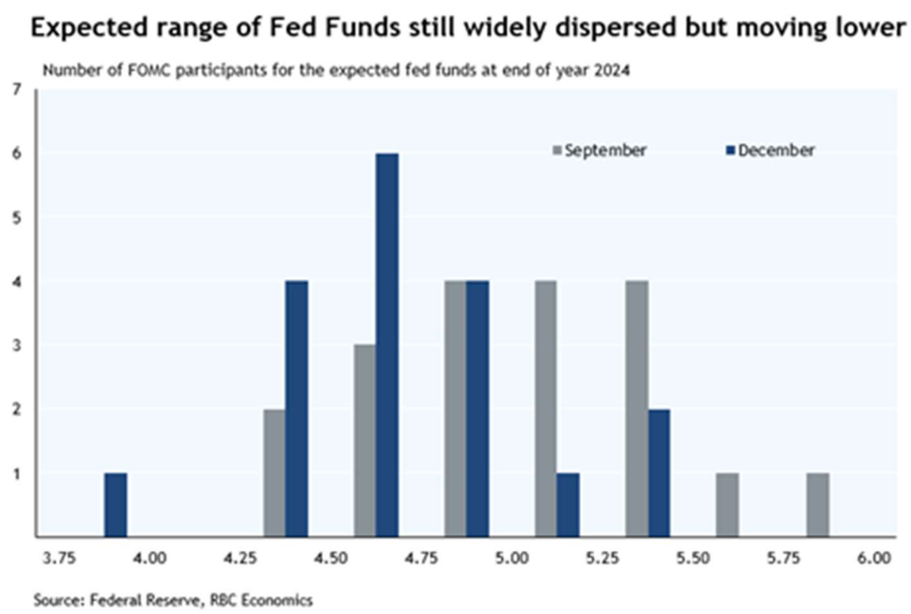
Economic Update

December 13, 2023

The Fed stayed on the bench again with timing of rate cuts "coming into view"



- As widely expected, the Federal Reserve held the fed funds target range steady at 5.25% to 5.5% for a third consecutive meeting today as easing labour demand and slowing inflation readings over recent months move the central bank closer towards their mandates.
- The updated Statement of Economic Projections (SEP) showed the median projection from policymakers is now for 75 basis points lower than the current range in 2024 (versus 25 basis points in the September SEP) alongside a downgrade in inflation projection.
- The accompanying policy statement was little changed from the version in November. There was additional language on slowing economy activities relative to the pace in Q3 – in line with our own forecast that is for GDP growth in the U.S. to have slowed to +1% in Q4.
- The framing around labour market conditions was unchanged ("job gains have moderated since earlier in the year but remain strong") and so was the language around tighter financial and credit conditions. Longer maturity U.S. government bond yields have been moving lower since mid-October alongside weakening economic data. They remain elevated however comparing to levels over the summer.
- Chair Powell reiterated in the press conference that "no one is declaring victory" over inflation yet and the Fed is still willing to push interest rates higher if needed to restore low and steady inflation. But

Claire Fan | Economist, RBC Economics | Royal Bank of Canada | T. (416) 974-3639s
For more economic research, visit our website at *https://thoughtleadership.rbc.com/economics/*

The material contained in this report is the property of Royal Bank of Canada and may not be reproduced in any way, in whole or in part, without express authorization of the copyright holder in writing. The statements and statistics contained herein have been prepared by RBC Economics Research based on information from sources considered to be reliable. We make no representation or warranty, express or implied, as to its accuracy or completeness. This publication is for the information of investors and business persons and does not constitute an offer to sell or a solicitation to buy securities.

®Registered trademark of Royal Bank of Canada.
©Royal Bank of Canada.

the committee clearly doesn't view additional hikes are likely – none of the meeting participants expected rates to end 2024 higher than they are now. And the Fed Chair also confirmed that the question of when to begin cutting rates has become a topic of discussion among the committee.

- **Bottom Line:** Alongside the decision to hold rates steady was the revised SEP that showed a more aggressive easing path in the years ahead with the timing of interest rate cuts now a topic of discussion. The unusually wide dispersion in expected median Fed Funds in 2024 however again highlighted the level of uncertainty associated with the outlook for both the economy and the inflation in the year head. Persistently lower CPI readings in the U.S. are helping calm the Fed's concerns that still-resilient economic backdrop will cause another flareup in future inflation. We expect the Fed to be content with where interest rates are currently at, before a gradually deteriorating backdrop prompts them to pivot to rate cuts sometime around the middle of next year.

The material contained in this report is the property of Royal Bank of Canada and may not be reproduced in any way, in whole or in part, without express authorization of the copyright holder in writing. The statements and statistics contained herein have been prepared by RBC Economics Research based on information from sources considered to be reliable. We make no representation or warranty, express or implied, as to its accuracy or completeness. This publication is for the information of investors and business persons and does not constitute an offer to sell or a solicitation to buy securities.

®Registered trademark of Royal Bank of Canada.
©Royal Bank of Canada.