

BANK OF CANADA

Key interest rates stay where they are Bank of Canada projections are slightly downgraded

ACCORDING TO THE BANK OF CANADA (BoC)

- The target for the overnight rate stays at 0.50%.
- Global economic growth has been a little weaker than expected this year, but the dynamics pointing to a pickup in 2016 and 2017 remain largely intact.
- In the United States, the economy is expected to continue growing at a solid pace with particular strength in private domestic demand, which is important for Canadian exports.
- Canada's economy has rebounded, as projected in July. In non-resource sectors, the looked-for signs of strength are more evident, supported by the stimulative effects of previous monetary policy actions and past depreciation of the Canadian dollar. Household spending continues to underpin economic activity and is expected to grow at a moderate pace over the projection period. However, lower prices for oil and other commodities since the summer have further lowered Canada's terms of trade and are dampening business investment and exports in the resource sector.
- The BoC projects Canada's real GDP will grow by just over 1% in 2015 before firming to about 2% in 2016 and 2.5% in 2017. The complex economic adjustments to the decline in Canada's terms of trade will continue to play out over the projection horizon.
- The weaker profile for business investment suggests that, in the near term, growth in potential output is more likely to be in the lower part of the BoC's range of estimates (ie between 1.6% and 2.0% for 2015 and between 1.4% and 2.2% for 2016). Given this judgment about potential output, the Canadian economy can be expected to return to full capacity, and inflation sustainably to target, around mid-2017.
- Core inflation is expected to remain near 2% throughout the projection period as the upward pressure from exchange rate pass-through roughly offsets downward pressure from excess supply. Total CPI inflation is expected to remain below 2% until the beginning of 2017.

COMMENTS

The status quo for key interest rates that was ordered today by the monetary authorities comes as no surprise, since all forecasters were anticipating that decision. As was also expected, the BoC raised its Q3-2015 growth forecast for the Canadian economy in light of the latest data on real GDP by industry. This brings the projection from an annualized quarterly rate of 1.5%, to 2.5%. However, the monetary authorities have lowered their growth forecasts for the fourth quarter of 2015, and for the year 2016 as a whole. There are two reasons for this: a larger-than-expected slump in commodity prices and a more pronounced pullback in investment intentions in the energy sector. In the end, the BoC is predicting real GDP growth of 1.1% in 2015 and 2.0% in 2016. This adjustment brings the BoC scenario into line with the latest consensus forecast.

The BoC forecasts for all-items inflation have also been slightly downgraded for 2016. That said, the monetary authorities are still expecting total inflation to reach the median target in 2017.

Implications: Even though the monetary authorities have slightly downgraded their economic forecasts, the overall picture remains essentially the same. Furthermore, the numerous risks surrounding the economic outlook and the existence of excess production capacity until at least 2017 argue in favour of an extended status quo for the country's key interest rates. Under these circumstances, our forecast of an initial hike in the target for the overnight rate no sooner than the beginning of 2017 remains appropriate.

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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	Reserve Bank of New Zealand	-25 b.p.	2.75
11	Bank of Korea	-25 b.p.	1.75	9	Bank of Canada	s.q.	0.50
11	Reserve Bank of New Zealand	s.q.	3.50	10	Bank of England	s.q.	0.50
16-17	Bank of Japan	---	---	10	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	-25 b.p.	0.75
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 Canada	s.q.	0.50
15	Bank of Canada	s.q.	0.75	21	Bank of Brazil	s.q.	---
29	Reserve Bank of New Zealand	s.q.	3.50	22	European Central Bank	s.q.	---
29	Bank of Sweden	s.q.	-0.25	28	Reserve Bank of New Zealand	s.q.	---
29	Bank of Brazil	+50 b.p.	13.25	28	Bank of Sweden	s.q.	---
29	Federal Reserve	s.q.	0.25	28	Federal Reserve	s.q.	---
30	Bank of Japan	---	---	29	Bank of Mexico	s.q.	---
30	Bank of Mexico	s.q.	3.00	30	Bank of Japan	s.q.	---
MAY			NOVEMBER				
5	Reserve Bank of Australia	-25 b.p.	2.00	2	Reserve Bank of Australia	s.q.	---
7	Bank of Norway	s.q.	1.25	5	Bank of England	s.q.	---
11	Bank of England	s.q.	0.50	5	Bank of Norway	s.q.	---
15	Bank of Korea	s.q.	1.75	11	Bank of Korea	s.q.	---
21-22	Bank of Japan	---	---	18-19	Bank of Japan	s.q.	---
27	Bank of Canada	s.q.	0.75	25	Bank of Brazil	s.q.	---
				30	Reserve Bank of Australia	s.q.	---
JUNE			DECEMBER				
2	Reserve Bank of Australia	s.q.	2.00	2	Bank of Canada	s.q.	---
3	European Central Bank	s.q.	0.05	3	European Central Bank	s.q.	---
3	Bank of Brazil	+50 b.p.	13.75	9	Bank of Korea	s.q.	---
4	Bank of England	s.q.	0.50	9	Reserve Bank of New Zealand	s.q.	---
4	Bank of Mexico	s.q.	3.00	10	Bank of England	s.q.	---
10	Bank of Korea	-25 b.p.	1.50	10	Swiss National Bank	s.q.	---
10	Reserve Bank of New Zealand	-25 b.p.	3.25	15	Bank of Sweden	s.q.	---
17	Federal Reserve	s.q.	0.25	16	Federal Reserve	s.q.	---
18	Bank of Norway	-25 b.p.	1.00	17	Bank of Norway	s.q.	---
18	Swiss National Bank	s.q.	-0.75	17	Bank of Mexico	s.q.	---
18-19	Bank of Japan	---	---	17-18	Bank of Japan	s.q.	---

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.