



# ESSENTIALS OF MONETARY POLICY

## Bank of Canada (BoC)

### Wait-and-See Mode Begins After Another Big Hike

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#### ACCORDING TO THE BOC

- ▶ The Bank of Canada hiked the overnight rate by 50 bps today, more than we and the market expected but in line with predictions by roughly half of analysts surveyed. That follows rate increases of 100 bps in July and, 75 bps in September, and 50 bps in October. The Bank's policy rate is now 4.25%, 400 bps higher than the emergency level at which we began the year. That is the highest level since late 2007, and well outside the 2–3% range estimated for the long-term nominal neutral rate.
- ▶ The Governing Council's language was less hawkish than in October. Rather than highlighting expectations "that the policy interest rate will need to rise further," it stated that it would be "considering whether the policy interest rate needs to rise further to bring supply and demand back into balance and return inflation to target." It continued to emphasize that "Quantitative tightening is complementing increases in the policy rate."
- ▶ The Bank noted that while year-over-year CPI growth held steady and remained broad-based in October, slowing three-month rates of core inflation suggest some progress in the fight against skyrocketing prices.
- ▶ Elevated inflation expectations in the short-run remain front-of-mind for policymakers. The press release read "However, inflation is still too high and short-term inflation expectations remain elevated. The longer that consumers and businesses expect inflation to be above the target, the greater the risk that elevated inflation becomes entrenched."
- ▶ In a recap of stronger-than-expected economic growth in Q3, it cited "growing evidence that tighter monetary policy is restraining domestic demand: consumption moderated in the third quarter, and housing market activity continues to decline." The Bank expects growth to essentially stall through the end of 2022 and in the first half of 2023.

#### IMPLICATIONS

The Bank appears ready to pause its aggressive efforts to contain inflation soon, in respect of the cooling momentum in both price pressures and domestic demand. So, while this was more a hawkish rate move than we anticipated, the future course of monetary policy does not look dramatically different than we predicted.

Communications related to economic conditions were more positive than we might have predicted. Though the Bank did note the apparent growth-sapping effects of tighter monetary policy, a short paragraph on the economy largely emphasized the stronger-than-anticipated headline GDP print in Q3. Admittedly, we now think expect Q4 2022 growth to nearly double the BoC's latest projection. But this likely also means a deeper downturn in 2023 rather than growth that will "essentially stall" in H1 next year to bring supply and demand back into balance. We've highlighted multiple times that interest-sensitive sectors in the Canadian economy are already showing signs of weakness. The pain will be even more acute for these industries next year as the Canadian economy hasn't yet felt to full impact of interest rate hikes this year.

# 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	Bank of Korea	+50 b.p.	2.25
12	Reserve Bank of New Zealand	+50 b.p.	2.50
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	+75 b.p.	1.25
20	Bank of Sweden	+100 b.p.	1.75
21	Bank of Brazil	s.q.	13.75
21	Bank of Japan	s.q.	-0.10
21	Federal Reserve	+75 b.p.	3.25
22	Bank of England	+50 b.p.	2.25
22	Bank of Norway	+50 b.p.	2.25
22	Swiss National Bank	+75 b.p.	0.50
29	Bank of Mexico	+75 b.p.	9.25
<b>October</b>			
3	Reserve Bank of Australia	+25 b.p.	2.60
4	Reserve Bank of New Zealand	+50 b.p.	3.50
11	Bank of Korea	+50 b.p.	3.00
26	Bank of Brazil	s.q.	13.75
26	Bank of Canada*	+50 b.p.	3.75
27	European Central Bank	+75 b.p.	2.00
27	Bank of Japan	s.q.	-0.10
31	Reserve Bank of Australia	+25 b.p.	2.85
<b>November</b>			
2	Federal Reserve	+75 b.p.	4.00
3	Bank of England	+75 b.p.	3.00
3	Bank of Norway	+25 b.p.	2.50
10	Bank of Mexico	+75 b.p.	10.00
22	Reserve Bank of New Zealand	+75 b.p.	4.25
23	Bank of Korea	+25 b.p.	3.25
24	Bank of Sweden	+75 b.p.	2.50
<b>December</b>			
5	Reserve Bank of Australia	+25 b.p.	3.10
7	Bank of Canada	+50 b.p.	4.25
7	Bank of Brazil		
14	Federal Reserve		
15	European Central Bank		
15	Bank of England		
15	Bank of Norway		
15	Bank of Mexico		
15	Swiss National Bank		
20	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.