

Essentials of the Monetary Policy



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BANK OF CANADA

The monetary authorities are lowering their economic projections

ACCORDING TO THE BANK OF CANADA (BoC)

- The target for the overnight rate stays at 0.50 %.
- The global economy is expected to regain momentum in the second half of this year and through 2017 and 2018. After a weak first half, the US economy in particular is strengthening:
- Looking through the choppiness of recent data, the profile for growth in Canada is now lower than projected in July's Monetary Policy Report (MPR). This is due in large part to slower near-term housing resale activity and a lower trajectory for exports.
- The federal government's new measures to promote stability in Canada's housing market are likely to restrain residential investment while dampening household vulnerabilities.
- Growth in exports over 2017 and 2018 are projected to be slower than previously forecast, due to lower estimates of global demand, a composition of US growth that appears less favourable to Canadian exports, and ongoing competitiveness challenges for Canadian firms.
- The Bank expects Canada's real GDP to grow by 1.1 per cent in 2016 and about 2 per cent in both 2017 and 2018. This projection implies that the economy returns to full capacity around mid-2018, materially later than the Bank had anticipated in July.
- The Bank expects inflation to be close to 2 per cent from early 2017 onward, when temporary factors will have dissipated and as economic slack is absorbed.

The BoC's new forecasts are now in line with our own recent projections, and those of most private sector forecasters. Note that the downside risks to economic conditions have intensified in the last few months. Firstly, although exports are trending up, growth occasionally stumbles due to such factors as blips in global demand. Secondly, the new federal real estate market rules should rein in residential construction and activity in the property resale market. Thirdly, some private-sector forecasters are increasingly wondering about how much impact the federal government's stimulus program will actually have in the near term.

Implications: There are still many large concerns over Canada's economic outlook. Under these circumstances, a key interest rate increase will be out of the question until at least the summer of 2018. On the other hand, with growth expected to be above potential in the next few quarters, and a total inflation rate that should slowly head up toward the mid-point target, 2%, no further cut to the target for the overnight rate should be needed in the next few months, especially as households' financial vulnerability remains a worry.

COMMENTS

Unsurprisingly, the status quo on key interest rates extant since September 2015 continued this morning, with the BoC leaving the target for the overnight rate at 0.50%. The main focus was on the release of the MPR, containing the update to the BoC's outlook. As most analysts expected, the monetary authorities downgraded their outlooks for the Canadian economy.

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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 Korea	s.q.	1.25
20	Bank of Canada	s.q.	0.50	13	Bank of Canada	s.q.	0.50
21	European Central Bank	s.q.	0.05	14	Bank of England	s.q.	0.50
27	Federal Reserve	s.q.	0.50	20	Bank of Brazil	s.q.	14.25
28	Reserve Bank of New Zealand	s.q.	2.50	21	European Central Bank	s.q.	0.00
29	Bank of Japan	s.q.	-0.10	27	Federal Reserve	s.q.	0.50
				28	Bank of Japan	s.q.	-0.10
FEBRUARY			AUGUST				
1	Reserve Bank of Australia	s.q.	2.00	2	Reserve Bank of Australia	-25 b.p.	1.50
4	Bank of England	s.q.	0.50	4	Bank of England	-25 b.p.	0.25
4	Bank of Mexico	s.q.	3.25	10	Bank of Korea	s.q.	1.25
11	Bank of Sweden	-15 b.p.	-0.50	10	Reserve Bank of New Zealand	-25 b.p.	2.00
15	Bank of Korea	s.q.	1.50	11	Bank of Mexico	s.q.	4.25
17	Bank of Mexico	+50 b.p.	3.75	31	Bank of Brazil	s.q.	14.25
29	Reserve Bank of Australia	s.q.	2.00				
MARCH			SEPTEMBER				
2	Bank of Brazil	s.q.	14.25	6	Reserve Bank of Australia	s.q.	1.50
9	Bank of Korea	s.q.	1.50	7	Bank of Sweden	s.q.	-0.50
9	Reserve Bank of New Zealand	-25 b.p.	2.25	7	Bank of Canada	s.q.	0.50
9	Bank of Canada	s.q.	0.50	8	European Central Bank	s.q.	0.00
10	European Central Bank	-5 b.p.	0.00	8	Bank of Korea	s.q.	1.25
14	Bank of Japan	s.q.	-0.10	15	Bank of England	s.q.	0.25
16	Federal Reserve	s.q.	0.50	15	Swiss National Bank	s.q.	-0.75
17	Bank of England	s.q.	0.50	21	Reserve Bank of New Zealand	s.q.	2.00
17	Bank of Norway	-25 b.p.	0.50	21	Bank of Japan	s.q.	-0.10
17	Swiss National Bank	s.q.	-0.75	21	Federal Reserve	s.q.	0.50
18	Bank of Mexico	s.q.	3.75	22	Bank of Norway	s.q.	0.50
				29	Bank of Mexico	+50 b.p.	4.75
APRIL			OCTOBER				
5	Reserve Bank of Australia	s.q.	2.00	3	Reserve Bank of Australia	s.q.	1.50
13	Bank of Canada	s.q.	0.50	12	Bank of Korea	s.q.	1.25
14	Bank of England	s.q.	0.50	19	Bank of Canada	s.q.	0.50
18	Bank of Korea	s.q.	1.50	19	Bank of Brazil		
21	European Central Bank	s.q.	0.00	20	European Central Bank		
21	Bank of Sweden	s.q.	-0.50	27	Bank of Norway		
27	Reserve Bank of New Zealand	s.q.	2.25	27	Bank of Sweden		
27	Bank of Brazil	s.q.	14.25	31	Reserve Bank of Australia		
27	Bank of Japan	s.q.	-0.10	31	Bank of Japan		
27	Federal Reserve	s.q.	0.50				
MAY			NOVEMBER				
3	Reserve Bank of Australia	-25 b.p.	1.75	2	Federal Reserve		
5	Bank of Mexico	s.q.	3.75	3	Bank of England		
12	Bank of England	s.q.	0.50	9	Reserve Bank of New Zealand		
12	Bank of Korea	s.q.	1.50	10	Bank of Korea		
12	Bank of Norway	s.q.	0.50	17	Bank of Mexico		
25	Bank of Canada	s.q.	0.50	30	Bank of Brazil		
JUNE			DECEMBER				
2	European Central Bank	s.q.	0.00	5	Reserve Bank of Australia		
7	Reserve Bank of Australia	s.q.	1.75	7	Bank of Canada		
8	Bank of Korea	-25 b.p.	1.25	8	European Central Bank		
8	Reserve Bank of New Zealand	s.q.	2.25	14	Bank of Korea		
8	Bank of Brazil	s.q.	14.25	14	Federal Reserve		
15	Bank of Japan	s.q.	-0.10	15	Bank of England		
15	Federal Reserve	s.q.	0.50	15	Bank of Norway		
16	Bank of England	s.q.	0.50	15	Bank of Mexico		
16	Swiss National Bank	s.q.	-0.75	15	Swiss National Bank		
23	Bank of Norway	s.q.	0.50	19	Bank of Japan		
30	Bank of Mexico	+50 b.p.	4.25	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.