C.D. Howe Institute Monetary Policy Council Says Bank of Canada Should Hold Overnight Rate at 0.50 for Next 12 Months

July 7, 2016 – The C.D. Howe Institute's **Monetary Policy Council** (MPC) today called for the Bank of Canada to 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 July 13, 2016. Looking ahead, the Council said the Bank should 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, all but one member wanted the Bank to hold the overnight rate at 0.50 percent on July 13 and at the subsequent announcement on September 7. The remaining member wanted the target lowered to 0.25 percent on those occasions. By the time of the January 2017 announcement, that member wanted the target back at 0.50 percent, while two members wanted it lowered to 0.25 by then. By July 2017, those same two members called for a target of 0.25 percent, while four members called for 0.50 percent, two for 0.75 percent, and one for 1.00 percent (see table below).

The split in member's votes, both in direction and in timing, reflected key uncertainties about the outlook for the Canadian economy and inflation, and differences in view about how the Bank should respond to those uncertainties.

Looking at the global environment, some members judged that the United Kingdom's vote to exit the European Union had materially hurt the outlook for growth. While others thought the impact on the world economy and on Canada particularly would be less than feared, the majority felt that the vote's consequences, including the prospect of lower central bank interest rates, as well as lower bond yields – notably in the United States – made an increase in Canada's policy interest rate less desirable.

Turning to the domestic scene, MPC members noted several indicators of recent and prospective weakness, among them the impact of fires in northern Alberta on oil production, weak capital spending intentions, and disappointing non-energy exports. The group debated the extent to which sluggish activity reflected mainly weak demand, which would indicate that the Canadian economy has a large disinflationary output gap that will take time to close, as opposed to lower productive capacity, which would indicate a smaller and likely shorter-lived output gap. Some members argued that estimates of the output gap were unreliable guides for monetary policy: these members tended to feel that inflation at the 2-percent target (if measured by core inflation) or close to and approaching the target (if measured by the total CPI) justified an earlier move to a higher policy rate.

Other potential policy influences on Canada's economy also got attention at this meeting. One was the extent and timing of any fiscal boost, with several members anticipating that higher federal spending on family benefits would add to growth in the second half of 2016. The other was possible measures to address rapid house-price increases in Toronto and Vancouver, with members distinguishing between tax or regulatory measures that would depress construction and measures, such as eased land-use regulations, that would make more housing available. Uncertainty on this score accounted for at least one member's call for an unchanged policy rate in the near term, followed by a cut later on, assuming that other measures had addressed rapid house-price increases and related borrowing.

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.

MPC Members	July 13	Sept 7	6 months	12 months
Steve Ambler Université du Québec à Montréal (UQAM)	0.50%	0.50%	0.50%	0.75%
Edward Carmichael Ted Carmichael Global Macro	0.50%	0.50%	0.25%	0.25%
Thorsten Koeppl Queens University	0.50%	0.50%	0.50%	1.00%
Angelo Melino University of Toronto	0.25%	0.25%	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%
Pierre Siklos Wilfrid Laurier University	0.50%	0.50%	0.50%	0.50%
David Tulk TD Securities Inc.	0.50%	0.50%	0.25%	0.25%
Craig Wright RBC	0.50%	0.50%	0.50%	0.50%
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 September 1, 2016 prior to the Bank of Canada's interest rate announcement on September 7, 2016.

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