

# Bank of Canada Rate Announcement

## Bank of Canada cuts by 50 bps

The Bank of Canada pulled the trigger on a full 50 bps cut to the target overnight rate today to 1.25 per cent, matching yesterday's surprise inter-meeting cut of 50 bps by the U.S. Fed. This was the first cut since 2015. The Bank's statement cited COVID-19 as "*a material negative shock*" to the Canadian and global outlooks as a driver of the decision. Global business activity and supply chains have been disrupted, cutting into commodity prices and contributing to a repricing of risk assets. Further deterioration in business and consumer sentiment is expected as the virus spreads.

Drag from the COVID-19 virus also exacerbates growth weakness in Q1. The Bank noted that the "*outlook is clearly weaker now than it was in January*" and anticipates weaker than previously expected growth in Q1 following a soft Q4 2019. Business investment has yet to recover despite ironing out some trade uncertainty, while the economy has been hit by temporary factors including rail blockades, the Ontario teachers strike and weather factors.

The 50 point move by the Bank is aggressive, but by keeping pace with the Fed, limits some upward pressure on the Canadian dollar due to interest rate differentials, supporting exports and potentially investment. There was no mention high household debt loads and rising home values in some markets, suggesting supporting income growth is paramount. That said, in the impacts of the cuts to alter the economic trajectory is limited given it is a health scare dampening demand, and supply chains will not be fixed by monetary policy.

The downward rate adjustment may not be finished. The Bank stated that the "*Governing Council stands ready to adjust monetary policy further if required to support economic growth and keep inflation on target.*" This will likely be contingent on further moves by the Fed, which meets again on March 17-18, and the evolution of COVID-19's impact on the economy.

No Monetary Policy Report or presser was scheduled to accompany today's rate decision. Governor Poloz's speech in Toronto on March 5 to Women in Capital Markets will likely shed more light on the rate decision.

The next rate announcement will come on April 15, 2020 which will be accompanied by the Monetary Policy Report and the Bank's outlook for the economy.

---

### Bryan Yu

Deputy Chief Economist

byu@central1.com / P 604.742.5346

Mobile: 604.649.7209

### 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**