

April 13, 2016

BANK OF CANADA

Key rates remain where they are, again

The Bank of Canada's scenario is now consistent with most forecasts

ACCORDING TO THE BANK OF CANADA (BoC)

- The target for the overnight rate stays at 0.50%.
- Growth in the global economy is expected to strengthen gradually from about 3.0% in 2016 to 3.5% on average in 2017 and 2018, a weaker outlook than the BoC had projected in January's *Monetary Policy Report*.
- The Canadian economy's complex structural adjustment to the oil price shock is ongoing and will dampen growth throughout the BoC's projection horizon.
- The BoC expects deeper cuts to investment in Canada's energy sector than were forecast in January. Non-resource exports are expected to strengthen, but their profile is weaker than previously projected, in part because of slower foreign demand growth and the higher Canadian dollar.
- The combined effect of these global and domestic developments would have been a modest downgrade of the BoC's outlook. However, the fiscal measures announced in the March federal budget will have a notable positive impact on GDP. The BoC now projects real GDP growth of 1.7% in 2016, 2.3% in 2017 and 2.0% in 2018.
- The projections for potential output growth have been downgraded, primarily as a result of the slower trend increase in labour productivity stemming from lower investment.
- The new growth profile, combined with the revised estimate for potential, suggests the output gap could close somewhat earlier than the BoC had anticipated in January, likely in the second half of 2017.
- Total consumer price index inflation is below the 2% target and will likely ease further before returning to 2% as the effects of exchange rate passthrough and lower consumer energy prices unwind and the economy's excess capacity diminishes.

COMMENTS

The BoC stood out in January with an economic outlook that was higher than the consensus forecast, particularly for 2017. The changes the monetary authorities made today bring its scenario more into line with the private sector forecasts. That being said, it is surprising that the monetary authorities downgraded the growth outlook for 2017 from 2.4% to 2.3%, given that the benefits of the federal government's stimulus measures had not yet been factored into the BoC's scenario. Apparently, the monetary authorities were a little too optimistic in January about growth in non-residential investment and exports, as they lowered their projections for these two components in the new outlook.

All in all, regardless of how they got there, what we need to look at is where they ended up. In this regard, the BoC's new outlook now seems to be in line with the projections of most forecasters. Moreover, our latest scenario is identical to the BoC's, calling for Canadian real GDP growth of 1.7% in 2016 and 2.3% in 2017, with the changes made subsequent to January's faster-than-anticipated real GDP growth by industry and the announcement of fiscal measures.

Implications: Canada's economy is still adjusting; this will keep creating some upheaval in the coming quarters. The BoC also confirmed our projection of very strong economic growth in the first quarter of 2016, followed by much slower growth in the next quarter. Despite the vagaries in the economic landscape, the BoC wants to stay the course in the coming quarters, arguing for an ongoing status quo on key interest rates. It will likely be late fall 2017 before a first increase to the target for the overnight rate is ordered.

Benoit P. Durocher
Senior Economist

François Dupuis
Vice-President and Chief Economist

Mathieu D'Anjou
Senior Economist

Benoit P. Durocher
Senior Economist

Jimmy Jean
Senior Economist

Hendrix Vachon
Senior Economist

514-281-2336 or 1 866 866-7000, ext. 2336
E-mail: desjardins.economics@desjardins.com

Schedule 2016 of Central Bank meetings

	<u>Decision</u>	<u>Rate</u>		<u>Decision</u>	<u>Rate</u>
JANUARY			JULY		
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	13-14	Bank of Korea
21	European Central Bank	s.q.	0.05	14	Bank of England
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
29	Bank of Japan	s.q.	-0.10	27	Federal Reserve
FEBRUARY			28-29 Bank of Japan		
1	Reserve Bank of Australia	s.q.	2.00	AUGUST	
4	Bank of England	s.q.	0.50	2	Reserve Bank of Australia
4	Bank of Mexico	s.q.	3.25	4	Bank of England
11	Bank of Sweden	-15 b.p.	-0.50	10-11	Bank of Korea
15	Bank of Korea	s.q.	1.50	10-11	Reserve Bank of New Zealand
17	Bank of Mexico	+50 b.p.	3.75	11	Bank of Mexico
29	Reserve Bank of Australia	s.q.	2.00	31	Bank of Brazil
MARCH			SEPTEMBER		
2	Bank of Brazil	s.q.	14.25	6	Reserve Bank of Australia
9	Bank of Korea	s.q.	1.50	7	Bank of Sweden
9	Reserve Bank of New Zealand	-25 b.p.	2.25	7	Bank of Canada
9	Bank of Canada	s.q.	0.50	8	European Central Bank
10	European Central Bank	-5 b.p.	0.00	8-9	Bank of Korea
14	Bank of Japan	s.q.	-0.10	15	Bank of England
16	Federal Reserve	s.q.	0.50	15	Swiss National Bank
17	Bank of England	s.q.	0.50	20-21	Bank of Japan
17	Bank of Norway	-25 b.p.	0.50	21	Federal Reserve
17	Swiss National Bank	s.q.	-0.75	21-22	Reserve Bank of New Zealand
18	Bank of Mexico	s.q.	3.75	22	Bank of Norway
APRIL			29 Bank of Mexico		
5	Reserve Bank of Australia	s.q.	2.00	OCTOBER	
13	Bank of Canada	s.q.	0.50	3	Reserve Bank of Australia
14	Bank of England			12-13	Bank of Korea
18-19	Bank of Korea			13	Bank of England
21	European Central Bank			19	Bank of Brazil
21	Bank of Sweden			19	Bank of Canada
27	Bank of Brazil			20	European Central Bank
27	Federal Reserve			27	Bank of Norway
27-28	Reserve Bank of New Zealand			27	Bank of Sweden
27-28	Bank of Japan			31	Reserve Bank of Australia
MAY			31-1 Bank of Japan		
3	Reserve Bank of Australia			NOVEMBER	
5	Bank of Mexico			2	Federal Reserve
12	Bank of England			3	Bank of England
12	Bank of Norway			9-10	Bank of Korea
12-13	Bank of Korea			10-11	Reserve Bank of New Zealand
25	Bank of Canada			17	Bank of Mexico
JUNE			30 Bank of Brazil		
2	European Central Bank			DECEMBER	
7	Reserve Bank of Australia			5	Reserve Bank of Australia
8	Bank of Brazil			7	Bank of Canada
8-9	Bank of Korea			8	European Central Bank
8-9	Reserve Bank of New Zealand			14	Federal Reserve
15	Federal Reserve			14-15	Bank of Korea
15-16	Bank of Japan			15	Bank of England
16	Bank of England			15	Bank of Norway
16	Swiss National Bank			15	Bank of Mexico
23	Bank of Norway			15	Swiss National Bank
30	Bank of Mexico			19-20	Bank of Japan
				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. * To be determined.