

ESSENTIALS OF THE MONETARY POLICY

Bank of Canada (BoC)

Status Quo to Be Maintained as Uncertainty Mounts



ACCORDING TO THE BOC

- ▶ The target for the overnight rate remains at 1.75%.
- ▶ The global economic expansion continues to moderate, with growth forecast to slow to 3.4% in 2019 from 3.7% in 2018. In particular, growth in the United States remains solid but is expected to slow to a more sustainable pace through 2019.
- ▶ The drop in global oil prices has a material impact on the Canadian outlook, resulting in lower terms of trade and national income. As well, transportation constraints and rising production have combined to push up oil inventories in the west and exert even more downward pressure on Canadian benchmark prices. While price differentials have narrowed in recent weeks following announced mandatory production cuts in Alberta, investment in Canada's oil sector is projected to weaken further.
- ▶ These developments are occurring in the context of a Canadian economy that has been performing well overall.
- ▶ The BoC projects real GDP will grow by 1.7% in 2019, 0.4 percentage points slower than the October outlook. This revised forecast reflects a temporary slowing in the fourth quarter of 2018 and the first quarter of 2019 [...] Indicators of demand should start to show renewed momentum in early 2019, leading to above-potential growth of 2.1% in 2020.
- ▶ CPI inflation is projected to edge further down and be below 2% through much of 2019, owing mainly to lower gasoline prices.
- ▶ Governing Council continues to judge that the policy interest rate will need to rise over time into a neutral range to achieve the inflation target. The appropriate pace of rate increases will depend on how the outlook evolves [...].

COMMENTS

As expected, the BoC is not only maintaining the status quo on its key rates, but it is also revising its economic forecasts downwards for the short term. Given the difficulties in the energy sector, along with the slowdown in the housing market and in consumer spending, the BoC lowered its growth outlook for the fourth quarter of 2018 and the first quarter of 2019. All that remains now is to understand to what extent all these factors will actually affect the Canadian economy.

As the BoC noted, some areas of the Canadian economy remain positive. The labour market is strong, and a number of factors (including the new tax measures and the signing of the Canada–United States–Mexico Agreement [CUSMA]) are expected to lead to increased investment in the non-energy sectors. Therefore, the Canadian economy could quickly get back on track as early as this spring.

IMPLICATIONS

The authorities are continuing to signal their intention to hike key rates. However, there is every indication that the status quo will continue for a few months more while the true extent of the difficulties expected in late 2018/early 2019 is being properly assessed. We believe that the window of opportunity for a new hike may not open again before July 2019. Still, an earlier increase cannot be completely ruled out if the Canadian economy were to perform better than expected.

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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
22-23	Bank of Japan		
24	European Central Bank		
24	Bank of Korea		
29-30	Federal Reserve		
February			
5	Reserve Bank of Australia		
5-6	Bank of Brazil		
7	Bank of England		
7	Bank of Mexico		
12	Bank of Sweden		
13	Reserve Bank of New Zealand		
28	Bank of Korea		
March			
5	Reserve Bank of Australia		
6	Bank of Canada		
7	European Central Bank		
14-15	Bank of Japan		
19-20	Bank of Brazil		
19-20	Federal Reserve		
21	Bank of England		
21	Bank of Norway		
21	Swiss National Bank		
27	Reserve Bank of New Zealand		
28	Bank of Mexico		
April			
2	Reserve Bank of Australia		
10	European Central Bank		
18	Bank of Korea		
24	Bank of Canada*		
24	Bank of Sweden		
24-25	Bank of Japan		
30-1	Federal Reserve		
May			
2	Bank of England		
7	Reserve Bank of Australia		
7-8	Bank of Brazil		
8	Reserve Bank of New Zealand		
16	Bank of Mexico		
29	Bank of Canada		
31	Bank of Korea		
June			
4	Reserve Bank of Australia		
6	European Central Bank		
13	Swiss National Bank		
18-19	Bank of Brazil		
18-19	Federal Reserve		
19-20	Bank of Japan		
20	Bank of England		
20	Bank of Norway		
26	Reserve Bank of New Zealand		
27	Bank of Mexico		

Date	Central banks	Decision	Rate
July			
1	Bank of Sweden		
2	Reserve Bank of Australia		
10	Bank of Canada*		
18	Bank of Korea		
25	European Central Bank		
29-30	Bank of Japan		
30-31	Bank of Brazil		
30-31	Federal Reserve		
August			
1	Bank of England		
6	Reserve Bank of Australia		
7	Reserve Bank of New Zealand		
15	Bank of Mexico		
30	Bank of Korea		
September			
3	Reserve Bank of Australia		
4	Bank of Canada		
12	European Central Bank		
17-18	Bank of Brazil		
17-18	Federal Reserve		
18-19	Bank of Japan		
19	Bank of England		
19	Bank of Norway		
19	Swiss National Bank		
25	Reserve Bank of New Zealand		
26	Bank of Mexico		
**	Bank of Sweden		
October			
1	Reserve Bank of Australia		
17	Bank of Korea		
24	European Central Bank		
29-30	Bank of Brazil		
29-30	Federal Reserve		
30	Bank of Canada*		
30-31	Bank of Japan		
**	Bank of Sweden		
November			
5	Reserve Bank of Australia		
7	Bank of England		
13	Reserve Bank of New Zealand		
14	Bank of Mexico		
29	Bank of Korea		
December			
3	Reserve Bank of Australia		
4	Bank of Canada		
10-11	Bank of Brazil		
10-11	Federal Reserve		
12	European Central Bank		
12	Swiss National Bank		
18-19	Bank of Japan		
19	Bank of England		
19	Bank of Norway		
19	Bank of Mexico		
**	Bank of Sweden		

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; ** To be determined.