

# ESSENTIALS OF MONETARY POLICY

## Bank of Canada (BoC)

### The Bank of Canada Sees Inflation Higher for Longer

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#### ACCORDING TO THE BOC

- ▶ As was widely expected, the Bank of Canada hiked the overnight policy rate by 25 basis points to 5.00% today. This is the second hike since January, following the one in June.
- ▶ The press statement made sure there was no confusion about the rationale for today's rate hike. Much like in June, the Bank said: "In light of the accumulation of evidence that excess demand and elevated core inflation are both proving more persistent... Governing Council decided to increase the policy interest rate to 5%."
- ▶ Indeed, the Bank reiterated its concern that "underlying price pressures appear to be more persistent than anticipated." Downward momentum in the three-month rates of core inflation have stalled in the 3.5% to 4% range since September 2022. It comes as no surprise then that the "Governing Council remains concerned that progress towards the 2% target could stall, jeopardizing the return to price stability."
- ▶ Consequently, in the July Monetary Policy Report (MPR) projection, "CPI inflation is forecast to hover around 3% for the next year before gradually declining to 2% in the middle of 2025." The Bank revised up its forecast for total CPI inflation in 2023 (to 3.7% from 3.5% in April) and 2024 (to 2.5% from 2.3%). Its outlook for 2025 remains unchanged at 2.1%.
- ▶ At the same time, the Bank revised up its outlook from 2023 real GDP growth, to 1.8% from 1.4% in April. The Bank's newfound optimism in part reflects the stronger outturn in Q1 (3.1% annualized vs the Bank's April forecast of 2.3%) and more elevated expectations for Q2 (from 1.0% to 1.5%). The central bank also published its real GDP growth forecast for the third quarter of 2023, which it expects to come in at 1.5%, in line with our projection. But while 2023 was

revised higher, 2024 and 2025 real GDP growth were revised lower by a tick to 1.2% and 2.4%, respectively.

- ▶ Going forward, the Bank repeated its message from June that "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 2% inflation target." However, it provided no additional guidance on the future direction of interest rates.

#### IMPLICATIONS

The Bank of Canada's analysis that accompanied today's rate hike leaves little doubt that it was justified. The Bank pointed to a tight labour market, population growth, accumulated housing savings, pent-up demand for services, and fiscal measures in recent federal and provincial budget as being several factors that explain the unexpected strength in household spending. We cited these same drivers in our latest [Economic and Financial Outlook](#). Notably, household financial stress remains limited in Canada, in part reflecting only about one-third of mortgage holders having been directly affected by higher rates to date.

But the Bank made clear throughout the MPR that it sees higher interest rates as the cure for these drivers of excess demand. So, looking to the next meeting in September, the door isn't shut to another rate hike. That said, we continue to believe that this will be the final rate hike for this cycle, since the Bank of Canada's quantitative tightening program will continue to tighten financial conditions even absent any more rate increases.

# 2023 Schedule of Central Bank Meetings

Date	Central bank	Decision	Rate
<b>January</b>			
12	Bank of Korea	+25 b.p.	3.50
17	Bank of Japan	unchanged	-0.10
19	Bank of Norway	unchanged	2.75
25	Bank of Canada*	+25 b.p.	4.50
<b>February</b>			
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
22	Bank of Korea	unchanged	3.50
<b>March</b>			
6	Reserve Bank of Australia	+25 b.p.	3.60
8	Bank of Canada	unchanged	4.50
9	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
<b>April</b>			
4	Reserve Bank of Australia	unchanged	3.60
4	Reserve Bank of New Zealand	+50 b.p.	5.25
10	Bank of Korea	unchanged	3.50
12	Bank of Canada*	unchanged	4.50
26	Bank of Sweden	+50 b.p.	3.50
28	Bank of Japan	unchanged	-0.10
<b>May</b>			
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
24	Bank of Korea	unchanged	3.50
<b>June</b>			
6	Reserve Bank of Australia	+25 b.p.	4.10
7	Bank of Canada	+25 b.p.	4.75
14	Federal Reserve	unchanged	5.25
15	European Central Bank	+25 b.p.	4.00
15	Bank of Japan	unchanged	-0.10
21	Bank of Brazil	unchanged	13.75
22	Bank of England	+50 b.p.	5.00
22	Bank of Norway	+50 b.p.	3.75
22	Bank of Mexico	unchanged	11.25
22	Swiss National Bank	+25 b.p.	1.75
29	Bank of Sweden	+25 b.p.	3.75

Date	Central bank	Decision	Rate
<b>July</b>			
4	Reserve Bank of Australia	unchanged	4.10
11	Reserve Bank of New Zealand	unchanged	5.50
12	Bank of Korea		
12	Bank of Canada*	+25 b.p.	5.00
26	Federal Reserve		
27	European Central Bank		
27	Bank of Japan		
<b>August</b>			
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		
23	Bank of Korea		
<b>September</b>			
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	Bank of Sweden		
21	Bank of Japan		
21	Swiss National Bank		
28	Bank of Mexico		
<b>October</b>			
2	Reserve Bank of Australia		
3	Reserve Bank of New Zealand		
18	Bank of Korea		
25	Bank of Canada*		
26	European Central Bank		
30	Bank of Japan		
<b>November</b>			
1	Bank of Brazil		
1	Federal Reserve		
2	Bank of England		
2	Bank of Norway		
6	Reserve Bank of Australia		
9	Bank of Mexico		
23	Bank of Sweden		
28	Reserve Bank of New Zealand		
29	Bank of Korea		
<b>December</b>			
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		
18	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.