

ESSENTIALS OF MONETARY POLICY

Bank of Canada (BoC)

The Bank Gives the Canadian Economy a Dose of Rate-Hike Medicine

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ACCORDING TO THE BOC

- ▶ The Bank of Canada raised the overnight policy rate by 25 basis points to 4.75%—the first hike since January—and left the door wide open for another hike in July. With markets pricing in just shy of a 50% chance of a rate increase, it was essentially a coinflip.
- ▶ The press statement made sure there was no confusion about the rationale: “Based on the accumulation of evidence, Governing Council decided to increase the policy interest rate, reflecting our view that monetary policy was not sufficiently restrictive to bring supply and demand back into balance and return inflation sustainably to the 2% target.”
- ▶ There was plenty of evidence to back the move. Real GDP growth came in at 3.1% annualized in the first quarter of the year, well above the Bank’s 2.3% forecast in the April Monetary Policy Report (MPR). Additionally, “CPI inflation ticked up in April to 4.4%, the first increase in 10 months, with prices for a broad range of goods and services coming in higher than expected.” After accounting for surging population growth, the labour market remains tight as well. Taken together, “excess demand in the economy looks to be more persistent than anticipated.”
- ▶ And the Bank of Canada may not be done yet, as there is little evidence the economic indicators the Bank is monitoring are meaningfully losing momentum. Specifically, “Governing Council will continue to assess the dynamics of core inflation and the outlook for CPI inflation. In particular, we will be evaluating whether the evolution of excess demand, inflation expectations, wage growth and corporate pricing behaviour are consistent with achieving the inflation target.”

IMPLICATIONS

Today’s rate announcement was a nailbiter. It could have gone either way. But with a hike, the Bank of Canada’s message was clear: “The Bank remains resolute in its commitment to restoring price stability for Canadians.”

We expect the Bank of Canada is likely to hike by another 25 basis points at its July meeting, as there probably won’t be a lot of progress made by that time. That will take the policy rate to 5%—its highest levels since 2001. Indeed, our early read for Q2 real GDP growth is that it is more likely than not to top the Bank’s 1.0% forecast published in the April MPR. When combined with the resurrection of the housing market and sustained momentum in the labour market, the risk that core inflation will remain sticky at around 4% remains clear.

2023 Schedule of Central Bank Meetings

| Date | Central bank | Decision | Rate |
|-----------------|-----------------------------|-----------|-------|
| January | | | |
| 13 | Bank of Korea | +25 b.p. | 3.50 |
| 18 | Bank of Japan | unchanged | -0.10 |
| 19 | Bank of Norway | unchanged | 2.75 |
| 25 | Bank of Canada* | +25 b.p. | 4.50 |
| February | | | |
| 1 | Bank of Brazil | unchanged | 13.75 |
| 1 | Federal Reserve | +25 b.p. | 4.75 |
| 2 | European Central Bank | +50 b.p. | 3.00 |
| 2 | Bank of England | +50 b.p. | 4.00 |
| 6 | Reserve Bank of Australia | +25 b.p. | 3.35 |
| 9 | Bank of Sweden | +50 b.p. | 3.00 |
| 9 | Bank of Mexico | +50 b.p. | 11.00 |
| 21 | Reserve Bank of New Zealand | +50 b.p. | 4.75 |
| 23 | Bank of Korea | unchanged | 3.50 |
| March | | | |
| 6 | Reserve Bank of Australia | +25 b.p. | 3.60 |
| 8 | Bank of Canada | unchanged | 4.50 |
| 10 | Bank of Japan | unchanged | -0.10 |
| 16 | European Central Bank | +50 b.p. | 3.50 |
| 22 | Bank of Brazil | unchanged | 13.75 |
| 22 | Federal Reserve | +25 b.p. | 5.00 |
| 23 | Bank of England | +25 b.p. | 4.25 |
| 23 | Bank of Norway | +25 b.p. | 3.00 |
| 23 | Swiss National Bank | +50 b.p. | 1.50 |
| 30 | Bank of Mexico | +25 b.p. | 11.25 |
| April | | | |
| 4 | Reserve Bank of Australia | unchanged | 3.60 |
| 4 | Reserve Bank of New Zealand | +50 b.p. | 5.25 |
| 12 | Bank of Canada* | unchanged | 4.50 |
| 13 | Bank of Korea | unchanged | 3.50 |
| 26 | Bank of Sweden | +50 b.p. | 3.50 |
| 28 | Bank of Japan | unchanged | -0.10 |
| May | | | |
| 2 | Reserve Bank of Australia | +25 b.p. | 3.85 |
| 3 | Bank of Brazil | unchanged | 13.75 |
| 3 | Federal Reserve | +25 b.p. | 5.25 |
| 4 | European Central Bank | +25 b.p. | 3.75 |
| 4 | Bank of Norway | +25 b.p. | 3.25 |
| 11 | Bank of England | +25 b.p. | 4.50 |
| 18 | Bank of Mexico | unchanged | 11.25 |
| 23 | Reserve Bank of New Zealand | +25 b.p. | 5.50 |
| 25 | Bank of Korea | unchanged | 3.50 |
| June | | | |
| 6 | Reserve Bank of Australia | +25 b.p. | 4.10 |
| 7 | Bank of Canada | +25 b.p. | 4.75 |
| 14 | Federal Reserve | | |
| 15 | European Central Bank | | |
| 16 | Bank of Japan | | |
| 21 | Bank of Brazil | | |
| 22 | Bank of England | | |
| 22 | Bank of Norway | | |
| 22 | Bank of Mexico | | |
| 22 | Swiss National Bank | | |
| 29 | Bank of Sweden | | |

