

# ESSENTIALS OF THE MONETARY POLICY



## Bank of Canada (BoC)

### A Long Pause as Economic Conditions Become Unclear

#### ACCORDING TO THE BOC

- ▶ The target for the overnight rate remains at 1.75%.
- ▶ Recent data suggest that the slowdown in the global economy has been more pronounced and widespread than the BoC had forecast in its January *Monetary Policy Report*.
- ▶ In Canada, the slowdown in the fourth quarter was sharper and more broadly based. Consumer spending and the housing market were soft, despite strong growth in employment and labour income [...] After growing at a pace of 1.8% in 2018, it now appears that the economy will be weaker in the first half of 2019 than the BoC projected in January.
- ▶ The BoC expects CPI inflation to be slightly below the 2% target through most of 2019, reflecting the impact of temporary factors, including the drag from lower energy prices and a wider output gap.
- ▶ Given the mixed picture that the data present, it will take time to gauge the persistence of below-potential growth and the implications for the inflation outlook. With increased uncertainty about the timing of future rate increases, Governing Council will be watching closely developments in household spending, oil markets, and global trade policy.

If we add the energy sector's temporary difficulties to the equation, the growth outlook for 2019 is well below initial forecasts. The Organisation for Economic Co-operation and Development (OECD) today lowered its forecast for real GDP in Canada in 2019 from 2.2% to 1.5%.

#### IMPLICATIONS

As suggested by last week's speech by the BoC's Governor, the door remains closed to the possibility of lowering key interest rates despite the recent difficulties. This would send a confusing signal to consumers, who are working to put their balance sheets in order.

That being said, the BoC is no longer saying that interest rates need to be raised to their neutral level. The BoC is nonetheless continuing to indicate that further rate increases are possible, but their magnitude will clearly be less significant. In the meantime, the current pause could last for a few more months until the adjustments have been properly evaluated.

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#### COMMENTS

As expected, the recent deterioration of economic conditions has prompted monetary authorities to considerably soften their tone. The two consecutive quarters of declining domestic demand have shown that the Canadian economy's adjustments to rising interest rates have been significant. In recent quarters, the BoC has often pointed out a great deal of uncertainty over consumer reaction to rising interest rates while debt levels are very high. The sharp drop in residential investment in the fourth quarter and the downward trend in household spending on durable goods indicate that the adjustments have ultimately been quite painful.

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# Schedule 2019 of Central Bank Meetings

Date	Central banks	Decision	Rate
<b>January</b>			
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
<b>February</b>			
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
<b>March</b>			
4	Reserve Bank of Australia	s.q.	1.50
6	Bank of Canada	s.q.	1.75
7	European Central Bank		
14	Bank of Japan		
20	Bank of Brazil		
20	Federal Reserve		
21	Bank of England		
21	Bank of Norway		
21	Swiss National Bank		
26	Reserve Bank of New Zealand		
28	Bank of Mexico		
<b>April</b>			
1	Reserve Bank of Australia		
10	European Central Bank		
17	Bank of Korea		
24	Bank of Canada*		
24	Bank of Japan		
25	Bank of Sweden		
<b>May</b>			
1	Federal Reserve		
2	Bank of England		
7	Reserve Bank of Australia		
7	Reserve Bank of New Zealand		
8	Bank of Brazil		
16	Bank of Mexico		
29	Bank of Canada		
30	Bank of Korea		
<b>June</b>			
4	Reserve Bank of Australia		
6	European Central Bank		
13	Swiss National Bank		
19	Bank of Brazil		
19	Bank of Japan		
19	Federal Reserve		
20	Bank of England		
20	Bank of Norway		
25	Reserve Bank of New Zealand		
27	Bank of Mexico		

Date	Central banks	Decision	Rate
<b>July</b>			
3	Bank of Sweden		
2	Reserve Bank of Australia		
10	Bank of Canada*		
17	Bank of Korea		
25	European Central Bank		
29	Bank of Japan		
31	Bank of Brazil		
31	Federal Reserve		
<b>August</b>			
1	Bank of England		
6	Reserve Bank of Australia		
6	Reserve Bank of New Zealand		
15	Bank of Mexico		
29	Bank of Korea		
<b>September</b>			
3	Reserve Bank of Australia		
4	Bank of Canada		
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		
<b>October</b>			
1	Reserve Bank of Australia		
16	Bank of Korea		
24	European Central Bank		
24	Bank of Sweden		
30	Bank of Brazil		
30	Bank of Canada*		
30	Bank of Japan		
30	Federal Reserve		
<b>November</b>			
5	Reserve Bank of Australia		
7	Bank of England		
12	Reserve Bank of New Zealand		
14	Bank of Mexico		
28	Bank of Korea		
<b>December</b>			
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.