C.D. Howe Institute Monetary Policy Council Calls for Bank of Canada to Hold Overnight Rate at 0.25 Percent Next Week, Hike to 1.00 Percent Next Year, Shrink Bond Holdings

December 2, 2021 – The C.D. Howe Institute's **Monetary Policy Council** (MPC) recommends that the Bank of Canada keep its target for the overnight rate, its benchmark policy interest rate, at 0.25 percent through next January, before raising it to 0.75 percent by June of 2022, and to 1.00 percent by December of 2022. It also recommends that the Bank reduce its holdings of Government of Canada bonds between now and its next overnight-rate target announcement in January.

The MPC provides an independent assessment of the monetary stance consistent with the Bank of Canada's 2 percent inflation target. **William Robson**, the Institute's 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 members attending the meeting. The Council also offers a view on the Bank's quantitative easing program: on this occasion, members voted on whether the Bank should shrink, maintain or increase its holdings of Government of Canada bonds.

Eight of the 11 members of the MPC attending this meeting called for the Bank to hold the overnight rate target at 0.25 percent at its upcoming announcement on December 8th, while three members called for an increase to 0.50 percent. Looking ahead to the announcement on January 26th, 2022, seven members called for a target of 0.25 percent, three for a target of 0.50 percent, and one for a target of 0.75 percent. In six months' time, only two members called for a target of 0.25 percent, with the other nine calling for targets ranging from 0.50 to 1.25 percent. A year ahead, all 11 members called for a target higher than the current one, with recommendations ranging from 0.75 percent to 2.00 percent (see table below). Nine of the 11 members called for the Bank to reduce its holdings of bonds, two called for it to maintain its holdings at current levels, and none called for it to increase its holdings.

The tendency for the group to recommend a higher overnight rate target over time, and the strong majority in favour of the Bank reducing its holdings of federal government bonds, reflected evidence that inflation is higher and more persistent than previously thought, and that the extraordinary monetary measures in place since the onset of the COVID-19 pandemic are becoming less appropriate. Among the indicators of demand pressing against constrained capacity noted during the conversation were high job vacancy rates, elevated household savings, and the fact that recent weakness in some categories of spending reflected lack of supply.

Differences in the timing and size of overnight-rate increases recommended by MPC members reflected several considerations. The group debated the significance of the Omicron COVID variant, with some members noting that successive waves of COVID have had less impact on mortality, hospitalization and the economy, and others emphasizing uncertainties about the virulence of the variant and the fact that it is already affecting sectors such as travel. Challenges interpreting many economic indicators were also a topic of discussion. Members noted that rapid shifts in household consumption, notably among different types of services, gave rise to contrasting signals from monthly and quarterly GDP readings, and between proprietary and official measures of spending. Differences in the group's views about the Bank's quantitative easing program also affected members' overnight-rate recommendations. A number of members thought that a reduction in the Bank's bond holdings should precede an increase in the overnight rate, which helps explain the median recommendation of no increase until after January of next year.

Votes of MPC Members and the Council Median for Each Announcement (*percent*)

MPC Members	Dec 8, 2021	Jan 26, 2022	Jun 1, 2022	Dec 7, 2022	QE VOTE
Steve Ambler Université du Québec à Montréal (UQAM)	0.25	0.50	1.00	1.25	Shrink
Beata Caranci TD Bank	0.25	0.25	0.75	1.00	Maintain
Edward A. Carmichael Ted Carmichael Global Macro	0.50	0.75	1.25	2.00	Shrink
Michael Devereux University of British Columbia	0.50	0.50	0.75	1.00	Shrink
Angelo Melino University of Toronto	0.25	0.25	0.75	0.75	Shrink
Jean-François Perreault Senior VP and Chief Economist, Scotiabank	0.25	0.25	0.25	1.25	Shrink
Douglas Porter BMO Capital Markets	0.25	0.25	0.50	1.00	Maintain
Avery Shenfeld CIBC	0.25	0.25	0.25	0.75	Shrink
Pierre Siklos Wilfrid Laurier University	0.25	0.25	1.00	1.50	Shrink
Stephen D. Williamson Western University	0.50	0.50	1.00	1.50	Shrink
Craig Wright RBC	0.25	0.25	0.50	1.00	Shrink
Median Vote	0.25	0.25	0.75	1.00	N/A

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 January 20, 2022 prior to the Bank of Canada's interest rate announcement on January 26, 2022.

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Contact: Miles Wu; e-mail: mwu@cdhowe.org.