

BANK OF CANADA

No key rate cut on the horizon...but the status quo will be extended

ACCORDING TO THE BANK OF CANADA (BoC)

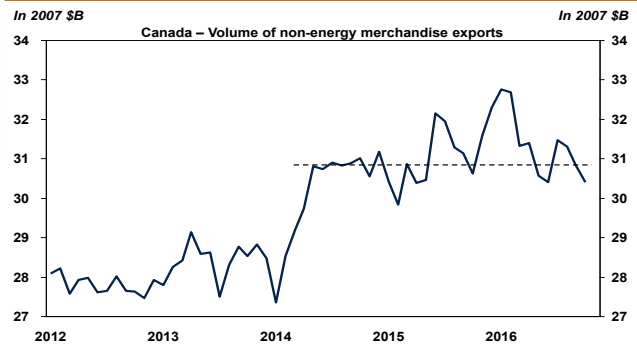
- The target for the overnight rate stays at 0.50 %.
- Economic data suggest that global economic conditions have strengthened, as the Bank anticipated in its October *Monetary Policy Report (MPR)*. However, uncertainty, which has been undermining business confidence and dampening investment in Canada's major trading partners, remains undiminished.
- In Canada, the dynamics of growth are largely as the Bank anticipated. Following a very weak first half of 2016, growth in the third quarter rebounded strongly, but more moderate growth is anticipated in the fourth quarter.
- Consumption growth was robust in the third quarter, supported by the new Canada Child Benefit, while the effects of federal infrastructure spending are not yet evident in the GDP data. Meanwhile, business investment and non-energy goods exports continue to disappoint.
- Total CPI inflation has picked up in recent months but is slightly below expectations, largely because of lower food prices.

COMMENTS

As expected, the Bank of Canada has once again opted for the status quo on its key rates. Yet, monetary authorities had opened the door to an eventual key rate cut in October's *Monetary Policy Report*, which noted they had actively discussed the possibility of lowering the target for the overnight rate.

However, the Bank of Canada's statement released today seems to rule out this potential key rate cut. It is worth mentioning that economic conditions have improved in recent weeks. Not only has real GDP rebounded 3.5% in the third quarter, but the carryover for the fourth quarter is fairly high, suggesting that real output could advance nearly 3% during the period. The labour market also benefited from strong job creation in recent months, consumer confidence is higher and the benefits of the federal government's infrastructure program should be felt more and more.

The weakness in non-energy exports is disappointing



Sources: Statistics Canada and Desjardins, Economic Studies

That said, there are still many concerns. The future of NAFTA is uncertain and the weakness in non-energy exports is worrisome while U.S. demand is higher and the loonie is quite weak. The extent of the housing market's reaction to the new restrictive measures introduced by the federal government and the rise in mortgage rates is also difficult to determine.

Implications: Despite more positive signs, the presence of many uncertainties and of some headwinds will most likely prompt the monetary authorities to extend the status quo on key interest rates until the fall of 2018.

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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 Brazil	-25 b.p.	14.00
18	Bank of Korea	s.q.	1.50	19	Bank of Canada	s.q.	0.50
21	European Central Bank	s.q.	0.00	20	European Central Bank	s.q.	0.00
21	Bank of Sweden	s.q.	-0.50	27	Bank of Norway	s.q.	0.50
27	Reserve Bank of New Zealand	s.q.	2.25	27	Bank of Sweden	s.q.	-0.50
27	Bank of Brazil	s.q.	14.25	31	Reserve Bank of Australia	s.q.	1.50
27	Bank of Japan	s.q.	-0.10	31	Bank of Japan	s.q.	-0.10
27	Federal Reserve	s.q.	0.50				
MAY			NOVEMBER				
3	Reserve Bank of Australia	-25 b.p.	1.75	2	Federal Reserve	s.q.	0.50
5	Bank of Mexico	s.q.	3.75	3	Bank of England	s.q.	0.25
12	Bank of England	s.q.	0.50	9	Reserve Bank of New Zealand	-25 b.p.	1.75
12	Bank of Korea	s.q.	1.50	10	Bank of Korea	s.q.	1.25
12	Bank of Norway	s.q.	0.50	17	Bank of Mexico	+50 b.p.	5.25
25	Bank of Canada	s.q.	0.50	30	Bank of Brazil	-25 b.p.	13.75
JUNE			DECEMBER				
2	European Central Bank	s.q.	0.00	5	Reserve Bank of Australia	s.q.	1.50
7	Reserve Bank of Australia	s.q.	1.75	7	Bank of Canada	s.q.	0.50
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. * To be determined.