

January 15, 2015

C.D. Howe Institute Monetary Policy Council Urges Bank of Canada to Hold Overnight Rate at 1.00 Percent through Mid-Year; Looks for 1.25 Percent by January 2016

January 15, 2015 – 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 1.00 percent at its next announcement on January 21, 2015. Looking ahead, the Council called for the Bank to hold the target at 1.00 percent through to July, and called for a target of 1.25 a year from now.

The MPC provides an independent assessment of the monetary stance appropriate for the Bank of Canada as it pursues its 2 percent inflation target. William Robson, the Institute’s President and Chief Executive Officer, chairs the Council.

MPC 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.

All 11 of the MPC members attending today’s meeting called for a 1.00 percent target at the upcoming announcement. Ten of the 11 called for a 1.00 percent target at the subsequent announcement in March, with one calling for a cut to 0.75 percent. By July, nine favoured a target of 1.00 percent, with one favouring 0.50 percent and one favouring 1.25 percent. By January 2016 setting, five called for 1.00 percent, with the other six ranging from 1.25 to 1.75 percent.

The price of oil dominated the discussion at the meeting. Key questions were:

- the relative importance of demand and supply factors in its recent drop;
- its likely potential future path;
- its impact on nominal incomes and real output in Canada;
- the relative timing of negative and positive effects on different sectors of the economy; and
- the possible influence on Canadians’ inflation expectations.



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On balance, the group expected the depressing effects of the price drop on spending and output to outweigh the stimulus to energy consumers and non-energy exports over the next year. Two members stressed the possibility that lower gasoline prices and/or temporarily low readings for the consumer price index might cause households to expect inflation below 2 percent. One explicitly recommended that the Bank lower its policy rate if that drop in expectations occurred, a couple of others thought the Bank of Canada could stress that such a drop in expectations could trigger a rate cut.

Notwithstanding these near-term concerns, no Council member called for the overnight rate to fall at the upcoming setting, and the majority looked for it to rise by the beginning of 2016. In part, the desire for an unchanged policy rate even in the face of a negative shock from lower oil prices reflected reluctance to react strongly to market fluctuations. It also reflected some ongoing improvements in the environment, in particular the strengthening US economy and the beneficial impact of more abundant energy on the world as a whole.

For the Council as a whole, the net result of concern about lower oil prices was to delay the increases in the overnight rate target the group had previously called for in the second half of 2015.

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	Jan. 21	Mar. 4	6 months	12 months
Craig Alexander TD Bank Group	1.00%	1.00%	1.00%	1.00%
Steve Ambler Université du Québec à Montréal (UQAM)	1.00%	1.00%	1.00%	1.25%
Paul Beaudry University of British Columbia	1.00%	1.00%	1.00%	1.00%
Edward A. Carmichael Ted Carmichael Global Macro	1.00%	.75%	.50%	1.00%
Thorsten Koeppl Queens University	1.00%	1.00%	1.00%	1.00%
Stéfane Marion National Bank	1.00%	1.00%	1.00%	1.00%
Angelo Melino University of Toronto	1.00%	1.00%	1.00%	1.50%
Nicholas Rowe Carleton University	1.00%	1.00%	1.00%	1.25%
Avery Shenfeld CIBC World Markets Inc.	1.00%	1.00%	1.00%	1.00%
Pierre Siklos Wilfrid Laurier University	1.00%	1.00%	1.25%	1.75%
Craig Wright RBC Financial Group	1.00%	1.00%	1.00%	1.50%
Median Vote	1.00%	1.00%	1.00%	1.25%

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 February 26, 2015 prior to the Bank of Canada's interest rate announcement on March 4, 2014.

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