

ESSENTIALS OF THE MONETARY POLICY

Bank of Canada (BoC)

No Rate Cuts as Long as the Canadian Economy Stays Resilient

ACCORDING TO THE BOC

- ▶ The target for the overnight rate remains at 1.75%.
- ▶ The outlook for the global economy has weakened further since the BoC's July *Monetary Policy Report* (MPR). Ongoing trade conflicts and uncertainty are restraining business investment, trade, and global growth.
- ▶ Growth in Canada is expected to slow in the second half of this year to a rate below its potential. This reflects the uncertainty associated with trade conflicts, continuing adjustment in the energy sector, and the unwinding of temporary factors that boosted growth in the second quarter.
- ▶ The BoC projects real GDP will grow by 1.5% this year, 1.7% in 2020 and 1.8% in 2021. This implies that the current modest output gap will narrow over the projection horizon.
- ▶ Measures of inflation are all around 2%. CPI inflation likely will dip temporarily in 2020 as the effect of a previous spike in energy prices fades. Overall, the BoC expects inflation to track close to the 2% target over the projection horizon.
- ▶ **Governing Council is mindful that the resilience of Canada's economy will be increasingly tested as trade conflicts and uncertainty persist.** In considering the appropriate path for monetary policy, the BoC will be monitoring the extent to which the global slowdown spreads beyond manufacturing and investment.

COMMENTS

While 93% of forecasters consulted by Bloomberg were expecting the status quo, the question in today's decision and the MPR had more to do with how wide the monetary authorities would open the door to a potential reduction in key interest rates in Canada. What we do know is that the monetary authorities are definitely keeping the door open to this possibility.

The key to future monetary policy developments lies in the resilience of Canada's economy. For the time being, the solid performance in consumer spending and the rebound in residential investment are offsetting the problems with non-residential investment and exports. It now remains to be seen whether this will continue in the coming months. There is reason to stay relatively optimistic, however. The labour market is lively, wage growth is accelerating, household confidence is fairly high and some mortgage rates have even fallen. As for trade tensions, it is difficult to tell how they will change over the next few months, especially with the upcoming presidential election in the fall of 2020.

IMPLICATIONS

The status quo of Canada's monetary policy should continue for the next few quarters. The BoC will, however, keep its eye on the Canadian economy's resilience and will likely not hesitate to order a key interest rate cut if it sees disappointing results coming from the labour market, consumer spending or residential investment. A reduction in key rates could also be announced in the event of deeper troubles in exports and non-residential investment.

Benoit P. Durocher, Senior Economist

François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist
Benoit P. Durocher, Senior Economist • Hendrix Vachon, Senior Economist

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economicstudies@desjardins.com • desjardins.com/economicstudies

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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 Canada*	s.q.	1.75
2	Bank of England	s.q.	0.75	30	Federal Reserve		
7	Reserve Bank of Australia	s.q.	1.50	30	Bank of Brazil		
7	Reserve Bank of New Zealand	-25 b.p.	1.50	30	Bank of Japan		
8	Bank of Brazil	s.q.	6.50	November			
16	Bank of Mexico	s.q.	8.25	5	Reserve Bank of Australia		
29	Bank of Canada	s.q.	1.75	7	Bank of England		
30	Bank of Korea	s.q.	1.75	12	Reserve Bank of New Zealand		
June				14	Bank of Mexico		
4	Reserve Bank of Australia	-25 b.p.	1.25	28	Bank of Korea		
6	European Central Bank	s.q.	0.00	December			
13	Swiss National Bank	s.q.	-0.75	3	Reserve Bank of Australia		
19	Bank of Brazil	s.q.	6.50	4	Bank of Canada		
19	Bank of Japan	s.q.	-0.10	11	Bank of Brazil		
19	Federal Reserve	s.q.	2.50	11	Federal Reserve		
20	Bank of England	s.q.	0.75	12	European Central Bank		
20	Bank of Norway	+25 b.p.	1.25	12	Swiss National Bank		
25	Reserve Bank of New Zealand	s.q.	1.50	18	Bank of Japan		
27	Bank of Mexico	s.q.	8.25	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.