

ESSENTIALS OF THE MONETARY POLICY

Bank of Canada (BoC)

Uncertainties remain front and centre

ACCORDING TO THE BOC

- ▶ The target for the overnight rate stays at 0.50%.
- ▶ Uncertainty about the global outlook is undiminished, particularly with respect to policies in the United States.
- ▶ Overall, the global economy is strengthening largely as expected.
- ▶ Canada's economy continues to operate with material excess capacity.
- ▶ The resource sector's adjustment to past commodity price declines appears to be largely complete, but negative wealth and income effects will persist. Meanwhile, the Canadian dollar has strengthened along with the U.S. dollar against other currencies, exacerbating ongoing competitiveness challenges and muting the outlook for exports.
- ▶ Consumption is expected to remain solid, while residential investment will be tempered by previously announced changes to housing finance rules and by mortgage rates.
- ▶ The BoC projects that Canada's real GDP will grow by 2.1% in both 2017 and 2018. This implies a return to full capacity around mid-2018, in line with October's projection.
- ▶ As consumer energy prices rise and the impact of lower food prices dissipates, inflation is expected to move close to the 2% target in the months ahead and remain there throughout the projection horizon while excess capacity is being absorbed.

monetary authorities rightly stress the many uncertainties that continue to surround Canada's economic outlook.

How will rising U.S. protectionism impact Canada? Will export growth be more affected by heavy global competition, the higher loonie, and erosion of Canadian business competitiveness, particularly from a tax perspective? How extensive will the housing market slowdown be? Will non-residential investment by business manage to recover? In other words, there is no shortage of concerns. Under these conditions, it is clear why the BoC is maintaining the status quo on Canadian key interest rates, even though the Federal Reserve is in firming mode. According to the monetary authorities, Canada has much more excess output capacity than the United States.

Lastly, weak inflation is undeniably an ongoing concern for the BoC. The fact that the three new measures of core inflation remain below the mid-point target (2%) is not reassuring there.

IMPLICATIONS

There are many reasons for an ongoing status quo on key interest rates. Under these conditions, it will be quite some time—likely the fall of 2018—before an increase is ordered to the target for the overnight rate.

Benoit P. Durocher, Senior Economist

COMMENTS

As the BoC finds in its *Monetary Policy Report*, economic conditions should improve in 2017 in Canada, the United States, and in most other countries worldwide. That being said, the

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

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2017, Desjardins Group. All rights reserved.

Schedule 2017 of Central Bank meetings

Date	Central banks	Decision	Rate
January			
11	Bank of Brazil	-75 b.p.	13.00
12	Bank of Korea	s.q.	1.25
18	Bank of Canada	s.q.	0.50
19	European Central Bank		
30-31	Bank of Japan		
31-1	Federal Reserve		
February			
2	Bank of England		
7	Reserve Bank of Australia		
8	Reserve Bank of New Zealand		
9	Bank of Mexico		
14	Bank of Sweden		
21-22	Bank of Brazil		
22	Bank of Korea		
March			
1	Bank of Canada		
7	Reserve Bank of Australia		
9	European Central Bank		
14-15	Federal Reserve		
15-16	Bank of Japan		
16	Bank of England		
16	Bank of Norway		
16	Swiss National Bank		
22	Reserve Bank of New Zealand		
30	Bank of Mexico		
April			
4	Reserve Bank of Australia		
11-12	Bank of Brazil		
12	Bank of Korea		
12	Bank of Canada		
26	Bank of Sweden		
26-27	Bank of Japan		
27	European Central Bank		
May			
2	Reserve Bank of Australia		
2-3	Federal Reserve		
4	Bank of Norway		
10	Reserve Bank of New Zealand		
11	Bank of England		
18	Bank of Mexico		
24	Bank of Korea		
24	Bank of Canada		
30-31	Bank of Brazil		
June			
6	Reserve Bank of Australia		
8	European Central Bank		
13-14	Federal Reserve		
15	Bank of England		
15	Swiss National Bank		
15-16	Bank of Japan		
21	Reserve Bank of New Zealand		
22	Bank of Norway		
22	Bank of Mexico		

Date	Central banks	Decision	Rate
July			
3	Bank of Sweden		
4	Reserve Bank of Australia		
12	Bank of Korea		
12	Bank of Canada		
19-20	Bank of Japan		
20	European Central Bank		
25-26	Bank of Brazil		
25-26	Federal Reserve		
August			
1	Reserve Bank of Australia		
3	Bank of England		
9	Reserve Bank of New Zealand		
10	Bank of Mexico		
30	Bank of Korea		
September			
5	Reserve Bank of Australia		
5-6	Bank of Brazil		
6	Bank of Canada		
7	European Central Bank		
14	Bank of England		
14	Swiss National Bank		
19-20	Federal Reserve		
20-21	Bank of Japan		
21	Bank of Norway		
27	Reserve Bank of New Zealand		
28	Bank of Mexico		
*	Bank of Sweden		
October			
3	Reserve Bank of Australia		
18	Bank of Korea		
24-25	Bank of Brazil		
25	Bank of Canada		
26	European Central Bank		
26	Bank of Norway		
30-31	Bank of Japan		
31-1	Federal Reserve		
*	Bank of Sweden		
November			
2	Bank of England		
7	Reserve Bank of Australia		
8	Reserve Bank of New Zealand		
9	Bank of Mexico		
29	Bank of Korea		
December			
5	Reserve Bank of Australia		
5-6	Bank of Brazil		
6	Bank of Canada		
12-13	Federal Reserve		
14	European Central Bank		
14	Bank of England		
14	Bank of Norway		
14	Bank of Mexico		
14	Swiss National Bank		
20-21	Bank of Japan		
*	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.