| Date | Central bank | Decision | Rate |
|------------------|-----------------------------|----------|------|
| July | | | |
| 4 | Reserve Bank of Australia | | |
| 11 | Reserve Bank of New Zealand | | |
| 12 | Bank of Canada* | | |
| 13 | Bank of Korea | | |
| 26 | Federal Reserve | | |
| 27 | European Central Bank | | |
| 28 | Bank of Japan | | |
| August | | | |
| 1 | Reserve Bank of Australia | | |
| 2 | Bank of Brazil | | |
| 3 | Bank of England | | |
| 10 | Bank of Mexico | | |
| 15 | Reserve Bank of New Zealand | | |
| 17 | Bank of Norway | | |
| 24 | Bank of Korea | | |
| September | | | |
| 5 | Reserve Bank of Australia | | |
| 6 | Bank of Canada | | |
| 14 | European Central Bank | | |
| 20 | Bank of Brazil | | |
| 20 | Federal Reserve | | |
| 21 | Bank of England | | |
| 21 | Bank of Norway | | |
| 21 | Swiss National Bank | | |
| 22 | Bank of Japan | | |
| 28 | Bank of Mexico | | |
| ** | Bank of Sweden | | |
| October | | | |
| 2 | Reserve Bank of Australia | | |
| 3 | Reserve Bank of New Zealand | | |
| 19 | Bank of Korea | | |
| 25 | Bank of Canada* | | |
| 26 | European Central Bank | | |
| 31 | Bank of Japan | | |
| November | | | |
| 1 | Bank of Brazil | | |
| 1 | Federal Reserve | | |
| 2 | Bank of England | | |
| 2 | Bank of Norway | | |
| 6 | Reserve Bank of Australia | | |
| 9 | Bank of Mexico | | |
| 28 | Reserve Bank of New Zealand | | |
| 30 | Bank of Korea | | |
| ** | Bank of Sweden | | |
| December | | | |
| 4 | Reserve Bank of Australia | | |
| 6 | Bank of Canada | | |
| 13 | Bank of Brazil | | |
| 13 | Federal Reserve | | |
| 14 | European Central Bank | | |
| 14 | Bank of England | | |
| 14 | Bank of Norway | | |
| 14 | Bank of Mexico | | |
| 14 | Swiss National Bank | | |
| 19 | Bank of Japan | | |

NOTE: Central banks may decide to change rates between the scheduled meetings. The abbreviation b.p. stands for basis points. * Monetary Policy Report published; ** To be determined.