

BANK OF CANADA

The Bank of Canada remains confident despite the uncertainties

ACCORDING TO THE BANK OF CANADA (BoC)

- The target rate for the overnight rate remains at 0.50%.
- The BoC has slightly downgraded its global GDP growth projection. The effect of Brexit should subtract 0.2% to global GDP by the end of 2018. Growth is projected at 2.9% this year, 3.3% in 2017 and 3.5% in 2018.
- In Canada, the quarterly pattern of growth has been uneven. Real GDP grew by 2.4% in the first quarter but is estimated to have contracted by 1.0% in the second quarter, pulled down by volatile trade flows, uneven consumer spending, and the Alberta wildfires.
- The BoC expects real GDP growth of 3.5% in the third quarter, as oil production resumes and rebuilding begins in Fort McMurray. Consumer spending will also get a boost from the Canada Child Benefit.
- The annual GDP growth forecast is still revised lower. Real GDP is expected to grow by 1.3% in 2016, 2.2% in 2017 and 2.1% in 2018. The BoC estimates that the incidence of Brexit on the level of Canadian GDP should be modest, about -0.1% over the projection period extending to 2018.
- The BoC forecasts that the output gap will close somewhat later than estimated in April, towards the end of 2017. Underlying its judgement is the downward revision to business investment, which lowers the profile for both real GDP and, to a lesser extent, potential output.
- With respect to inflation, the temporary effects of exchange-rate pass-through and past declines in consumer energy prices are expected to dissipate in late 2016, and the BoC projects that inflation will average close to 2% throughout 2017 as the output gap narrows.

growth in the near term. The BoC is thus ascribing the recent weakness largely to temporary factors. Also, the BoC made several allusions to the budgetary measures that should help kick start growth in the coming quarters. In essence, the BoC has reiterated that today's more stimulating budgetary policy reduces the need for further monetary easing. Lastly, the concerns about financial stability remain very present. Among other things, the *Monetary Policy Report* notes that the acceleration in home prices in the Vancouver and Toronto areas could make prices "more sensitive to an adverse shock to housing demand."

Implications: Canada's economy is going through another tough patch, as the BoC acknowledges. Governor Stephen Poloz recently admitted that the "natural sequence" of positive factors the BoC had extensively relied on was occurring both slowly and unevenly. However, the BoC clearly remains confident in this scenario, as the dollar is still low, and the projection for U.S. growth is holding up. During this time, the budgetary measures will give the economy substantial support. In this context, we think that the BoC will have little reason to lower its key rates. However, the recovery will not be strong enough for the BoC to order a rate increase in the near future. We expect to see monetary firming only in the spring of 2018.

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COMMENTS

As widely expected, the BoC is keeping its rates unchanged, while taking a relatively serene stance on some of the unforeseen events that have occurred in recent weeks. Therefore, although the forecasts have been downgraded, and despite the questions raised by Brexit, the BoC is showing little inclination to lower its rates at this point. Three factors bear this out. First, in the BoC's opinion, the fundamentals have not shifted much since April, and it still thinks conditions will become favourable to renewed

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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	s.q.	1.75
14	Bank of England	s.q.	0.50	6	Bank of Sweden	s.q.	-0.50
20	Bank of Brazil	s.q.	14.25	13	Bank of Canada	s.q.	0.50
20	Bank of Canada	s.q.	0.50	13	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			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	s.q.	0.00	2	Federal Reserve		
7	Reserve Bank of Australia	s.q.	1.75	3	Bank of England		
8	Bank of Korea	-25 b.p.	1.25	9	Reserve Bank of New Zealand		
8	Reserve Bank of New Zealand	s.q.	2.25	10	Bank of Korea		
8	Bank of Brazil	s.q.	14.25	17	Bank of Mexico		
15	Bank of Japan	s.q.	-0.10	30	Bank of Brazil		
15	Federal Reserve	s.q.	0.50	DECEMBER			
16	Bank of England	s.q.	0.50	5	Reserve Bank of Australia		
16	Swiss National Bank	s.q.	-0.75	7	Bank of Canada		
23	Bank of Norway	s.q.	0.50	8	European Central Bank		
30	Bank of Mexico	+50 b.p.	4.25	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.