

BANK OF CANADA

As expected, monetary policy status quo is still the way to go

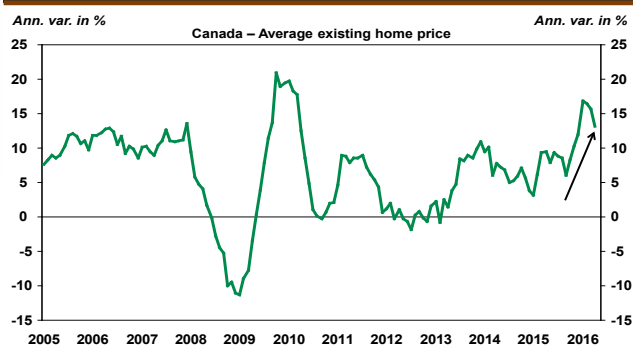
ACCORDING TO THE BANK OF CANADA (BoC)

- The target for the overnight rate stays at 0.50%.
- The global economy is evolving largely as the BoC projected in its April *Monetary Policy Report*. In the United States, despite weakness in the first quarter, a number of indicators, including employment, point to a return to solid growth in 2016.
- In Canada, the economy's structural adjustment to the oil price shock continues, but is proving to be uneven. Growth in the first quarter of 2016 appears to be in line with the BoC's April projection, although business investment and intentions remain disappointing. The second quarter will be much weaker than predicted because of the devastating Alberta wildfires. The economy is expected to rebound in the third quarter, as oil production resumes and reconstruction begins.
- Inflation is roughly in line with the BoC's expectations. Measures of core inflation remain close to 2%, reflecting the offsetting influences of past exchange rate depreciation and excess capacity.
- Canada's housing market continues to display strong regional divergences, reinforced by the complex adjustment underway in the economy. In this context, household vulnerabilities have moved higher.
- The risks to the BoC's inflation projection remain roughly balanced.

COMMENTS

The economic results will be highly volatile in the coming quarters. Following a relatively lively first quarter, the BoC expects the second quarter to slow substantially, with a rebound coming in the third quarter. Under these conditions, it is important for the monetary authorities to focus on how the trends evolve. However, despite some disappointment, the outlook for Canadian economic growth for 2016 as a whole has not shifted much in the last few weeks. Under these circumstances, an ongoing status quo on monetary policy is evidently appropriate.

The sharp rise by home prices is a source of concern



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

Yet, the BoC cannot overlook the concerns over the strength of the housing market and high household debt levels. Of course, these concerns have been with us for some time now, but the faster rise by home prices recently has fanned anxieties. In such a context, it would really take a major economic shock to force the BoC to further cut its key interest rates.

On the other hand, the outlook for Canadian economic growth remains fragile, as the economy has not yet fully adjusted to the drop in oil prices. As the output gap will persist for several more quarters, monetary authorities will wait before contemplating a key rate increase.

Implications: Despite the ups and downs the Canadian economy will undergo in the coming quarters, the BoC should stay the course, keeping the target for the overnight rate at 0.50%. It will likely be the end of 2017 before economic conditions have improved enough to start bringing key interest rates up.

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 Korea	
20	Bank of Canada	s.q.	0.50	13	Bank of Canada	
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			AUGUST			
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	10	Bank of Korea	
11	Bank of Sweden	-15 b.p.	-0.50	10	Reserve Bank of New Zealand	
15	Bank of Korea	s.q.	1.50	11	Bank of Mexico	
17	Bank of Mexico	+50 b.p.	3.75	31	Bank of Brazil	
29	Reserve Bank of Australia	s.q.	2.00	SEPTEMBER		
MARCH			OCTOBER			
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	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	Bank of Japan	
17	Bank of Norway	-25 b.p.	0.50	21	Reserve Bank of New Zealand	
17	Swiss National Bank	s.q.	-0.75	21	Federal Reserve	
18	Bank of Mexico	s.q.	3.75	22	Bank of Norway	
APRIL			NOVEMBER			
5	Reserve Bank of Australia	s.q.	2.00	3	Reserve Bank of Australia	
13	Bank of Canada	s.q.	0.50	12	Bank of Korea	
14	Bank of England	s.q.	0.50	13	Bank of England	
18	Bank of Korea	s.q.	1.50	19	Bank of Brazil	
21	European Central Bank	s.q.	0.00	19	Bank of Canada	
21	Bank of Sweden	s.q.	-0.50	20	European Central Bank	
27	Reserve Bank of New Zealand	s.q.	2.25	27	Bank of Norway	
27	Bank of Brazil	s.q.	14.25	27	Bank of Sweden	
27	Bank of Japan	s.q.	-0.10	31	Reserve Bank of Australia	
27	Federal Reserve	s.q.	0.50	31	Bank of Japan	
MAY			DECEMBER			
3	Reserve Bank of Australia	-25 b.p.	1.75	5	Reserve Bank of Australia	
5	Bank of Mexico	s.q.	3.75	7	Bank of Canada	
12	Bank of England	s.q.	0.50	8	European Central Bank	
12	Bank of Korea	s.q.	1.50	14	Bank of Korea	
12	Bank of Norway	s.q.	0.50	14	Federal Reserve	
25	Bank of Canada	s.q.	0.50	15	Bank of England	
JUNE			NOVEMBER			
2	European Central Bank			2	Federal Reserve	
7	Reserve Bank of Australia			3	Bank of England	
8	Bank of Korea			9	Reserve Bank of New Zealand	
8	Reserve Bank of New Zealand			10	Bank of Korea	
8	Bank of Brazil			17	Bank of Mexico	
15	Bank of Japan			30	Bank of Brazil	
15	Federal Reserve			DECEMBER		
16	Bank of England			5	Reserve Bank of Australia	
16	Swiss National Bank			7	Bank of Canada	
23	Bank of Norway			8	European Central Bank	
30	Bank of Mexico			14	Bank of Korea	
				14	Federal Reserve	
				15	Bank of England	
				15	Bank of Norway	
				15	Bank of Mexico	
				15	Swiss National Bank	
				19	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.