

# ESSENTIALS OF MONETARY POLICY

## Bank of Canada (BoC)

### Looking for relief on rates? Don't look to the BoC

By Randall Bartlett, Senior Director of Canadian Economics

#### ACCORDING TO THE BOC

- ▶ The Bank of Canada hiked the overnight rate by 75 bps today, in line with Desjardins' and market expectations. This takes the Bank's policy rate to 3.25%, which is a level we haven't seen since March 2008 and is now above the range of the nominal neutral rate (2-3%).
- ▶ While acknowledging that inflation eased in July given a drop in gasoline prices, "... the Governing Council still judges that the policy interest rate will need to rise further... The Governing Council is resolute in its commitment to price stability and will continue to take action as required to achieve the 2% inflation target."
- ▶ Headline inflation may have inched lower but core price growth is still trending higher according to most measures. Elevated inflation expectations by consumers and business also risk becoming entrenched the longer inflation remains well above the 2% target.
- ▶ Despite Q2 real GDP growth underperforming the Bank's expectations, the BoC remains of the view that the "... Canadian economy continues to operate in excess demand and labour markets remain tight." Citing the outperformance in consumption and business investment in the second quarter, the Bank believes tighter monetary policy in Canada is necessary to bring demand more in line with supply. And while recognizing the weakness in the Canadian housing market, the Bank views it as "... pulling back as anticipated, following unsustainable growth during the pandemic."

#### COMMENTS

Another monster hike in September supports the Bank's narrative the inflation is top of mind and it will do whatever it takes to vanquish it. And if there are any cracks in its resolve, good luck finding them anywhere in today's press release.

That said, the implications for the Canadian economy are starting to show up in spades. Inflation looks to have peaked and is expected to trend lower as monthly prints converge to more typical levels. While commodity prices tell a big part of this story, easing global supply chains and softening demand for goods also play their part. In that context, real GDP growth was soft in May and June, and Statistics Canada's flash estimate suggests it will contract in July. Indeed, we're tracking Q3 real GDP growth of around 1% annualized, shy of the Bank's forecast for the second consecutive quarter. A big part of this story is the ongoing housing market correction, whose broader economic impacts will become more evident as rates continue to rise.

#### IMPLICATIONS

Looking ahead, the Governing Council's job is going to get a lot harder. Economic growth is clearly slowing, and sustained monetary policy tightening is only going to exacerbate this. Indeed, we're anticipating that the Canadian economy is going to fall into a mild recession in the first half of 2023, largely as a result of the ongoing correction in the Canadian housing market (see our latest [Economic & Financial Outlook](#) and [Economic Viewpoint](#) explaining the details).

# Schedule 2022 of Central Bank Meetings

Date	Central banks	Decision	Rate
<b>January</b>			
13	Bank of Korea	+25 b.p.	1.25
17	Bank of Japan	s.q.	-0.10
20	Bank of Norway	s.q.	0.50
26	Bank of Canada*	s.q.	0.25
26	Federal Reserve	s.q.	0.25
31	Reserve Bank of Australia	s.q.	0.10
<b>February</b>			
2	Bank of Brazil	+150 b.p.	10.75
3	European Central Bank	s.q.	0.00
3	Bank of England	+25 b.p.	0.50
10	Bank of Sweden	s.q.	0.00
10	Bank of Mexico	+50 b.p.	6.00
22	Reserve Bank of New Zealand	+25 b.p.	1.00
23	Bank of Korea	s.q.	1.25
28	Reserve Bank of Australia	s.q.	0.10
<b>March</b>			
2	Bank of Canada	+25 b.p.	0.50
10	European Central Bank	s.q.	0.00
16	Bank of Brazil	+100 b.p.	11.75
16	Federal Reserve	+25 b.p.	0.50
17	Bank of England	+25 b.p.	0.75
17	Bank of Japan	s.q.	-0.10
24	Bank of Norway	+25 b.p.	0.75
24	Bank of Mexico	+50 b.p.	6.50
24	Swiss National Bank	s.q.	-0.75
<b>April</b>			
5	Reserve Bank of Australia	s.q.	0.10
12	Reserve Bank of New Zealand	+50 b.p.	1.50
13	Bank of Korea	+25 b.p.	1.50
13	Bank of Canada*	+50 b.p.	1.00
14	European Central Bank	s.q.	0.00
27	Bank of Japan	s.q.	-0.10
28	Bank of Sweden	+25 b.p.	0.25
<b>May</b>			
3	Reserve Bank of Australia	+25 b.p.	0.35
4	Bank of Brazil	+100 b.p.	12.75
4	Federal Reserve	+50 b.p.	1.00
5	Bank of England	+25 b.p.	1.00
5	Bank of Norway	s.q.	0.75
12	Bank of Mexico	+50 b.p.	7.00
24	Reserve Bank of New Zealand	+50 b.p.	2.00
25	Bank of Korea	+25 b.p.	1.75
<b>June</b>			
1	Bank of Canada	+50 b.p.	1.50
7	Reserve Bank of Australia	+50 b.p.	0.85
9	European Central Bank	s.q.	0.00
15	Bank of Brazil	+50 b.p.	13.25
15	Federal Reserve	+75 b.p.	1.75
16	Bank of England	+25 b.p.	1.25
16	Bank of Japan	s.q.	-0.10
16	Swiss National Bank	+50 b.p.	-0.25
23	Bank of Norway	+50 b.p.	1.25
23	Bank of Mexico	+75 b.p.	7.75
30	Bank of Sweden	+50 b.p.	0.75

Date	Central banks	Decision	Rate
<b>July</b>			
5	Reserve Bank of Australia	+50 b.p.	1.35
12	Reserve Bank of New Zealand	+50 b.p.	2.50
13	Bank of Korea	+50 b.p.	2.25
13	Bank of Canada*	+100 b.p.	2.50
20	Bank of Japan	s.q.	-0.10
21	European Central Bank	+50 b.p.	0.50
27	Federal Reserve	+75 b.p.	2.50
<b>August</b>			
2	Reserve Bank of Australia	+50 b.p.	1.85
3	Bank of Brazil	+50 b.p.	13.75
4	Bank of England	+50 b.p.	1.75
11	Bank of Mexico	+75 b.p.	8.50
16	Reserve Bank of New Zealand	+50 b.p.	3.00
18	Bank of Norway	+50 b.p.	1.75
24	Bank of Korea	+25 b.p.	2.50
<b>September</b>			
6	Reserve Bank of Australia	+50 b.p.	2.35
7	Bank of Canada	+75 b.p.	3.25
8	European Central Bank		
15	Bank of England		
20	Bank of Sweden		
21	Bank of Brazil		
21	Bank of Japan		
21	Federal Reserve		
22	Bank of Norway		
22	Swiss National Bank		
29	Bank of Mexico		
<b>October</b>			
3	Reserve Bank of Australia		
4	Reserve Bank of New Zealand		
13	Bank of Korea		
26	Bank of Brazil		
26	Bank of Canada*		
27	European Central Bank		
27	Bank of Japan		
31	Reserve Bank of Australia		
<b>November</b>			
2	Federal Reserve		
3	Bank of England		
3	Bank of Norway		
10	Bank of Mexico		
22	Reserve Bank of New Zealand		
23	Bank of Korea		
24	Bank of Sweden		
<b>December</b>			
5	Reserve Bank of Australia		
7	Bank of Brazil		
7	Bank of Canada		
14	Federal Reserve		
15	European Central Bank		
15	Bank of England		
15	Bank of Norway		
15	Bank of Mexico		
15	Swiss National Bank		
19	Bank of Japan		

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.