



Bank of Canada Rate Announcement

December 9 2020

There were no surprises from the Bank of Canada in this morning's rate announcement as it held the target for the overnight rate at the effective lower bound at 0.25 per cent and maintained the quantitative easing (QE) program at \$4 billion per week.

The Bank noted that the Canadian economy largely evolved as expected in the third quarter with a strong but uneven rebound in growth. Realized growth did however underperform the Bank's forecast. Global vaccine availability will be positive for a return to more normal activities, but the roll out phase is uncertain and second waves of COVID-19 are hampering recoveries. In Canada, with rising COVID-19 cases and re-introduction of more restrictive measures by various governments the Bank expects slowing of growth into Q1 and a choppy trajectory until vaccines are more widely available. Federal government measures are expected to support business and household incomes.

Headline inflation was stronger than anticipated at 0.7 per cent, but core inflation remains below two per cent. Importantly, inflation is expected to remain soft due to economic slack. The Bank re-affirmed its commitment to keep the rate at 0.25 per cent until two per cent target inflation target is sustainably achieved, which was deemed to be 2023 in its October Monetary Policy Report. QE will continue until the recovery is well underway and will be adjusted as needed.

In short, the current policy rate should extend through 2022 with QE dampening the long end of the yield curve. The vaccine could generate a more positive surprise in mid-2021 onwards, but current challenges persist with the second virus wave. An elevated Canadian dollar vis-à-vis the U.S. is also a constraint to the recovery phase.

The next rate announcement is January 20, 2021, alongside release of the next Monetary Policy Report

Bryan Yu

Deputy Chief Economist

byu@central1.com / P 604.742.5346

Mobile: 604.649.7209

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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**