

Bank of Canada Rate Announcement

The focus of today's Bank of Canada rate announcement was less on its rate setting and more on its non-traditional monetary actions and its economic assessment and forecast. The Bank maintained its overnight target rate at 0.25 per cent, stating that its quantitative easing (QE) program will continue by purchasing at least \$5 billion per week of Government of Canada bonds. Provincial and corporate bond purchase programs will also continue. QE lowers borrowing costs for households and businesses.

The Bank did not present its usual forecast framework due to the unprecedented and highly uncertain environment caused by the COVID-19 pandemic. Rather, the Bank presented a central scenario in the July Monetary Policy Report (MPR) for global and Canadian growth. The central scenario is based on assumptions that there is no widespread second wave of the virus, containment measures will be gradually lifted, and the pandemic will have largely run its course by mid-2022.

The central scenario has global output falling by about five per cent in 2020 and growing by around 5 per cent on average in 2021 and 2022. Canada's economy declines by 7.8 per cent in 2020 and grows 5.1 per cent in 2021 and 3.7 per cent in 2022. Excess economic slack will persist, creating disinflationary pressures in the near-term. Inflation is expected to gradually move toward two per cent as energy prices move higher and demand recovers, reducing economic slack.

This economic recovery will be unlike the typical post-war recovery. Canada's economy likely bottomed in April 2020 and began growing in May and June. Second quarter 2020 real Gross Domestic product (GDP) is estimated to have fallen 13.1 per cent or 43.0 per cent annualized, from the prior quarter. The initial rebound in the third quarter will be substantial at a projected 7.1 per cent actual, 31.5 per cent annualized, over the second quarter. Thereafter the economy is expected to enter a long gradual and uneven recovery due to ongoing containment measures, sluggish foreign demand, caution by consumers, and weak business investment spending.

The Bank will present a more detailed assessment of the longer-term impacts of the pandemic on Canada's potential economic output in the October 2020 MPR. A reduction in Canada's potential growth rate, previously estimated at 1.2 to 2.4 per cent annually, is expected to be reduced to 1.0 to 2.0 per cent.

No change in the Bank's policy rates is expected through 2021 and into 2022. QE purchases will be reduced over time and in-sync with the economy's recovery path. However, should an alternative scenario play out, monetary policy will adjust accordingly.

The next rate announcement is September 9, 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**