MONETARY POLICY COUNCIL

COMMUNIQUÉ

April 8, 2015

C.D. Howe Institute Monetary Policy Council Recommends Bank of Canada Hold Overnight Rate at .75 Percent through Mid-Year; Looks for 1.00 Percent by April 2016

April 8, 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 April 15, 2015. Looking ahead, the Council called for the Bank to hold the target at .75 percent through to September, and at 1.00 percent 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. **Finn Poschmann**, the Institute's Vice President, Policy Analysis, chaired the Council's 94th meeting.

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 Council's median call for the overnight rate target, at the Bank's upcoming announcement, was 0.75 percent; two members urged a cut to 0.50 percent. Looking six weeks ahead, one member lowered the call to 0.50 percent, and another raised the recommendation to 1.0 percent. By fall, three members were still looking for a target of 0.50 percent, four looked for 0.75 percent, and four for 1.0 percent. By April 2016, the four members looking for 0.75 percent were at the low end of the range, four members were looking for 1.0 percent, two for 1.25, and one was looking for 1.50 percent.

The Council's discussion covered a broad range of generally positive economic indicators. While Canada's first quarter economic performance has looked weak, some participants anticipated positive revisions to the data. Others noted that Canada's employment data, while regionally divergent, were relatively strong in Central Canada, and overall there was a notable shift from part-time to full-time employment. Likewise, the recent fall in energy prices, while having harmed export income and depressed investment spending, will show benefits in non-energy-exporting provinces that will take time to emerge.

Other positive indicators in the Canadian economy included steady retail sales, a strong housing sector overall, and inflation expectations that appear securely anchored in the neighbourhood of the 2 percent target, and a gap between actual and potential output that was closing or nearer to closed than previously.

Council members identified numerous external positives, such as acceptable Eurozone economic performance, stabilizing or rising inflation expectations in the euro area, and the European Central Bank's delivery on its commitment to quantitative easing. Closer to home, several members anticipated very strong US economic performance in the second quarter, noting that the first had been held back by numerous weather issues in the East, and port slowdowns in the West. These positives were slightly offset by continuing concerns over the likelihood or ability of the US export sector to grow, given the rise in the US dollar and slow growth in export markets.

Council members whose views were more pessimistic referred to the continuing impact of the energy price downturn, and its negative effects on Canada's terms of trade and therefore domestic income. Another factor was the limited evidence of increasing capital spending in non-energy sectors. Even among optimistic Council members, however, there was little appetite for near-term overnight rate increases. The primary reason was the lack of a sufficiently lengthy string of economic data that would warrant reversing direction from the rate decrease of early in 2015. Beyond the balance of economic factors that influenced that stance, was the possibility or likelihood the US Federal Reserve Board would delay its expected federal funds target rate increase.

Several Council members expressed concern over potential market volatility associated with Bank of Canada communications. In particular, members recommended that rate announcements give highest priority to the 2 percent inflation target, and place less emphasis on language regarding sector specific or financial stability-related matters. Some members raised longer term issues, and worried that concerns over financial stability would lengthen the already extended period of very low real interest rates, at the risk and cost of inducing significant asset market distortions.

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	April 15	May 27	6 months	12 months
Craig Alexander TD Bank Group	0.75%	0.75%	0.75%	1.00%
Steve Ambler Université du Québec à Montréal (UQAM)	0.75%	0.75%	1.00%	1.00%
Edward A. Carmichael Ted Carmichael Global Macro	0.50%	0.50%	0.50%	0.75%
Thorsten Koeppl Queens University	0.75%	1.00%	1.00%	1.50%
Stéfane Marion National Bank	0.75%	0.75%	0.75%	0.75%
Angelo Melino University of Toronto	0.50%	0.50%	0.50%	1.00%
Doug Porter BMO Capital Markets	0.75%	0.75%	0.75%	0.75%
Nicholas Rowe Carleton University	0.75%	0.75%	1.00%	1.25%
Avery Shenfeld CIBC World Markets Inc.	0.75%	0.50%	0.50%	0.75%
Pierre Siklos Wilfrid Laurier University	0.75%	0.75%	1.00%	1.25%
Craig Wright RBC Financial Group	0.75%	0.75%	0.75%	1.00%
Median Vote	0.75%	0.75%	0.75%	1.00%

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 May 21, 2015 prior to the Bank of Canada's interest rate announcement on May 27 2015.

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