

September 9, 2015

BANK OF CANADA

Key interest rates do not change

Toward an extended status quo for the target for the overnight rate

ACCORDING TO THE BANK OF CANADA (BoC)

- The target for the overnight rate stays at 0.50%.
- Inflation has evolved in line with the outlook in the BoC's July *Monetary Policy Report (MPR)*. Total CPI inflation remains near the bottom of the target range, reflecting year-over-year price declines for consumer energy products. Core inflation has been close to 2%, with disinflationary pressures from economic slack being offset by transitory effects of the past depreciation of the Canadian dollar and some sector-specific factors.
- The dynamics of GDP growth in Canada outlined in July's *MPR* also remain intact. The stimulative effects of previous monetary policy actions are working their way through the Canadian economy.
- Canada's resource sector continues to adjust to lower prices for oil and other commodities, with some spillover to the rest of the economy. These adjustments are complex and are expected to take considerable time. Economic activity continues to be underpinned by solid household spending and a firm recovery in the United States, with particular strength in the sectors of the U.S. economy that are important for Canadian exports.
- Increasing uncertainty about growth prospects for China and other emerging-market economies, in contrast, is raising questions about the pace of the global recovery. This has contributed to heightened financial market volatility and lower commodity prices.
- Risks to financial stability are evolving as expected. Taking all of these developments into consideration, the BoC judges that the risks to the outlook for inflation remain within the zone for which the current stance of monetary policy is appropriate.

For one, merchandise exports rose sharply in June (+5.5%) and July (+2.3%). For another, consumer spending remained fairly high, as shown by this morning's surprising jump in housing starts for August (to 216,924 units, annualized). Clearly, current monetary policy, with historically low interest rates, combined with a weak Canadian dollar, should prompt acceleration in the country's growth. Failing this, greater support from budget policies may eventually need to be considered.

Implications: Today's decision by the BoC is no surprise when nearly all forecasters consulted by Bloomberg were expecting a status quo, one that could extend for several months. On one hand, monetary policy is already at a very expansionist level. As such, barring disappointing results in the third quarter with an unexpected prolonged recession, everything points to the BoC not needing to lower its target for the overnight rate any further in the coming months. On the other hand, the Canadian economy has excess capacity that is hampering inflation pressure. Adjustments in the energy sector will also continue to be felt in the Canadian economy for several quarters. As such, the BoC will certainly take its time before initiating a gradual increase in key interest rates. Under these conditions, the status quo is likely to extend until 2017.

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COMMENTS

After lowering key rates last July, the BoC has returned to the status quo today by holding the target for the overnight rate at 0.50%. It must be said that recent economic indicators suggest that the technical recession in the first half of 2015 will be short, and that a return to positive territory is likely as of the third quarter of 2015.

