Bank of Canada Rate Announcement

Bank of Canada Rate Announcement - April 24, 2019

The Bank of Canada kept its target for the overnight rate unchanged at 1.75 per cent citing weaker than expected economic growth in Canada. The Bank revised down its 2019 growth forecast for Canada by a large amount and to below the private sector consensus forecast. This sends a strong signal that the Bank is in no hurry to raise rates.

The Bank's forecast was more positive for 2020 and 2021 with growth put at 2.1 per cent and 2.0 per cent, respectively, compared to 1.2 per cent in 2019. The Bank sees the economy growing above its potential rate in the latter two years, closing the output gap or excess capacity in the economy. The forecast pickup depends on a substantial improvement in business fixed investment, exports, and a modest housing rebound.

The stars need to align for the Bank's optimistic forecast to materialize, and while not impossible and desirable, it appears unlikely given recent history. In addition, it is the Bank's practice to forecast enough growth to close the output gap by the end of the projection period. The Bank has been predicting stronger business investment and exports for years without much success.

Market reaction to the rate announcement was a weaker Canadian dollar and lower bond yields.

No rate change in 2019 is foreseen unless trade policy measures, such as U.S. auto import tariffs, further disrupt the global economy or other events cause weaker growth, in which case a rate cut is likely. Even with global and Canadian growth prospects improving during 2019, no rate increase is expected given the amount of slack in the economy. The next rate increase might be later in 2020, if stars align, and will be guided by the data flow and policy developments.

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