

## Bank of Canada Rate Announcement - October 30, 2019

There was no change in the Bank of Canada's policy rates following today's announcement. While no rate change was widely expected, the focus was on the Bank's assessment of the economy and the possible path of future rate settings. The Bank released its quarterly *Monetary Policy Report* containing a new set of economic forecasts.

The Bank cited trade conflicts and uncertainty as restraining business investment, trade, and global growth and causing lower commodity prices. Monetary conditions have eased in many countries and bond yields have declined until most recently. There is considerable risk that the global economic slowdown will persist, though the Bank is projecting a modest improvement in the next two years.

Canada's economy is projected to slow to below potential in the second half of 2019 following a sharp, but temporary, growth surge in the second quarter of 2019. For 2020 and 2021, the Bank lowered its growth expectations by 0.2 percentage points to 1.7 per cent and 1.8 per cent, respectively, from the Bank's July 2019 forecast. The Bank raised the 2019 forecast to 1.5 per cent from 1.3 per cent earlier, due to that unexpected strong second quarter.

The Bank sees stronger consumer and housing sectors in 2020 relative to its last forecast. A turnaround in business fixed investment will also be key to achieving the Bank's growth forecast. A weaker trade sector is projected in 2020.

The new growth forecasts result in a substantial output gap (actual minus potential output) by the end of the projection period in 2021. This is a departure from the Bank's practice to generate a forecast that either closes the output gap or leaves it near zero. While the output gap narrows slightly, the large gap, or excess capacity, implies further easing in monetary conditions. Interestingly the Bank's inflation projection called for an on-target 2.0 per cent rate despite this excess capacity citing a boost from the higher federal carbon tax.

The Bank's main concern was the extent to which the global slowdown spreads beyond manufacturing and investment and into consumer spending and housing activity. If trade conflicts and uncertainty subside, the economic outlook would improve, and the Bank would hold rates at current levels through 2020.

No rate change is expected at the Bank's next announcement this December. The current wait-and-see, data dependent stance will remain. However, the substantial output gap through the projection period calls for lower rates. Consequently, the Bank is expected to reduce its policy rates by one-quarter percentage point at its January 22, 2020 rate announcement and probably another similar reduction around mid-2020.

The next rate announcement is December 4, 2019.

---

### Helmut Pastrick

Chief Economist, Central 1 Credit Union

[hpastrick@central1.com](mailto:hpastrick@central1.com)

[www.central1.com](http://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** Business Economist: **Alan Chow** Regional Economist, Ontario: **Edgard Navarrete**  
Production: **Judy Wozencroft**