

March 9, 2016

## BANK OF CANADA

### Ongoing status quo for monetary policy

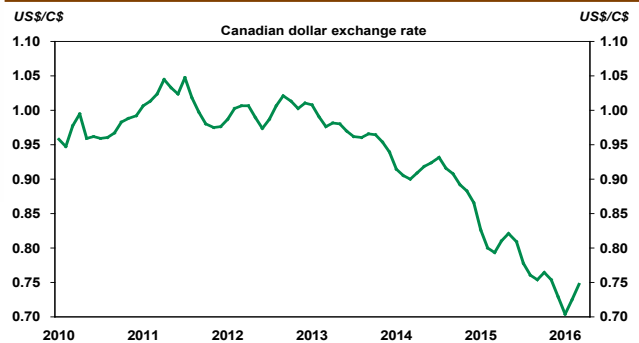
#### ACCORDING TO THE BANK OF CANADA (BoC)

- The target for the overnight rate stays at 0.50%.
- The global economy is progressing largely as the BoC anticipated in its January *Monetary Policy Report*. Recent data indicate that the U.S. expansion remains broadly on track. At the same time, the low level of oil prices will continue to dampen growth in Canada and other energy-producing countries.
- Canada's GDP growth in the fourth quarter was not as weak as expected, but the near-term outlook for the economy remains broadly the same as in January.
- Inflation in Canada is evolving broadly as anticipated. The factors that pushed total CPI inflation up to 2% will likely unwind in the months ahead.
- An assessment of the impact of the upcoming federal budget's fiscal measures will be incorporated into the BoC's April projection.
- Financial vulnerabilities continue to edge higher, in part due to regional shifts in activity associated with the structural adjustment underway in Canada's economy.

#### COMMENTS

As all 26 forecasters surveyed by Bloomberg expected, the monetary authorities have once again opted for a status quo on key interest rates. It should be said that there was no need to lower the target for the overnight rate again. Not only was economic growth a little stronger than anticipated in Q4 2015, everything suggests that real GDP growth could edge above the 2% mark in the first quarter of 2016. Note that, in January's report, the monetary authorities were calling for Canadian real GDP growth of just 1% for Q1 2016. The BoC did not spend a lot of time on this fact in today's statement, probably not to further spotlight the loonie's recent rise (on the wings of the rise in oil prices). In any event, there are still many uncertainties and, all in all, the general outlook for the economy has not changed much since January.

#### The loonie's shakeout has given way to a comeback in the last few weeks



Sources: Statistics Canada and Desjardins, Economic Studies

On the other hand, it is difficult to contemplate a key rate increase in the near future, or even for several quarters. Major difficulties will persist and the Canadian economy will continue to adjust to the drop in commodity prices. For example, the annual change in Canadian domestic demand went into negative territory in Q4 2015 for the first time since the 2008–2009 recession. According to the latest projections, the current output gap will last for several more quarters.

**Implications:** Monetary authorities will likely maintain a status quo for the target for the overnight rate for several quarters. Only toward the end of 2017 will the conditions likely be in place to order a first key interest rate increase in Canada.

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## Schedule 2016 of Central Bank meetings

	<u>Decision</u>	<u>Rate</u>		<u>Decision</u>	<u>Rate</u>
<b>JANUARY</b>			<b>JULY</b>		
13	Bank of Korea	s.q.	1.50	5	Reserve Bank of Australia
14	Bank of England	s.q.	0.50	6	Bank of Sweden
20	Bank of Brazil	s.q.	14.25	13	Bank of Canada
20	Bank of Canada	s.q.	0.50	14	Bank of England
21	European Central Bank	s.q.	0.05	14	Bank of Korea
27	Federal Reserve	s.q.	0.50	20	Bank of Brazil
28	Reserve Bank of New Zealand	s.q.	2.50	21	European Central Bank
28-29	Bank of Japan	---	---	27	Federal Reserve
<b>FEBRUARY</b>			<b>AUGUST</b>		
1	Reserve Bank of Australia	s.q.	2.00	2	Reserve Bank of Australia
4	Bank of England	s.q.	0.50	4	Bank of England
4	Bank of Mexico	s.q.	3.25	11	Bank of Korea
11	Bank of Sweden	-15 b.p.	-0.50	11	Reserve Bank of New Zealand
15	Bank of Korea	s.q.	1.50	11	Bank of Mexico
29	Reserve Bank of Australia	s.q.	2.00	31	Bank of Brazil
<b>MARCH</b>			<b>SEPTEMBER</b>		
2	Bank of Brazil	s.q.	14.25	6	Reserve Bank of Australia
9	Bank of Canada	s.q.	0.50	7	Bank of Sweden
10	European Central Bank			7	Bank of Korea
10	Bank of Korea			8	European Central Bank
10	Reserve Bank of New Zealand			9	Bank of Korea
14-15	Bank of Japan			15	Bank of England
16	Federal Reserve			15	Swiss National Bank
17	Bank of England			20-21	Bank of Japan
17	Bank of Norway			21	Federal Reserve
17	Swiss National Bank			22	Bank of Norway
18	Bank of Mexico			22	Reserve Bank of New Zealand
<b>APRIL</b>			<b>OCTOBER</b>		
5	Reserve Bank of Australia			3	Reserve Bank of Australia
13	Bank of Canada			13	Bank of England
14	Bank of England			13	Bank of Korea
19	Bank of Korea			19	Bank of Brazil
21	European Central Bank			19	Bank of Canada
21	Bank of Sweden			20	European Central Bank
27	Bank of Brazil			27	Bank of Norway
27	Federal Reserve			27	Bank of Sweden
27-28	Bank of Japan			31	Reserve Bank of Australia
28	Reserve Bank of New Zealand			31-1	Bank of Japan
<b>MAY</b>			<b>NOVEMBER</b>		
3	Reserve Bank of Australia			2	Federal Reserve
5	Bank of Mexico			3	Bank of England
12	Bank of England			10	Reserve Bank of New Zealand
12	Bank of Norway			11	Bank of Korea
13	Bank of Korea			17	Bank of Mexico
25	Bank of Canada			30	Bank of Brazil
<b>JUNE</b>			<b>DECEMBER</b>		
2	European Central Bank			5	Reserve Bank of Australia
7	Reserve Bank of Australia			7	Bank of Canada
8	Bank of Brazil			8	European Central Bank
9	Bank of Korea			14	Federal Reserve
9	Reserve Bank of New Zealand			15	Bank of England
15	Federal Reserve			15	Bank of Korea
15-16	Bank of Japan			15	Bank of Norway
16	Bank of England			15	Bank of Mexico
16	Swiss National Bank			15	Swiss National Bank
23	Bank of Norway			19-20	Bank of Japan
30	Bank of Mexico			21	Bank of Sweden

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.