



May 27, 2015



BANK OF CANADA

Key interest rates do not change

A lot of hope rests on growth rebounding in the second quarter

ACCORDING TO THE BANK OF CANADA (BoC)

- The target for the overnight rate stays at 0.75%.
- Total CPI inflation is near the bottom of the BoC's 1% to 3% inflation control range, largely due to the transitory effects of sharply lower energy prices. Core inflation remains above 2%, boosted by the pass-through effects of past depreciation of the Canadian dollar, as well as certain sector-specific factors.
- The outlook for the Canadian economy remains largely in line with the April *Monetary Policy Report (MPR)*. While a weak first quarter in the United States has raised questions about that economy's underlying strength, the BoC expects a return to solid growth in the second quarter.
- Despite the recent back-up in global bond yields, financial conditions for Canadian households and firms remain highly stimulative.
- The Canadian dollar has strengthened in recent weeks in the context of higher oil prices and a softer U.S. dollar. If these developments are sustained, their net effect will need to be assessed as more data become available in the months ahead.

COMMENTS

Based on the statement released today, the BoC is still clearly comfortable with the scenario set out in April's *MPR*. Recent movement in economic indicators confirms that first quarter 2015 growth in Canadian real GDP will be practically nonexistent.

The BoC did reiterate this morning its confidence in economic growth rebounding in the second quarter. Note that the BoC forecasted real GDP to increase 1.8% (quarterly annualized) in the second quarter, followed by advances of 2.8% in the third quarter and 2.5% in the fourth quarter.

Overall, we share this projection. North American economic growth was adversely impacted during the winter by several temporary factors, including difficult weather conditions

and a strike in some West Coast ports. However, these difficulties disappeared with spring's arrival, which should encourage quicker economic growth. In addition, oil prices stabilized on international markets. This calms certain fears, even though the level remains below the profitability threshold for many investment projects across the country. That said, the risk of disappointment still looms large as tangible signs of a rebound in economic growth are, for the time being, fairly timid, even in the United States.

Stabilization of oil prices mixed with a weaker U.S. dollar contributed to some appreciation in the loonie in recent weeks. The BoC also signaled its worry on this front, as it could impact the vitality of exports. The situation clearly merits close monitoring in the coming months, but our forecasts do not indicate that the loonie will appreciate notably in the short term.

Implications: The BoC stays on course. If the scenario of a rebound in economic growth starting in the second quarter materializes, we can anticipate that the status quo for key interest rates will extend until 2016. Until then, the possibility of a new rate cut cannot be totally dismissed based on the evolution of the loonie and the magnitude of improvement in economic conditions.

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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			SEPTEMBER			
2	Reserve Bank of Australia	s.q.	2.25	1	Reserve Bank of Australia	
4	Bank of Brazil	+50 b.p.	12.75	2	Bank of Brazil	
4	Bank of Canada	s.q.	0.75	3	European Central Bank	
5	European Central Bank	s.q.	0.05	3	Bank of Sweden	
5	Bank of England	s.q.	0.50	3	Bank of Mexico	
11	Bank of Korea	-25 b.p.	1.75	9	Reserve Bank of New Zealand	
11	Reserve Bank of New Zealand	s.q.	3.50	9	Bank of Canada	
16-17	Bank of Japan	---	---	10	Bank of England	
18	Bank of Sweden	-15 b.p.	-0.25	10	Bank of Korea	
18	Federal Reserve	s.q.	0.25	14-15	Bank of Japan	
19	Bank of Norway	s.q.	1.25	17	Swiss National Bank	
19	Swiss National Bank	s.q.	-0.75	17	Federal Reserve	
26	Bank of Mexico	s.q.	3.00	24	Bank of Norway	
APRIL			OCTOBER			
7	Reserve Bank of Australia	s.q.	2.25	5	Reserve Bank of Australia	
7-8	Bank of Japan	---	---	6-7	Bank of Japan	
9	Bank of England	s.q.	0.50	8	Bank of England	
9	Bank of Korea	s.q.	1.75	14	Bank of Korea	
15	European Central Bank	s.q.	0.05	15	Bank of Mexico	
15	Bank of Canada	s.q.	0.75	21	Bank of Brazil	
29	Reserve Bank of New Zealand	s.q.	3.50	21	Bank of Canada	
29	Bank of Sweden	s.q.	-0.25	22	European Central Bank	
29	Bank of Brazil	+50 b.p.	13.25	28	Reserve Bank of New Zealand	
29	Federal Reserve	s.q.	0.25	28	Bank of Sweden	
30	Bank of Japan	---	---	28	Federal Reserve	
30	Bank of Mexico	s.q.	3.00	30	Bank of Japan	
MAY			NOVEMBER			
5	Reserve Bank of Australia	-25 b.p.	2.00	2	Reserve Bank of Australia	
7	Bank of Norway	s.q.	1.25	5	Bank of England	
11	Bank of England	s.q.	0.50	5	Bank of Norway	
15	Bank of Korea	s.q.	1.75	11	Bank of Korea	
21-22	Bank of Japan	---	---	18-19	Bank of Japan	
27	Bank of Canada	s.q.	0.75	25	Bank of Brazil	
JUNE			NOVEMBER			
2	Reserve Bank of Australia			30	Reserve Bank of Australia	
3	European Central Bank			DECEMBER		
3	Bank of Brazil			2	Bank of Canada	
4	Bank of England			3	European Central Bank	
4	Bank of Mexico			3	Bank of Mexico	
10	Reserve Bank of New Zealand			9	Bank of Korea	
11	Bank of Korea			9	Reserve Bank of New Zealand	
17	Federal Reserve			10	Bank of England	
18	Bank of Norway			10	Swiss National Bank	
18	Swiss National Bank			15	Bank of Sweden	
18-19	Bank of Japan			16	Federal Reserve	
				17	Bank of Norway	
				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.