

April 15, 2015

BANK OF CANADA

Key interest rates are unchanged Drop in oil prices having a more rapid impact

ACCORDING TO THE BANK OF CANADA (BoC)

- The target for the overnight rate stays at 0.75%.
- The BoC expects global growth to strengthen and average 3.50% per year over 2015–2017.
- In the United States, despite a weak start to 2015, real GDP growth is expected to strengthen and to become increasingly self-sustaining, led by strong private domestic demand. Economic activity in the first quarter of 2015 was negatively affected by several transitory factors, including severe winter weather and disruptions caused by the West Coast port strike.
- The Canadian economy is estimated to have stalled in the first quarter of 2015. The BoC's assessment is that the impact of the oil price shock on growth will be more front-loaded than predicted in January, but not larger. The ultimate size of this impact will need to be monitored closely.
- Underneath the effects of the oil price shock, the natural sequence of stronger non-energy exports, increasing investment, and improving labour markets is progressing. This sequence will be bolstered by the considerable easing in financial conditions that has occurred and by improving U.S. demand.
- As the impact of the oil shock on growth starts to dissipate, this natural sequence is expected to re-emerge as the dominant trend around mid-year.
- Real GDP growth is projected to rebound in the second quarter and subsequently strengthen. The BoC expects real GDP growth of 1.9% in 2015, 2.5% in 2016, and 2.0% in 2017.
- As the economy reaches and remains at full capacity around the end of 2016, both total and core inflation are projected to be close to 2% on a sustained basis.

COMMENTS

According to monetary authorities, the adverse impacts on Canada's economy of the drop in oil prices have materialized more quickly than anticipated. Non-residential investment is down, and the decline in national revenue will have an impact on consumer spending and the housing

market. The results released by Statistics Canada this morning are consistent, showing a 2.5% drop in the volume of manufacturing sales in February, similar to January's decline.

Although the adverse effects of the drop in oil prices are impacting the Canadian economy more quickly than anticipated, monetary authorities are assuming that their total impact will be about the same as projected in January. The BoC therefore expects real GDP growth to rebound to 1.8% in the second quarter of 2015 after making almost no progress in the first quarter. Economic growth should firm up as of mid-2015, hitting 2.5% on average by the second quarter of 2016.

However, our latest economic scenario is slightly less optimistic than the BoC projections, particularly concerning growth as of the spring of 2015. The slight divergence highlights the nature of the risks associated with the BoC's forecasts, which, in our view, are slightly tilted to the downside. This is particularly true as many uncertainties remain about the movement of oil prices, with inventories high and greater output from Iran.

Implications: For now, the BoC seems well established in its monetary policy status quo. We therefore expect the target for the overnight rate to stay at 0.75% until spring 2016. That being said, the possibility that another cut will eventually be needed cannot be ruled out, if Canada's economic difficulties persist.

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Schedule 2015 of Central Bank meetings

	<u>Decision</u>	<u>Rate</u>		<u>Decision</u>	<u>Rate</u>	
JANUARY			JULY			
8	Bank of England	s.q.	0.50	2	Bank of Sweden	
14	Bank of Korea	s.q.	2.00	7	Reserve Bank of Australia	
15	Swiss National Bank	-50 b.p.	-0.75	9	Bank of England	
20-21	Bank of Japan	---	---	9	Bank of Korea	
21	Bank of Brazil	+50 b.p.	12.25	14-15	Bank of Japan	
21	Bank of Canada	-25 b.p.	0.75	15	Bank of Canada	
22	European Central Bank	s.q.	0.05	16	European Central Bank	
28	Reserve Bank of New Zealand	s.q.	3.50	22	Reserve Bank of New Zealand	
28	Federal Reserve	s.q.	0.25	23	Bank of Mexico	
29	Bank of Mexico	s.q.	3.00	29	Bank of Brazil	
FEBRUARY			AUGUST			
2	Reserve Bank of Australia	-25 b.p.	2.25	4	Reserve Bank of Australia	
5	Bank of England	s.q.	0.50	6	Bank of England	
12	Bank of Sweden	-10 b.p.	-0.10	6-7	Bank of Japan	
16	Bank of Korea	s.q.	2.00	12	Bank of Korea	
17-18	Bank of Japan	---	---	SEPTEMBER		
MARCH			1	Reserve Bank of Australia		
2	Reserve Bank of Australia	s.q.	2.25	2	Bank of Brazil	
4	Bank of Brazil	+50 b.p.	12.75	3	European Central Bank	
4	Bank of Canada	s.q.	0.75	3	Bank of Sweden	
5	European Central Bank	s.q.	0.05	3	Bank of Mexico	
5	Bank of England	s.q.	0.50	9	Reserve Bank of New Zealand	
11	Bank of Korea	-25 b.p.	1.75	9	Bank of Canada	
11	Reserve Bank of New Zealand	s.q.	3.50	10	Bank of England	
16-17	Bank of Japan	---	---	10	Bank of Korea	
18	Bank of Sweden	-15 b.p.	-0.25	14-15	Bank of Japan	
18	Federal Reserve	s.q.	0.25	17	Swiss National Bank	
19	Bank of Norway	s.q.	1.25	17	Federal Reserve	
19	Swiss National Bank	s.q.	-0.75	24	Bank of Norway	
26	Bank of Mexico	s.q.	3.00	OCTOBER		
APRIL			5	Reserve Bank of Australia		
7	Reserve Bank of Australia	s.q.	2.25	6-7	Bank of Japan	
7-8	Bank of Japan	---	---	8	Bank of England	
9	Bank of England	s.q.	0.50	14	Bank of Korea	
9	Bank of Korea	s.q.	1.75	15	Bank of Mexico	
15	European Central Bank	s.q.	0.05	21	Bank of Brazil	
15	Bank of Canada	s.q.	0.75	21	Bank of Canada	
29	Reserve Bank of New Zealand			22	European Central Bank	
29	Bank of Sweden			28	Reserve Bank of New Zealand	
29	Bank of Brazil			28	Bank of Sweden	
29	Federal Reserve			28	Federal Reserve	
30	Bank of Japan			30	Bank of Japan	
30	Bank of Mexico			NOVEMBER		
MAY			2	Reserve Bank of Australia		
5	Reserve Bank of Australia			5	Bank of England	
7	Bank of Norway			5	Bank of Norway	
11	Bank of England			11	Bank of Korea	
15	Bank of Korea			18-19	Bank of Japan	
21-22	Bank of Japan			25	Bank of Brazil	
27	Bank of Canada			30	Reserve Bank of Australia	
JUNE			DECEMBER			
2	Reserve Bank of Australia			2	Bank of Canada	
3	European Central Bank			3	European Central Bank	
3	Bank of Brazil			3	Bank of Mexico	
4	Bank of England			9	Bank of Korea	
4	Bank of Mexico			9	Reserve Bank of New Zealand	
10	Reserve Bank of New Zealand			10	Bank of England	
11	Bank of Korea			10	Swiss National Bank	
17	Federal Reserve			15	Bank of Sweden	
18	Bank of Norway			16	Federal Reserve	
18	Swiss National Bank			17	Bank of Norway	
18-19	Bank of Japan			17-18	Bank of Japan	

NOTE: Certain banks may decide to change rates in-between the scheduled meetings. The abbreviations s.q. and b.p. correspond to status quo and basis points respectively. * To be determined.