

ESSENTIALS OF THE MONETARY POLICY

Bank of Canada (BoC)

The BoC remains cautious despite brighter economic conditions

ACCORDING TO THE BOC

- ▶ The target for the overnight rate stays at 0.50%.
- ▶ Global economic growth is strengthening and becoming more broadly-based than the BoC had expected in its January *Monetary Policy Report (MPR)*, although there is still considerable uncertainty about the outlook.
- ▶ In Canada, recent data indicate that economic growth has been faster than was expected in the January *MPR*. While the recent rebound in GDP is encouraging, it is too early to conclude that the economy is on a sustainable growth path.
- ▶ The BoC now projects real GDP growth of 2.6% in 2017, 1.9% in 2018 and 1.8% in 2019.
- ▶ The output gap is projected to close in the first half of 2018, a bit sooner than the BoC anticipated in January.
- ▶ CPI inflation is expected to dip in the months ahead, as the temporary factors unwind, and then return to 2% later in the projection horizon as the output gap closes.

COMMENTS

As expected, Canada's monetary authorities have once again opted to maintain the status quo on key rates. We noticed, however, that the BoC's tone in its *MPR* was indeed more optimistic. Furthermore, the possibility that a rate cut might eventually be necessary—something the BoC governor recently mentioned—now seems to have been removed from the benchmark scenario.

It must be said that recent developments in Canada's economy have been very positive, and the growth outlooks for the first quarter are clearly much higher than originally forecast. As such, the BoC's forecast for Canadian real GDP growth in 2017 overall was significantly upgraded, from 2.1% to 2.6%—a forecast that is similar to our most recent projections.

With this significant improvement in economic conditions, the question about an eventual rate hike will have to be dealt with. That said, all points suggest that the status quo will be maintained for several more months. Even if the BoC has noted strength in the recent data, it is unconvinced that the upturn in certain components of domestic demand will last. Moreover, the faster growth in consumption spending could run out steam once the benefits of a reduced tax burden start to dissipate. The housing market could experience a bit of a slowdown after the surprising advances recorded in early 2017. What's more, the government of Ontario may soon announce restrictive measures aimed at the Toronto housing market. The recent jolt in the energy sector should also make way for more modest advances in line with changes in oil prices. Lastly, considerable uncertainties remain about U.S. protectionism and the fiscal competitiveness of Canadian corporations.

IMPLICATIONS

While the status quo should be maintained throughout 2017, improvements in economic conditions and the gradual absorption of excess capacity should open the door to an increase in the target for the overnight rate in 2018. This increase could even be ordered a bit earlier than we currently think (i.e., in July 2018) if the good news keeps rolling in.

Benoit P. Durocher, Senior Economist

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.

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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.	0.00
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
6	Reserve Bank of Australia	s.q.	1.50
9	European Central Bank	s.q.	0.00
15	Federal Reserve	+25 b.p.	1.00
15	Bank of Japan	s.q.	-0.10
16	Bank of England	s.q.	0.25
16	Bank of Norway	s.q.	0.50
16	Swiss National Bank	s.q.	-0.75
22	Reserve Bank of New Zealand	s.q.	1.75
30	Bank of Mexico	+25 b.p.	6.50
April			
4	Reserve Bank of Australia	s.q.	1.50
12	Bank of Canada	s.q.	0.50
12	Bank of Korea		
12	Bank of Brazil		
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.