

# Bank of Canada Rate Announcement

The main interest in the Bank of Canada's rate announcement was not the rate announcement itself (it held the rate steady at 0.25 per cent) but rather its new economic forecasts for Canada. The Bank has initiated two emergency rate cuts in the past month in response to the COVID-19 pandemic and its impact on the economy. The release of the **April 2020 Monetary Policy Report** is the Bank's first official assessment and forecast of the Canadian economy in this environment.

In a surprise and unprecedented move, the Bank chose not to present an economic forecast on this occasion, stating: "Given the rapidly evolving situation and high degree of uncertainty, the Bank of Canada has departed from the usual format for the Monetary Policy Report." Rather, the Bank chose to "focus is on assessing the overall economic impact of the pandemic for Canada and identifying the channels through which it is likely to affect the economy." In addition to the pandemic, Canada's economy is also taking a hit from lower commodity prices, notably oil prices.

The Bank stated: "The outlook is too uncertain at this point to provide a complete forecast. However, Bank analysis of alternative scenarios suggests the level of real activity was down 1-3 percent in the first quarter of 2020 and will be 15-30 percent lower in the second quarter than in fourth-quarter 2019. CPI inflation is expected to be close to 0 percent in the second quarter of 2020. This is primarily due to the transitory effects of lower gasoline prices."

The Bank did not reveal many new insights into the economic crisis though it presented a comprehensive review and analysis. It presented some economic recovery scenarios in general terms which are dependent on the duration of the pandemic. Apparently, the range of possibilities was too large for the Bank to present scenario forecasts, which is surprising since the Bank has the largest and best economic forecasting capability in the country. No doubt, this was by management direction rather than by the inability of their economists to derive forecasts in these conditions.

Statistics Canada this morning released a flash estimate of industry Gross Domestic Product (GDP) for March 2020. Normally, this estimate would be released in late May 2020. Their estimate of a 9 per cent monthly drop in March 2020 would leave first quarter 2020 GDP down around 2.6 per cent, or about 10 per cent annualized. April 2020 GDP looks worse.

Our forecast has Canada's second quarter 2020 GDP contracting at a 27 per cent annualized pace. This now looks optimistic with a 40 per cent annualized contraction more likely. Regardless of the numbers, this economic recession will be the most severe since the Depression, and to that extent, the Bank's decision to not publish detailed economic forecasts is not that significant.

The next rate announcement is June 3, 2020.

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