DECEMBER 2024

Central bank depository.

Eyeballing inflation.

SEI's View

Policy rates in the advanced economies will likely ease further in 2025. SEI is not convinced that it is necessary for the U.S. to "follow the crowd." Some members of the Federal Open Market Committee (FOMC), the policy decision-making arm of the Federal Reserve, now appear to be having second thoughts as well. Although the central bank reduced the federal-funds funds rate in December, its accompanying rhetoric and the new projections published in the aftermath of the meeting shifted significantly. The Bank of England kept its Bank Rate unchanged in December, but there were three dissenters who wanted to reduce the rate. In contrast, the pressure on the European Central Bank to adopt an aggressively easy monetary policy will become more intense if a trade war with the U.S. materializes.

U.S. Federal Reserve (Fed)

- By an 11-to-1 margin, the FOMC voted to reduce the federal-funds rate by 25 basis points (0.25%) to a range of 4.25% to 4.50% following its meeting on December 17-18. Cleveland Federal Reserve President Beth Hammack voted to maintain the target rate in a range of 4.50% to 4.75%.
- In a statement announcing the rate decision, the Committee stated that, in considering further rate cuts, the Committee members will "carefully assess incoming data, the evolving outlook, and the balance of risks."
- The Fed's so-called dot plot of economic projections indicated a median federal-funds rate of 3.9% at the end of 2025, up from its previous estimate of 3.4% issued in September, signaling that the central bank anticipates federal-funds rate cuts totaling roughly 0.50% by the end of next year. The central bank's previous dot plot had projected that the benchmark rate would decline 1.0% in 2025.
- The Fed estimated that core inflation, as measured by the core personal-consumption-expenditures (PCE) price index, will rise by an annual rate of 2.5% next year—modestly higher than the central bank's 2.2% forecast in September. The personal-consumption-expenditures (PCE) price index is widely considered the Fed's preferred measure of inflation as it measures the prices that consumers pay for goods and services to reveal underlying inflation trends.

European Central Bank (ECB)

- The ECB reduced its benchmark interest rate by 0.25% to 3.00% on December 12—its fourth rate cut over its past five meetings. The ECB previously implemented rate cuts of 0.25% in June, September, and October—the first reductions since September 2019.
- In a news release announcing the rate decision in December, the ECB's Governing Council stated that it is "determined to ensure that inflation stabilises sustainably at its 2% medium-term target**.**" The central bank did not include the wording in its previous statement in October that it intended to "keep policy rates sufficiently restrictive for as long as necessary to achieve this aim."
- The ECB noted that recent data indicate "inflation will settle at around the Governing Council's 2% medium-term target on a sustained basis. Domestic inflation has edged down but remains high, mostly because wages and prices in certain sectors are still adjusting to the past inflation surge with a substantial delay."

Bank of England (BOE)

- In a split vote at its meeting on December 18, the BOE maintained the Bank Rate at 4.75%. Three BOE Monetary Policy Committee (MPC) members voted for a 0.25% rate cut.
- In its announcement of the rate decision, the MPC appeared to take a somewhat hawkish tone, commenting that "wage growth and some indicators of inflation expectations had risen, adding to the risk of inflation persistence."
- The MPC also noted that it is "monitoring the impact on growth and inflationary pressures from the measures announced in the Autumn Budget [for 2024], and from geopolitical tensions and trade policy uncertainty. These developments have generated additional uncertainties around the economic outlook."

Bank of Japan (BOJ)

- By an 8-to-1 margin, the Bank of Japan (BOJ) left its benchmark interest rate unchanged at 0.25% at its meeting on December 18-19. The central bank has been on hold since it raised the rate from 0.1% to 0.25% following its meeting at the end of July. One BOJ Policy Board member voted for a 0.25% increase to 0.50%, due to concerns about signs of increasing inflationary risks.
- In a statement announcing the rate decision, the BOJ noted that "services prices have continued to rise moderately, reflecting factors such as wage increases, although the effects of a pass-through to consumer prices of cost increases led by the past rise in import prices have waned. Inflation expectations have risen moderately.
- During a news conference following the meeting, BOJ Governor Kazuo Ueda commented that the central bank will be monitoring the labor market and assessing the possible impact of U.S. President-elect Donald Trump's trade policies on Japan's economy. "Taken together, the likelihood of Japan's economy moving in line with our forecast is heightening. But we'd like one notch more information to believe we can raise interest rates. That includes the sustainability of wage increases," Ueda said.

Bank of Canada (BOC)

- The BOC cut its policy rate by 0.50% to 3.25% following its December 11 meeting. In total, the central bank has reduced the rate by a full percentage point at its last two meetings.
- However, the BOC cautioned that it may slow the pace of its monetary policy easing. In its news release, the central bank stated that it "will be evaluating the need for further reductions in the policy rate one decision at a time. Our decisions will be guided by incoming information and our assessment of the implications for the inflation outlook."
- The BOC also noted that the possibility of new tariffs imposed on Canadian exports by the incoming U.S. presidential administration of Donald Trump, who will take office on January 20, "has increased uncertainty and clouded the economic outlook."

Other central banks

- The Swiss National Bank (SNB) reduced its benchmark interest rate by 0.50% to 0.50% following its meeting on December 12, exceeding market expectations of a 0.25% cut. The SNB projects that the average annual inflation rate will end 2024 at 1.1%, moderate to 0.3% in 2025, and then rise to 0.8% in 2026. In response to the rate-cut announcement, the Swiss franc briefly declined to a two-week low against the euro before rebounding later in the day.

Summary Table

Central Bank	Current Rate	Prior Rate	Change	Next Meeting
Fed	4.25%-4.50%	4.50%-4.75%	-0.25%	January 28-29, 2025
ECB	3.00%	3.25%	-0.25%	January 30, 2025
BOE	4.75%	4.75%	Unchanged	February 6, 2025
BOJ	0.25%	0.25%	Unchanged	January 23-24, 2025
BOC	3.25%	3.75%	-0.50%	January 29, 2025

Sources: Fed, ECB, BOE, BOJ, BOC. As of December 19, 2024.

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