



Bank of Canada Rate Announcement

June 9 2021

There were no surprises in today's Bank of Canada rate announcement. The key policy rate was unchanged at 0.25 per cent and the pace of its quantitative easing (QE) program remained at a target of \$3 billion per week. Moreover, it maintained its commitment to hold the policy rate at current levels until slack is absorbed and 2 per cent inflation is sustainably achieved, which it expects in the back half of 2022, QE will continued to be employed to dampen the yield curve.

The statement continued to highlight the bright economic outlook despite short- term weakness in the economy. Global economic activity is on the rise as the U.S. rotates towards consumer driven growth, while Europe is beginning to pick up. While emerging markets lag, higher asset values and commodity prices reflect the improvement.

Canada's growth profile came in weaker than expected at 5.6% annualized in Q1, while the third wave of the pandemic has dampened growth in Q2. That said, the Bank is looking through this softer pattern, citing the impact of inventory drawdowns on Q1 data, while focusing on improved household spending and demand. While economic slack persists, the Bank expects growth to pick up through the summer as vaccine deployment continues and restrictions ease. High global commodity prices and growth support exports.

Consistent with previous messaging, recent surges in CPI inflation towards the top of the 1-3 percent target range is deemed transitory. Base year effect of CPI softness early in the pandemic and high gasoline prices have driven the increase. The Bank expects economic slack will soften CPI inflation later this year.

Central 1 Economics expects the Bank to hold off on a rate hike until Q4 2022. QE tapering continues is anticipated for July contingent on the evolution of COVID-19 case counts and variants of concern.

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Terms

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