

Bank of Canada Rate Announcement

Bank of Canada Rate Announcement - September 4, 2019

The Bank of Canada kept its policy rates at current levels at today's rate announcement. No rate change was widely expected. The Bank concluded that the current degree of monetary policy stimulus remains appropriate.

The US-China trade conflict had a prominent position in the announcement with the Bank citing the negative impact it has on the world economy and trade and commodity prices. This trade conflict has worsened since the last rate announcement, and as a result, growth projections in the Bank's July *Monetary Policy Report* likely overstate the global economy's momentum.

The Bank stated that Canada's strong second quarter growth was partially due to temporary factors and that slower growth in the second half of this year was expected. With inflation largely on target and the Canadian economy operating close to its potential, the Bank saw no reason to make a rate change at this time.

The Bank will release its new growth projections at its next rate announcement and downward revisions to global growth, and more importantly, to Canada's 2020 growth outlook are expected. Trade policy is the wild card and a significant escalation in tariffs would further weaken the economy and its prospects, forcing the Bank to apply more monetary stimulus.

A status quo trade policy situation is expected to prevail through to the Bank's next rate setting, though with higher US-China tariff rates scheduled for mid-December, there is more downside ahead to the economy and its prospects. When the next round of tariffs come into effect, a rate cut by the Bank thereafter is almost certain. Markets are expecting a rate cut at the next meeting in October, and should the trade situation worsen, a rate cut would occur then.

In these unusual times, trade policy has a crucial role in monetary policy settings, not only in Canada, but globally.

The next rate announcement is October 30, 2019.

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Terms

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