

Bank of Canada Rate Announcement

Bank of Canada Rate Announcement - July 10, 2019

The Bank of Canada announced its rate decision today, but this took a back seat to the U.S. Federal Reserve Chairman's semi-annual testimony before Congress. To no surprise, the Bank left its overnight target rate at 1.75 per cent. The Bank also released its *Monetary Policy Report* for July 2019, which contained its updated economic forecasts.

The Bank raised its second quarter 2019 Canada growth forecast to account for recent improvements and fell in line with the prevailing consensus forecast. More notably, the Bank edged lower its 2020 growth forecast for Canada's economy. Consequently, the Bank sees more slack in the economy than three months ago due mainly to a weaker trade sector. The Bank also downgraded global economic growth citing ongoing trade conflicts, geopolitical tensions and related uncertainty.

The Bank's rate announcement had no market impact because it met expectations, but the markets did move on the U.S. Fed Chairman's testimony. Equity markets gained, bonds sold off, oil prices rose, and the U.S. dollar declined. The Fed is the dominant central banker in the world economy and it influences the direction of central bank policy rates in other countries. There is more than a 50:50 chance the Fed will cut rates soon, though the timing and magnitude of this easing is data and policy dependent. Fed rate cuts would normalize the yield curve.

When the Fed cuts rates in response to weaker growth and growth prospects, the Bank of Canada, and other central banks, will most likely need to cut rates given the interconnectedness of economies. Our view is that the Bank will remain on hold through this year but will need to provide more monetary stimulus in 2020. A rate cut later this year is likely if trade tariffs spread and tensions escalate.

The next rate announcement is September 4, 2019.

Helmut Pastrick

Chief Economist, Central 1 Credit Union

hpastrick@central1.com

www.central1.com 604.737.5026

Terms

Published by the Economics Department of Central 1 Credit Union, 1441 Creekside Drive, Vancouver, B.C. V6J 4S7 © Central 1 Credit Union, 2011.

This work may not be reproduced in whole or part, by photocopy or other means, without permission of Central 1 Credit Union.

This report may have forward-looking statements about the future economic growth. These statements are subject to risk and uncertainty. Actual results may differ due to a variety of factors, including regulatory or legislative developments, competition, technological change, global capital market activity and general economic conditions in Canada, North America or internationally. This list is not exhaustive of the factors that may affect any of the this report's forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on this report's forward-looking statements.

This report and Central 1 Credit Union disclaims any and all warranties, whether express or implied, including (without limitation) any implied warranties of merchantability or fitness for a particular purpose. This report and Central 1 Credit Union will not accept any responsibility for the reader's use of the data and/or opinions presented in this report or any loss arising therefrom.

Chief Economist: **Helmut Pastrick** Deputy Chief Economist: **Bryan Yu** Senior Financial Economist: **David Hobden** Regional Economist, Ontario: **Edgard Navarrete**
Production: **Judy Wozenecroft**