

ESSENTIALS OF THE MONETARY POLICY

Bank of Canada (BoC)

Monetary Authorities Concerned over the Recent Slowdown

ACCORDING TO THE BOC

- ▶ The target for the overnight rate remains at 1.75%.
- ▶ The global economy is showing signs of stabilization, and some recent trade developments have been positive. However, there remains a high degree of uncertainty and geopolitical tensions have re-emerged, with tragic consequences.
- ▶ Data for Canada indicate that growth in the near term will be weaker, and the output gap wider, than the BoC projected in October. The BoC now estimates growth of 0.3% in the fourth quarter of 2019 and 1.3% in the first quarter of 2020.
- ▶ Some of the slowdown in growth in late 2019 was related to special factors that include strikes, poor weather, and inventory adjustments. The weaker data could also signal that global economic conditions have been affecting Canada's economy to a greater extent than was predicted.
- ▶ The BoC projects the global economy will grow by just over 3% in 2020 and 3.25% in 2021. For Canada, the BoC now forecasts real GDP will grow by 1.6% this year and 2.0% in 2021, following 1.6% growth in 2019.
- ▶ The BoC expects inflation will stay around the 2% target over the projection horizon, with some fluctuations in 2020 from volatility in energy prices.
- ▶ In determining the future path for the BoC's policy interest rate, Governing Council will be watching closely to see if the recent slowdown in growth is more persistent than forecast.

COMMENTS

Monetary authorities are showing more concern than anticipated over the Canadian economy's slowdown. Note that economic conditions eroded substantially in the final months of 2019. Among other things, real GDP by industry fell 0.1% in October, and everything suggests November will also be disappointing. Real GDP growth will likely be around 0.5% for the fourth quarter as a whole.

However, a number of one-off factors, which impacted Canada's economy last fall, are responsible for these difficulties. We think these obstacles will disappear fairly quickly and that the situation will get back to normal shortly. Under these conditions, the first quarter of 2020 could see production rebound. Here, the projections published by the BoC today seem fairly conservative, with real GDP growth of just 1.3% in the first quarter of 2020.

IMPLICATIONS

The key to how monetary policy will evolve in the coming months will be the temporary aspect of the difficulties noted at the end of 2019. Today, the BoC indicated that it could cut its key interest rates if these difficulties were to persist or even worsen. However, this kind of action will not be needed, in our opinion. For one thing, our scenario includes a rebound in the Canadian economy in early 2020. For another, despite everything, the monetary authorities will be hesitant to lower key interest rates while households' financial vulnerability remains an issue and there are questions about certain inflationary pressures, such as the recent acceleration in wage growth. The target for the overnight rate should therefore stay at 1.75% throughout 2020.

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Schedule 2020 of Central Bank Meetings

Date	Central banks	Decision	Rate	Date	Central banks	Decision	Rate
January				July			
16	Bank of Korea	s.q.	1.25	1	Bank of Sweden		
20	Bank of Japan	s.q.	-0.10	7	Reserve Bank of Australia		
22	Bank of Canada*	s.q.	1.75	15	Bank of Canada*		
23	European Central Bank			16	European Central Bank		
23	Bank of Norway			16	Bank of Korea		
29	Federal Reserve			22	Bank of Japan		
30	Bank of England			29	Federal Reserve		
February				August			
4	Reserve Bank of Australia			4	Reserve Bank of Australia		
5	Bank of Brazil			5	Bank of Brazil		
11	Reserve Bank of New Zealand			6	Bank of England		
12	Bank of Sweden			11	Reserve Bank of New Zealand		
13	Bank of Mexico			13	Bank of Mexico		
27	Bank of Korea			20	Bank of Norway		
March				September			
3	Reserve Bank of Australia			1	Reserve Bank of Australia		
4	Bank of Canada			9	Bank of Canada		
12	European Central Bank			10	European Central Bank		
18	Bank of Brazil			16	Bank of Brazil		
18	Federal Reserve			16	Federal Reserve		
19	Bank of Norway			17	Bank of Japan		
19	Bank of Japan			17	Bank of England		
19	Swiss National Bank			22	Reserve Bank of New Zealand		
24	Reserve Bank of New Zealand			22	Bank of Sweden		
26	Bank of England			24	Bank of Norway		
26	Bank of Mexico			24	Bank of Mexico		
April				October			
7	Reserve Bank of Australia			6	Reserve Bank of Australia		
9	Bank of Korea			14	Bank of Korea		
15	Bank of Canada*			28	Bank of Brazil		
28	Bank of Sweden			28	Bank of Canada*		
28	Bank of Japan			29	European Central Bank		
29	Federal Reserve			29	Bank of Japan		
30	European Central Bank			November			
May				3	Reserve Bank of Australia		
5	Reserve Bank of Australia			5	Bank of England		
6	Bank of Brazil			5	Bank of Norway		
7	Bank of England			5	Federal Reserve		
7	Bank of Norway			10	Reserve Bank of New Zealand		
12	Reserve Bank of New Zealand			12	Bank of Mexico		
14	Bank of Mexico			26	Bank of Korea		
28	Bank of Korea			26	Bank of Sweden		
June				December			
2	Reserve Bank of Australia			1	Reserve Bank of Australia		
3	Bank of Canada			7	Bank of Mexico		
4	European Central Bank			9	Bank of Brazil		
10	Federal Reserve			9	Bank of Canada		
16	Bank of Japan			10	European Central Bank		
17	Bank of Brazil			16	Federal Reserve		
18	Bank of England			17	Bank of England		
18	Bank of Norway			17	Bank of Norway		
18	Swiss National Bank			17	Swiss National Bank		
23	Reserve Bank of New Zealand			18	Bank of Japan		
25	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.