

Bank of Canada Rate Announcement

Bank of Canada Rate Announcement - January 22, 2020

The Bank of Canada stayed the course on interest rates by maintaining its target for the overnight rate at 1.75 per cent. The Bank cited signs of stabilization in the global economy, recent trade deals, and stronger global activity and demand in the future as positive external factors. Domestically, the Bank expects a pickup in household spending, housing and business investment with inflation staying around two per cent. Overall, the Bank's tone was more positive but tempered with the caveat of risks around trade and geopolitical tensions, household debt, and uncertain growth prospects.

The *Monetary Policy Report* accompanied today's rate announcement and elaborated on the Bank's economic assessment and outlook. Growth projections for the world economy were little changed from the October 2019 report. Similarly, growth projections for the Canadian economy underwent minimal change except for an upgrade to its 2021 forecast. Canada's economy is seen expanding 1.6 per cent in 2020 (similar to 2019) and 2.0 per cent in 2021.

In the near term, fourth quarter 2019 growth was downgraded to 0.3 per cent, from 1.3 per cent, on account of reduced motor vehicle production, the CN strike, and the Keystone pipeline disruption. As a result, the output gap (or excess capacity) increased in the fourth quarter of 2019. However, excess capacity was mainly in the energy-producing sector with little slack in many other sectors. A growth pickup in the first quarter of 2020 growth is expected as those temporary factors fade.

The Bank also raised its estimate of Canada's potential growth reflecting higher trend labour productivity due to higher capital formation, investment, and population growth. Canada's economy can grow at a faster pace without accelerating inflation. However, this does not mean that interest rates will not rise in the future, rather, that it will take longer for rates to reach neutral.

Central 1 Economics forecast calls for no change in the Bank's policy rates through 2020 with pressure developing later in 2021. Downside risks and uncertainties remain in 2020 and a rate cut cannot be ruled out due to future negative policy developments and resulting economic impacts. On the upside, the economy may perform better than expected.

The next rate announcement is March 4, 2020.

Helmut Pastrick

Chief Economist, Central 1 Credit Union

hpastrick@central1.com

www.central1.com 604.737.5026

Terms

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Chief Economist: **Helmut Pastrick** Deputy Chief Economist: **Bryan Yu** Business Economist: **Alan Chow** Regional Economist, Ontario: **Edgard Navarrete**

Production: **Judy Wozencroft**