

ESSENTIALS OF THE MONETARY POLICY

Bank of Canada (BoC)

Monetary Authorities Remain Cautious Although Economic Conditions Have Improved

ACCORDING TO THE BOC

- ▶ The target for the overnight rate stays at 0.50%.
- ▶ The global economy continues to gain traction and recent developments reinforce the BoC's view that growth will gradually strengthen and broaden over the projection horizon.
- ▶ The Canadian economy's adjustment to lower oil prices is largely complete and recent economic data have been encouraging, including indicators of business investment. Consumer spending and the housing sector continue to be robust on the back of an improving labour market, and these are becoming more broadly based across regions.
- ▶ The BoC's monitoring of the economic data suggests that very strong growth in the first quarter will be followed by some moderation in the second quarter.
- ▶ The BoC's three measures of core inflation remain below 2% and wage growth is still subdued, consistent with ongoing excess capacity in the economy.

COMMENTS

Economic conditions improved substantially at the start of 2017, among other things thanks to lively domestic demand. Real GDP could increase by about 4.7% (annualized) in the first quarter of 2017, according to our latest projections. Note that the BoC's latest *Monetary Policy Report* called for a gain of 3.8% in the period. Despite this good news, the monetary authorities opted to maintain the status quo on their key interest rates.

The decision is justified given that many uncertainties remain for the coming quarters. For one thing, the challenging weather seen this spring in some parts of the country could hamper numerous seasonal activities and curb second-quarter economic growth.

For another, the process of renegotiating the North American Free Trade Agreement (NAFTA) is raising major concerns about U.S. protectionism and future movement by Canadian exports. Added to this are the anxieties surrounding the housing market situation.

For inflation, the annual change in the total consumer price index (CPI) has once again dropped below the mid-point target (2%) in recent months, bringing concerns about persisting weak price growth back to the forefront. Under these conditions, the BoC has a lot of leeway in conducting its monetary policy.

IMPLICATIONS

The many uncertainties that are still keeping the BoC from touching off monetary firming should slowly dissipate over the coming quarters. As economic conditions improve and excess output capacity is gradually absorbed, the BoC could eventually change its stance and open the door to a key interest rate increase. The first hike to the target for the overnight rate could be ordered in the spring of 2018.

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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.	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 Korea	s.q.	1.25
12	Bank of Brazil	-100 b.p.	11.25
12	Bank of Canada	s.q.	0.50
27	European Central Bank	s.q.	0.00
27	Bank of Sweden	s.q.	-0.50
27	Bank of Japan	s.q.	-0.10
May			
2	Reserve Bank of Australia	s.q.	1.50
3	Federal Reserve	s.q.	1.00
4	Bank of Norway	s.q.	0.50
10	Reserve Bank of New Zealand	s.q.	1.75
11	Bank of England	s.q.	0.25
18	Bank of Mexico	+25 b.p.	6.75
24	Bank of Canada	s.q.	0.50
24	Bank of Korea		
31	Bank of Brazil		
June			
6	Reserve Bank of Australia		
8	European Central Bank		
14	Federal Reserve		
15	Bank of England		
15	Swiss National Bank		
16	Bank of Japan		
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		
20	European Central Bank		
20	Bank of Japan		
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	Federal Reserve		
21	Bank of Norway		
21	Bank of Japan		
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		
31	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		
21	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.