Bank of Canada Rate Announcement
Dec. 5, 2018

No change in the Bank of Canada’s policy rate was announced, leaving it unchanged at 1.75 per cent. The Bank took a more dovish tone than in October citing several factors that could keep rates lower for longer. It also mentioned positive risks to the forecast but that was more to present some balance and not appear too negative.

The recent data flow has been negative, and the Bank rightly responded by not raising rates. Topping the list of concerns were lower oil prices and trade conflicts. The Bank also cited the weak third quarter 2018 GDP notably in business investment. The Bank reiterated its long-held view that investment and exports will become more significant growth engines.

The Bank stated its decision considered the significant slowdown in regional housing markets; the need to monitor the impact of tighter mortgage rules and regional housing policy changes; and higher interest rates.

Headline CPI inflation is expected to decline because of lower gasoline prices, while core inflation tracking on target and consistent with the economy operating close to its capacity.

An important technical point mentioned was that there may be additional room for non-inflationary growth (read more excess capacity) than previously thought due to downward historical revisions to GDP and recent macroeconomic developments (read lower oil prices, slower global growth, and weak third quarter GDP).

The Bank, and other forecasters, will be data-dependent as to the future stance of monetary policy. Presently, downside risks outweigh the upside. Our forecast calls for another hold at the Bank’s January 9, 2019 meeting. The next rate increase is currently penciled in at the April 24, 2019 meeting, however, that may be erased and moved to later in the year should the data flow and prospects not materially improve. The longer-term expectation is that rates will remain lower for longer.

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