

ESSENTIALS OF THE MONETARY POLICY

Bank of Canada (BoC)

Continued Status Quo for Key Interest Rates

ACCORDING TO THE BOC

- ▶ The target for the overnight rate remains at 1.75%.
- ▶ The BoC's October projection for global economic growth appears to be intact. There is nascent evidence that the global economy is stabilizing, with growth still expected to edge higher over the next couple of years.
- ▶ [...] ongoing trade conflicts and related uncertainty are still weighing on global economic activity, and remain the biggest source of risk to the outlook.
- ▶ Growth in Canada slowed in the third quarter of 2019 to 1.3%, as expected. Consumer spending expanded moderately, underpinned by stronger wage growth. Housing investment was also a source of strength, supported by population growth and low mortgage rates. The BoC continues to monitor the evolution of financial vulnerabilities related to the household sector.
- ▶ Inflation measured by the Canadian consumer price index (CPI) remains on target, and measures of core inflation are around 2% [...]
- ▶ Future interest rate decisions will be guided by the BoC's continuing assessment of the adverse impact of trade conflicts against the sources of resilience in the Canadian economy— notably consumer spending and housing activity.

That said, the tone of the statement was slightly more optimistic than expected by the majority of analysts and investors. Even if uncertainty remains high, especially regarding the trade disputes, the BoC is indicating that there are burgeoning signs of a stabilizing global economy. The monetary authorities also mention the unanticipated increase in non-residential investment by Canadian businesses in the third quarter. This would change the game if this trend were to continue in the quarters ahead.

Therefore, the BoC seems to be moving away a little more from a possible key interest rate cut. Also, with domestic demand up 3.2% (annualized) in the third quarter, it is becoming harder to justify the need for cutting key interest rates in Canada. Additionally, the strength of the housing market is rekindling the fears associated with households' financial vulnerability.

IMPLICATIONS

The statement released today by the BoC supports our scenario: the target for the overnight rate should remain unchanged throughout 2020. Still, despite the more optimistic tone today, the door remains open somewhat to the possibility of a key interest rate cut at some point. However, for this to happen, the harmful effects of the trade disputes would have to be felt more sharply, and consumer spending and the housing market to struggle seriously.

Benoit P. Durocher, Senior Economist

COMMENTS

As all of the forecasters surveyed by Bloomberg had predicted, the BoC once again left its target for the overnight rate at 1.75%. It is true that the recent change in the Canadian economy generally met expectations, especially given the moderate hike in real GDP in the third quarter.

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Schedule 2019 of Central Bank Meetings

