

ESSENTIALS OF THE MONETARY POLICY

Bank of Canada (BoC)

Monetary Authorities Don't Dismiss the Possibility of Easing Key Interest Rates

ACCORDING TO THE BOC

- ▶ The target for the overnight rate remains at 1.75%.
- ▶ As the China-U.S. trade conflict has escalated, world trade has contracted and business investment has weakened. This is weighing more heavily on global economic momentum than the BoC had projected in its July *Monetary Policy Report*. Meanwhile, growth in the United States has moderated but remains solid, supported by consumer and government spending.
- ▶ In Canada, growth in the second quarter was strong and exceeded the BoC's July expectation, although some of this strength is expected to be temporary.
- ▶ Housing activity has regained strength more quickly than expected [...] This could add to already-high household debt levels, although mortgage underwriting rules should help to contain the buildup of vulnerabilities.
- ▶ Business investment contracted sharply after a strong first quarter, amid heightened trade uncertainty. Given this composition of growth, the BoC expects economic activity to slow in the second half of the year.
- ▶ In sum, Canada's economy is operating close to potential and inflation is on target. However, escalating trade conflicts and related uncertainty are taking a toll on the global and Canadian economies. In this context, the current degree of monetary policy stimulus remains appropriate. As the BoC works to update its projection in light of incoming data, Governing Council will pay particular attention to global developments and their impact on the outlook for Canadian growth and inflation.

COMMENTS

Although all forecasters expected the target for the overnight rate to remain unchanged, the real issue regarding today's statement instead was to understand at what point the BoC would open the door to a possible reduction of its key interest rates. As it turns out, monetary authorities have effectively opened the door to this possibility, but not as wide as some investors had expected.

Overall, state of the Canadian economy is actually not that bad. Furthermore, the housing market recently bounced back, reviving concerns about household debt. The labour market is also strong, and consumer spending continues to rise.

On the flip side, there are serious concerns about the trade war's contagion effect on the Canadian economy. Therefore, changes in international trade and business investment will have to be closely monitored during the coming months.

IMPLICATIONS

If the Canadian economy were to increasingly feel the negative impacts of the trade war (which is likely), today's statement implies that monetary easing could be ordered in the coming months.

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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 2019 of Central Bank Meetings

Date	Central banks	Decision	Rate
January			
9	Bank of Canada*	s.q.	1.75
22	Bank of Japan	s.q.	-0.10
23	Bank of Korea	s.q.	1.75
24	European Central Bank	s.q.	0.00
24	Bank of Norway	s.q.	0.75
30	Federal Reserve	s.q.	2.50
February			
4	Reserve Bank of Australia	s.q.	1.50
6	Bank of Brazil	s.q.	6.50
7	Bank of England	s.q.	0.75
7	Bank of Mexico	s.q.	8.25
12	Reserve Bank of New Zealand	s.q.	1.75
13	Bank of Sweden	s.q.	-0.25
27	Bank of Korea	s.q.	1.75
March			
4	Reserve Bank of Australia	s.q.	1.50
6	Bank of Canada	s.q.	1.75
7	European Central Bank	s.q.	0.00
14	Bank of Japan	s.q.	-0.10
20	Bank of Brazil	s.q.	6.50
20	Federal Reserve	s.q.	2.50
21	Bank of England	s.q.	0.75
21	Bank of Norway	+25 b.p.	1.00
21	Swiss National Bank	s.q.	-0.75
26	Reserve Bank of New Zealand	s.q.	1.75
28	Bank of Mexico	s.q.	8.25
April			
1	Reserve Bank of Australia	s.q.	1.50
10	European Central Bank	s.q.	0.00
17	Bank of Korea	s.q.	1.75
24	Bank of Canada*	s.q.	1.75
24	Bank of Japan	s.q.	-0.10
25	Bank of Sweden	s.q.	-0.25
May			
1	Federal Reserve	s.q.	2.50
2	Bank of England	s.q.	0.75
7	Reserve Bank of Australia	s.q.	1.50
7	Reserve Bank of New Zealand	-25 b.p.	1.50
8	Bank of Brazil	s.q.	6.50
16	Bank of Mexico	s.q.	8.25
29	Bank of Canada	s.q.	1.75
30	Bank of Korea	s.q.	1.75
June			
4	Reserve Bank of Australia	-25 b.p.	1.25
6	European Central Bank	s.q.	0.00
13	Swiss National Bank	s.q.	-0.75
19	Bank of Brazil	s.q.	6.50
19	Bank of Japan	s.q.	-0.10
19	Federal Reserve	s.q.	2.50
20	Bank of England	s.q.	0.75
20	Bank of Norway	+25 b.p.	1.25
25	Reserve Bank of New Zealand	s.q.	1.50
27	Bank of Mexico	s.q.	8.25

Date	Central banks	Decision	Rate
July			
2	Reserve Bank of Australia	-25 b.p.	1.00
3	Bank of Sweden	s.q.	-0.25
10	Bank of Canada*	s.q.	1.75
17	Bank of Korea	-25 b.p.	1.50
25	European Central Bank	s.q.	0.00
29	Bank of Japan	s.q.	-0.10
31	Bank of Brazil	-50 b.p.	6.00
31	Federal Reserve	-25 b.p.	2.25
August			
1	Bank of England	s.q.	0.75
6	Reserve Bank of Australia	s.q.	1.00
6	Reserve Bank of New Zealand	-50 b.p.	1.00
15	Bank of Norway	s.q.	1.25
15	Bank of Mexico	-25 b.p.	8.00
29	Bank of Korea	s.q.	1.50
September			
3	Reserve Bank of Australia	s.q.	1.00
4	Bank of Canada	s.q.	1.75
5	Bank of Sweden		
12	European Central Bank		
18	Bank of Brazil		
18	Bank of Japan		
18	Federal Reserve		
19	Bank of England		
19	Bank of Norway		
19	Swiss National Bank		
24	Reserve Bank of New Zealand		
26	Bank of Mexico		
October			
1	Reserve Bank of Australia		
15	Bank of Korea		
24	European Central Bank		
24	Bank of Norway		
24	Bank of Sweden		
30	Bank of Brazil		
30	Bank of Canada*		
30	Bank of Japan		
30	Federal Reserve		
November			
5	Reserve Bank of Australia		
7	Bank of England		
12	Reserve Bank of New Zealand		
14	Bank of Mexico		
28	Bank of Korea		
December			
3	Reserve Bank of Australia		
4	Bank of Canada		
11	Bank of Brazil		
11	Federal Reserve		
12	European Central Bank		
12	Swiss National Bank		
18	Bank of Japan		
19	Bank of England		
19	Bank of Norway		
19	Bank of Sweden		
19	Bank of Mexico		

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. * Monetary Policy Report published.