

May 19, 2016

C.D. Howe Institute Monetary Policy Council Calls for Bank of Canada to Hold Overnight Rate at 0.50 for the Next Year

May 19, 2016 – The C.D. Howe Institute's **Monetary Policy Council** (MPC) today recommended that the Bank of Canada keep its target for the overnight rate, the very short-term interest rate it targets for monetary policy purposes, at 0.50 percent at its next announcement on May 25, 2016. Looking ahead, the Council called for the Bank to hold the target at 0.50 percent over the next 12 months.

The MPC provides an independent assessment of monetary stance consistent with the Bank of Canada's 2 percent inflation target. **William Robson**, the Institute's President and CEO, chairs the Council.

Council members make recommendations for the Bank of Canada's upcoming interest-rate announcement, the subsequent announcement, and the announcements six months and one year ahead. The Council's formal recommendation for each announcement is the median vote of the members attending the meeting.

On this occasion, members were unanimous in calling for the Bank to maintain the overnight rate at 0.50 percent for the next six months. The group's recommendation 12 months out had a tightening bias, with three members calling for an overnight rate target of 0.75 percent in May 2017, and one calling for a target of 1.00 percent (see table below).

In assessing the outlook for world economic activity, the group was cautiously positive, with a rebound in the United States offsetting concerns overseas, and the tone in financial markets having improved from earlier in the year.

Turning to Canadian activity, the group noted a prospective boost from higher oil prices and strengthening US demand once the negative impact of the fires in northern Alberta on output has passed. However, many members emphasized recent poor indicators for non-energy exports, production and non-residential investment, and expressed concern over the outsized contributions of consumer demand and housing to recent growth in Canadian GDP.



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A major theme in the MPC's discussions was downward revisions in expectations for long-term potential growth, globally and in Canada. In addition to demographic factors and low productivity growth generally, several members mentioned particular concerns in Canada, notably policies expected to hamper energy development and force changes in energy use that households and businesses would not otherwise pursue. With businesses revising their growth forecasts down in any event, some members worried that negative policy concerns would further depress investment, which in turn would reduce potential growth in Canada.

With demand growing modestly, potential growth lower than expected, and measures of price pressures suggesting little disinflationary slack in the Canadian economy, no MPC members favoured a cut in the overnight rate target at any time during the year ahead. Among those who felt the next move should be upward, several indicated a preference to see the US Federal Reserve hike first, partly to limit any upward pressure on the external value of the Canadian dollar. The net result, for the group as a whole, was a recommendation to hold the overnight-rate target unchanged until May 2017.

The following table shows the votes of each MPC member, as well as the Council's median vote, for the relevant Bank of Canada policy-rate announcements.



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MPC Members	May 25	July 13	6 months	12 months
Steve Ambler Université du Québec à Montréal (UQAM)	0.50%	0.50%	0.50%	0.75%
Paul Beaudry University of British Columbia	0.50%	0.50%	0.50%	0.50%
Edward Carmichael Ted Carmichael Global Macro	0.50%	0.50%	0.50%	0.50%
Thorsten Koepl Queens University	0.50%	0.50%	0.50%	1.00%
Stéfane Marion National Bank Financial	0.50%	0.50%	0.50%	0.50%
Angelo Melino University of Toronto	0.50%	0.50%	0.50%	0.75%
Doug Porter BMO Capital Markets	0.50%	0.50%	0.50%	0.50%
Avery Shenfeld CIBC	0.50%	0.50%	0.50%	0.50%
Craig Wright RBC	0.50%	0.50%	0.50%	0.75%
Median Vote	0.50%	0.50%	0.50%	0.50%

The views and opinions expressed by the participants are their own and do not necessarily reflect the views of the organizations with which they are affiliated, or those of the C.D. Howe Institute.

The MPC's next vote will take place on July 7, 2016 prior to the Bank of Canada's interest rate announcement on July 13, 2016.

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