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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	-10 b.p.	-0.35
14	Bank of Korea	s.q.	2.00	7	Reserve Bank of Australia	s.q.	2.00
15	Swiss National Bank	-50 b.p.	-0.75	8	Bank of Korea	s.q.	1.50
20-21	Bank of Japan	---	---	9	Bank of England	s.q.	0.50
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	-25 b.p.	0.50
22	European Central Bank	s.q.	0.05	16	European Central Bank	s.q.	0.05
28	Reserve Bank of New Zealand	s.q.	3.50	22	Reserve Bank of New Zealand	-25 b.p.	3.00
28	Federal Reserve	s.q.	0.25	29	Bank of Brazil	+50 b.p.	14.25
29	Bank of Mexico	s.q.	3.00	29	Federal Reserve	s.q.	0.25
				30	Bank of Mexico	s.q.	3.00
FEBRUARY			AUGUST				
2	Reserve Bank of Australia	-25 b.p.	2.25	4	Reserve Bank of Australia	s.q.	2.00
5	Bank of England	s.q.	0.50	6	Bank of England	s.q.	0.50
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	s.q.	1.50
17-18	Bank of Japan	---	---				
MARCH			SEPTEMBER				
2	Reserve Bank of Australia	s.q.	2.25	1	Reserve Bank of Australia	s.q.	2.00
4	Bank of Brazil	+50 b.p.	12.75	2	Bank of Brazil	s.q.	14.25
4	Bank of Canada	s.q.	0.75	3	European Central Bank	s.q.	0.05
5	European Central Bank	s.q.	0.05	3	Bank of Sweden	s.q.	-0.35
5	Bank of England	s.q.	0.50	9	Bank of Canada	s.q.	0.50
11	Bank of Korea	-25 b.p.	1.75	9	Reserve Bank of New Zealand	s.q.	3.00
11	Reserve Bank of New Zealand	s.q.	3.50	10	Bank of England	s.q.	0.50
16-17	Bank of Japan	---	---	11	Bank of Korea	s.q.	1.50
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	s.q.	0.75
19	Bank of Norway	s.q.	1.25	17	Federal Reserve	s.q.	0.25
19	Swiss National Bank	s.q.	-0.75	21	Bank of Mexico	s.q.	3.00
26	Bank of Mexico	s.q.	3.00	24	Bank of Norway	s.q.	2.00
APRIL			OCTOBER				
7	Reserve Bank of Australia	s.q.	2.25	5	Reserve Bank of Australia	s.q.	2.00
7-8	Bank of Japan	---	---	6-7	Bank of Japan	---	---
9	Bank of England	s.q.	0.50	8	Bank of England	s.q.	0.50
9	Bank of Korea	s.q.	1.75	14	Bank of Korea	s.q.	1.50
15	European Central Bank	s.q.	0.05	21	Bank of Brazil	s.q.	14.25
15	Bank of Canada	s.q.	0.75	21	Bank of Canada	s.q.	0.50
29	Reserve Bank of New Zealand	s.q.	3.50	22	European Central Bank	s.q.	0.05
29	Bank of Sweden	s.q.	-0.25	28	Reserve Bank of New Zealand	s.q.	3.00
29	Bank of Brazil	+50 b.p.	13.25	28	Bank of Sweden	s.q.	-0.35
29	Federal Reserve	s.q.	0.25	28	Federal Reserve	s.q.	0.25
30	Bank of Japan	---	---	29	Bank of Mexico	s.q.	3.00
30	Bank of Mexico	s.q.	3.00	30	Bank of Japan	s.q.	2.00
MAY			NOVEMBER				
5	Reserve Bank of Australia	-25 b.p.	2.00	2	Reserve Bank of Australia	s.q.	2.00
7	Bank of Norway	s.q.	1.25	5	Bank of England	s.q.	0.50
11	Bank of England	s.q.	0.50	5	Bank of Norway	s.q.	1.25
15	Bank of Korea	s.q.	1.75	11	Bank of Korea	s.q.	1.50
21-22	Bank of Japan	---	---	18-19	Bank of Japan	---	---
27	Bank of Canada	s.q.	0.75	25	Bank of Brazil	s.q.	14.25
				30	Reserve Bank of Australia	s.q.	2.00
JUNE			DECEMBER				
2	Reserve Bank of Australia	s.q.	2.00	2	Bank of Canada	s.q.	0.75
3	European Central Bank	s.q.	0.05	3	European Central Bank	s.q.	0.05
3	Bank of Brazil	+50 b.p.	13.75	9	Reserve Bank of New Zealand	s.q.	3.00
4	Bank of England	s.q.	0.50	10	Bank of England	s.q.	0.50
4	Bank of Mexico	s.q.	3.00	10	Bank of Korea	s.q.	1.50
10	Bank of Korea	-25 b.p.	1.50	10	Swiss National Bank	s.q.	0.75
10	Reserve Bank of New Zealand	-25 b.p.	3.25	15	Bank of Sweden	s.q.	-0.35
17	Federal Reserve	s.q.	0.25	16	Federal Reserve	s.q.	0.25
18	Bank of Norway	-25 b.p.	1.00	17	Bank of Norway	s.q.	1.25
18	Swiss National Bank	s.q.	-0.75	17	Bank of Mexico	s.q.	3.00
18-19	Bank of Japan	---	---	17-18	Bank of Japan	s.q.	2.00

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.