Date	Central banks	Decision	Rate	Date	Central banks	Decision	Rate
January				July			
9	Bank of Canada*	s.q.	1.75	2	Reserve Bank of Australia	-25 b.p.	1.00
22	Bank of Japan	s.q.	-0.10	3	Bank of Sweden	s.q.	-0.25
23	Bank of Korea	s.q.	1.75	10	Bank of Canada*	s.q.	1.75
24	European Central Bank	s.q.	0.00	17	Bank of Korea	-25 b.p.	1.50
24	Bank of Norway	s.q.	0.75	25	European Central Bank	s.q.	0.00
30	Federal Reserve	s.q.	2.50	29	Bank of Japan	s.q.	-0.10
February				31	Bank of Brazil	-50 b.p.	6.00
4	Reserve Bank of Australia	s.q.	1.50	31	Federal Reserve	-25 b.p.	2.25
6	Bank of Brazil	s.q.	6.50	August			
7	Bank of England	s.q.	0.75	1	Bank of England	s.q.	0.75
7	Bank of Mexico	s.q.	8.25	6	Reserve Bank of Australia	s.q.	1.00
12	Reserve Bank of New Zealand	s.q.	1.75	6	Reserve Bank of New Zealand	-50 b.p.	1.00
13	Bank of Sweden	s.q.	-0.25	15	Bank of Norway	s.q.	1.25
27	Bank of Korea	s.q.	1.75	15	Bank of Mexico	-25 b.p.	8.00
March				29	Bank of Korea	s.q.	1.50
4	Reserve Bank of Australia	s.q.	1.50	September			
6	Bank of Canada	s.q.	1.75	3	Reserve Bank of Australia	s.q.	1.00
7	European Central Bank	s.q.	0.00	4	Bank of Canada	s.q.	1.75
14	Bank of Japan	s.q.	-0.10	5	Bank of Sweden	s.q.	-0.25
20	Bank of Brazil	s.q.	6.50	12	European Central Bank	s.q.	0.00
20	Federal Reserve	s.q.	2.50	18	Bank of Brazil	-50 b.p.	5.50
21	Bank of England	s.q.	0.75	18	Bank of Japan	s.q.	-0.10
21	Bank of Norway	+25 b.p.	1.00	18	Federal Reserve	-25 b.p.	2.00
21	Swiss National Bank	s.q.	-0.75	19	Bank of England	s.q.	0.75
26	Reserve Bank of New Zealand	s.q.	1.75	19	Bank of Norway	+25 b.p.	1.50
28	Bank of Mexico	s.q.	8.25	19	Swiss National Bank	s.q.	-0.75
April				24	Reserve Bank of New Zealand	s.q.	1.00
1	Reserve Bank of Australia	s.q.	1.50	26	Bank of Mexico	-25 b.p.	7.75
10	European Central Bank	s.q.	0.00	October			
17	Bank of Korea	s.q.	1.75	1	Reserve Bank of Australia	-25 b.p.	0.75
24	Bank of Canada*	s.q.	1.75	15	Bank of Korea	-25 b.p.	1.25
24	Bank of Japan	s.q.	-0.10	24	European Central Bank	s.q.	0.00
25	Bank of Sweden	s.q.	-0.25	24	Bank of Norway	s.q.	1.50
May				24	Bank of Sweden	s.q.	-0.25
1	Federal Reserve	s.q.	2.50	30	Bank of Brazil	-50 b.p.	5.00
2	Bank of England	s.q.	0.75	30	Bank of Canada*	s.q.	1.75
7	Reserve Bank of Australia	s.q.	1.50	30	Bank of Japan	s.q.	-0.10
7	Reserve Bank of New Zealand	-25 b.p.	1.50	30	Federal Reserve	-25 b.p.	1.75
8	Bank of Brazil	s.q.	6.50	November			
16	Bank of Mexico	s.q.	8.25	4	Reserve Bank of Australia	s.q.	0.75
29	Bank of Canada	s.q.	1.75	7	Bank of England	s.q.	0.75
30	Bank of Korea	s.q.	1.75	12	Reserve Bank of New Zealand	s.q.	1.00
June				14	Bank of Mexico	-25 b.p.	7.50
4	Reserve Bank of Australia	-25 b.p.	1.25	28	Bank of Korea	s.q.	1.25
6	European Central Bank	s.q.	0.00	December			
13	Swiss National Bank	s.q.	-0.75	3	Reserve Bank of Australia	s.q.	0.75
19	Bank of Brazil	s.q.	6.50	4	Bank of Canada	s.q.	1.75
19	Bank of Japan	s.q.	-0.10	11	Bank of Brazil	s.q.	
19	Federal Reserve	s.q.	2.50	11	Federal Reserve	s.q.	
20	Bank of England	s.q.	0.75	12	European Central Bank	s.q.	
20	Bank of Norway	+25 b.p.	1.25	12	Swiss National Bank	s.q.	
25	Reserve Bank of New Zealand	s.q.	1.50	18	Bank of Japan	s.q.	
27	Bank of Mexico	s.q.	8.25	19	Bank of England	s.q.	
				19	Bank of Norway	s.q.	
				19	Bank of Sweden	s.q.	
				19	Bank of Mexico	s.q.	

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.