

Economic Commentary

June 25, 2002

FOMC Meeting Today and Tomorrow: Policy Stance Neutral, No Rate Increase Expected

The FOMC is meeting today and tomorrow. The Fed is not expected to change its policy bias from Neutral and is not expected to change the fed funds rate, leaving it at 1.75%.

The US Conference Board announced a significant drop in consumer confidence for June, biggest drop since October 2001 following 9/11. This reading is in line with the University of Michigan survey published last week, thus the news were no surprise to markets.

However, the expectation for a future rate increase has been moved from the September FOMC meeting to the November meeting, with some analysts calling for a rate increase only next year! Lawrence Myer, former FED Governor went as far as stating that the Fed might even have to cut rates further! Unlikely in my opinion, but possible if the economy double dips.

Although consensus forecasters call for low but sustained growth for the rest of the year, in line with our revised forecast submitted to ALCO last week, there is increasing talk amongst analysts of the possibility of a double dip recession! We will have to follow the numbers carefully.

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