# C.D. Howe Institute Monetary Policy Council Urges Bank of Canada to Hold Overnight Rate at .75 Percent through Mid-Year; Looks for 1.25 Percent by March 2016

February 26, 2015 – The C.D. Howe Institute's Monetary Policy Council (MPC) today recommended that the Bank of Canada keep its target for the overnight rate, the very short-term interest rate it targets for monetary policy purposes, at 0.75 percent at its next announcement on March 4, 2015. Looking ahead, the Council called for the Bank to hold the target at .75 percent through to September, and called for a target of 1.25 a year from now.

The MPC provides an independent assessment of the monetary stance appropriate for the Bank of Canada as it pursues its 2 percent inflation target. William Robson, the Institute's President and Chief Executive Officer, chairs the Council.

Council members make recommendations for the Bank of Canada's upcoming interest-rate announcement, the subsequent announcement, and the announcements six months and one year ahead. The Council's formal recommendation for each announcement is the median vote of the members attending the meeting.

The median call for an overnight rate target of 0.75 percent at the upcoming announcement reflected a range of recommendations: two members urged a cut to 0.50 percent, five urged holding the target at 0.75 percent, and two urged an increase to 1.00 percent. Looking further ahead, the balance among the recommendations shifted. By fall, one member was looking for a target of 0.50 percent, four looked for 0.75 percent, three for 1.00 percent and one for 1.25 percent. By March 2016, the three members looking for 1.00 percent were at the low end of the range, with four members looking for 1.25 percent, and two looking for 1.50 percent.

The Council's discussion of the outlook for economic activity and inflation highlighted two tendencies with offsetting implications for monetary policy. In general, and notwithstanding very robust figures on employment in the United States, members noted that output and spending seemed softer than expected at the time of the Bank of Canada's last interest-rate announcement in January, suggesting that the Canadian economy would continue to have slack through 2016. Inflation, by contrast, while depressed by the falling price of oil and related products, appeared to be running ahead of what the Bank of Canada had predicted – indeed, some members thought that measures of actual and potential output suggesting a disinflationary output gap in Canada were not informative. These offsetting considerations account for the group's consensus view that the policy rate should not change.

The principal focus of the Council's discussion, however, was whether and how much the Bank's cut in the overnight rate target from 1.00 percent to 0.75 percent in January had changed the environment for monetary policy-making. Most members felt that the Bank's cut had surprised forecasters and financial-market participants, and several felt that the Bank's upcoming announcements and communications needed to respond to the uncertainty the cut had created. One view was that, if the Bank felt that the lower price of oil created serious downside risks for the Canadian economy, it should cut the target again to ensure that monetary policy created significant offsetting support to spending and output. Some others thought that the cut had been a mistake, but differed about whether the Bank should effectively admit as much by raising the rate again, or holding the rate at 0.75 to avoid further unsettling markets, and raising it over time. Some members observed that sensitivity to all statements by Bank officials had increased enormously since the cut, and felt that the Bank needed more clarity, not only to improve understanding of the outlook for the policy rate, but on larger issues, such as potential changes to the inflation target.

The following table shows the votes of each MPC member, as well as the Council's median vote, for the relevant Bank of Canada policy-rate announcements.

| MPC Members | March 4 | April 15 | 6 months | 12 months |
|---|---|---|---|---|
| Steve Ambler<br>Université du Québec à Montréal (UQAM) | 0.75% | 1.00% | 1.00% | 1.25% |
| Paul Beaudry<br>University of British Columbia | 0.75% | 0.75% | 0.75% | 1.00% |
| Edward A. Carmichael<br>Ted Carmichael Global Macro | 0.50% | 0.50% | 0.75% | 1.25% |
| Thorsten Koeppl<br>Queens University | 0.75% | 1.00% | 1.00% | 1.50% |
| Angelo Melino<br>University of Toronto | 0.50% | 0.50% | 0.50% | 1.00% |
| Doug Porter<br>BMO Capital Markets | 0.75% | 0.75% | 0.75% | 1.00% |
| Nicholas Rowe<br>Carleton University | 1.00% | 1.00% | 1.00% | 1.25% |
| Pierre Siklos<br>Wilfrid Laurier University | 1.00% | 1.00% | 1.25% | 1.50% |
| Craig Wright<br>RBC Financial Group | 0.75% | 0.75% | 0.75% | 1.25% |
| Median Vote | 0.75% | 0.75% | 0.75% | 1.25% |

The views and opinions expressed by the participants are their own and do not necessarily reflect the views of the organizations with which they are affiliated, or those of the C.D. Howe Institute.

The MPC's next vote will take place on April 9, 2015 prior to the Bank of Canada's interest rate announcement on April 15 2015.

* * * * *

Contact: Kristine Gray – phone: 416-865-1904; e-mail: kgray@cdhowe.org.

INSTITUT C.D. HOWE INSTITUTE

*Essential Policy Intelligence | Conseils indispensables sur les politiques*