

# Bank of Canada Rate Announcement

## Bank of Canada Rate Announcement - May 29, 2019

The Bank of Canada left its overnight rate at 1.75 per cent, as widely expected. The Bank will remain data and trade policy dependent in making future rate decisions. Markets reacted to the rate announcement by sending the Canadian dollar down and long bond yields lower.

The Bank's take on the Canadian economy had a positive slant citing strong job growth, recovering oil production and firming business investment. The recent economic growth slowdown appears to be over. On the trade policy front, the Bank expected a positive impact from the removal of steel and aluminum tariffs and the likely ratification of the Canada-United States-Mexico Agreement (CUSMA).

The Bank will remain on hold for the foreseeable future given the uncertainty over trade policy and its impact on the global economy. In addition, there is considerable slack in the Canadian economy that should keep rates on hold through 2019, even with the Bank's optimistic growth forecast. Beyond this year, the rate outlook hinges on which economic forecast is used.

If the Bank's two per cent growth forecast for Canada is used, then a rate increase should be expected. If a weaker growth forecast is expected, then rates would be on hold, or possibly cut, depending on how weak the forecast is. Our forecast calls for less than two per cent economic growth for Canada during the next two years and no rate increase or decrease.

The Three-Month Canadian Bankers' Acceptance Futures market is pricing in quarter-point cut by March 2020 and about a 50 per cent chance of another cut by the end of 2020.

The next rate announcement is July 10, 2019 and will be accompanied by an economic forecast update in the Bank's quarterly *Monetary Policy Report*.

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