



Bank of Canada Rate Announcement

March 10 2021

Bank of Canada holds policy rate at 0.25 per cent as economic growth picks up

Amidst a better-than-expected economic backdrop, the Bank of Canada stuck to its guns, re-iterating its commitment to keep the policy rate at 0.25 per cent until “economic slack is absorbed so that the 2 per cent inflation target is sustainably achieved”, which is still expected to occur in 2023. The current pace of quantitative easing (QE) was also maintained at \$4 billion per week.

The Bank acknowledged strengthening conditions in the economy, both globally and domestically, the former owing to declining virus infections and U.S. fiscal measures. Meanwhile, Canada’s economy grew at a 9.6 per cent annualized rate in Q4 which was well above forecast, and the Bank signaled an upward revision to its Q1 growth forecast into positive territory from a -2.9 per cent in its January Monetary Policy Report. The Bank noted strength in housing demand, consumer resilience, and export improvement. Rising global bond yields is noted to reflect U.S. factors, rather than domestic drivers, and still remain accommodative.

At the same time, the announcement struck a more cautious tone, potentially in a bid to talk down market expectations. Specifically, the Bank underscored persistence of slack in the economy, virus uncertainties, and that “the labour market is a long way from recovery”. Indeed, employment is still three per cent lower than pre-pandemic levels with lower wage workers, young people and women remaining the hardest hit by pandemic job losses. CPI inflation, while expected to rise temporarily due to transitory factors of base-year declines in 2002 and recent gains in oil prices, is expected to slow due to excess capacity, tempering inflationary expectations.

The Bank signaled its intent to anchor its policy rate at current levels until 2023. That said, QE tapering is on the horizon. The QE program will continue until the recovery is well underway. The Bank noted: “As the Governing Council continues to gain confidence in the strength of the recovery, the pace of net purchases of Government of Canada bonds will be adjusted as required.” Given the constructive data we are seeing, tapering could start in Q2.

The next rate announcement is scheduled for April 21 and will be accompanied by the Monetary Policy Report. This will include the Bank’s latest forecast projections and is likely to include revised potential output growth projections.

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