

ESSENTIALS OF THE MONETARY POLICY

Bank of Canada (BoC)

The surplus capacity remains high according to the monetary authorities

ACCORDING TO THE BOC

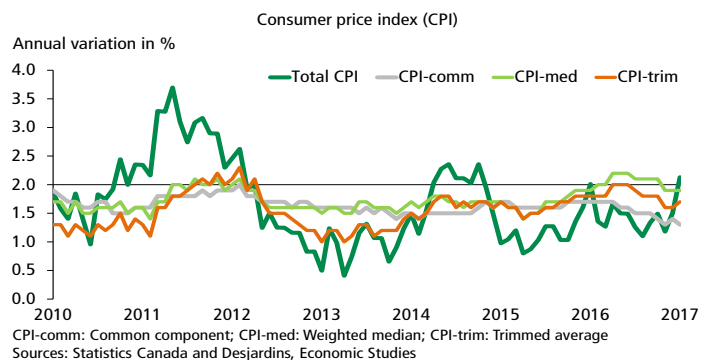
- ▶ The target for the overnight rate stays at 0.50%.
- ▶ CPI inflation rose to 2.1% in January, reflecting higher energy prices due in part to carbon pricing measures introduced in two provinces. The BoC is looking through these effects, as their impact on inflation will be temporary. The BoC's three measures of core inflation, taken together, continue to point to material excess capacity in the economy.
- ▶ Overall, recent data on the global and Canadian economies have been consistent with the BoC's projection of improving growth, as set out in the January *Monetary Policy Report (MPR)*.
- ▶ In Canada, recent consumption and housing indicators suggest growth in the fourth quarter of 2016 may have been slightly stronger than expected. However, exports continue to face the ongoing competitiveness challenges described in the January *MPR*.
- ▶ While there have been recent gains in employment, subdued growth in wages and hours worked continue to reflect persistent economic slack in Canada, in contrast to the United States.

COMMENTS

That the BoC opted once again to maintain the status quo on its key interest rates comes as no surprise. Even if the monetary authorities indicated that economic growth was without a doubt somewhat stronger in the fourth quarter of 2016 (the results will be published tomorrow), they continue to stress the fact that the surplus production capacity in Canada remains high. Moreover, the BoC does not seem overly concerned about the recent increase in total inflation, which rose above its median target in January after spending several months at fairly weak levels. What's more, the three new tools to measure core inflation are

GRAPH

The core inflation indexes remain below the median target



fairly stable, thereby suggesting that inflationary pressures in Canada are under control.

IMPLICATIONS

If we also take into account the many uncertainties that continue to hover over Canada's economic outlook, all signs point to keeping key interest rates at current levels until 2018. This prolonged period of stability in Canada, combined with the anticipated hike in U.S. key rates, should widen the rate spread between the two countries, a situation that should clip the loonie's wings somewhat in the months ahead.

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

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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	s.q.	
30	Bank of Japan	s.q.	-0.10
February			
1	Federal Reserve	s.q.	0.75
2	Bank of England	s.q.	0.25
6	Reserve Bank of Australia	s.q.	1.50
8	Reserve Bank of New Zealand	s.q.	1.75
9	Bank of Mexico	+50 b.p.	6.25
15	Bank of Sweden	s.q.	-0.50
22	Bank of Korea	s.q.	1.25
22	Bank of Brazil	-75 b.p.	12.25
March			
1	Bank of Canada	s.q.	0.50
7	Reserve Bank of Australia		
9	European Central Bank		
15	Bank of Japan		
15	Federal Reserve		
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		
12	Bank of Korea		
12	Bank of Brazil		
12	Bank of Canada		
26	Bank of Japan		
27	European Central Bank		
27	Bank of Sweden		
May			
2	Reserve Bank of Australia		
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		
31	Bank of Brazil		
June			
6	Reserve Bank of Australia		
8	European Central Bank		
14	Federal Reserve		
15	Bank of England		
15	Bank of Japan		
15	Swiss National Bank		
21	Reserve Bank of New Zealand		
22	Bank of Norway		
22	Bank of Mexico		

Date	Central banks	Decision	Rate
July			
4	Reserve Bank of Australia		
4	Bank of Sweden		
12	Bank of Korea		
12	Bank of Canada		
19	Bank of Japan		
20	European Central Bank		
26	Bank of Brazil		
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		
6	Bank of Brazil		
6	Bank of Canada		
7	European Central Bank		
7	Bank of Sweden		
14	Bank of England		
14	Swiss National Bank		
20	Bank of Japan		
20	Federal Reserve		
21	Bank of Norway		
27	Reserve Bank of New Zealand		
28	Bank of Mexico		
October			
3	Reserve Bank of Australia		
18	Bank of Korea		
25	Bank of Brazil		
25	Bank of Canada		
26	European Central Bank		
26	Bank of Norway		
26	Bank of Sweden		
30	Bank of Japan		
November			
1	Federal Reserve		
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		
6	Bank of Brazil		
6	Bank of Canada		
13	Federal Reserve		
14	European Central Bank		
14	Bank of England		
14	Bank of Norway		
14	Bank of Mexico		
14	Swiss National Bank		
20	Bank of Sweden		
20	Bank of Japan		

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.