

December 1, 2016

## Bank of Canada Should Hold Overnight Rate at 0.50 Percent for Next Year: C.D. Howe Institute Monetary Policy Council

December 1, 2016 – The C.D. Howe Institute’s **Monetary Policy Council** (MPC) today called for the Bank of Canada to keep its target for the overnight rate, the very short-term interest rate it targets for monetary policy purposes, at 0.50 percent at its next announcement on December 7, 2016. Looking ahead, the Council said the Bank should hold the target at 0.50 percent over the next six months, and narrowly voted for it to stay there until December of 2017.

The MPC provides an independent assessment of the monetary stance consistent with the Bank of Canada’s 2 percent inflation target. **William Robson**, the Institute’s President and CEO, 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. In the event that the median is not a multiple of 25 basis points, as occurred on this occasion for the December 2017 announcement, the formal recommendation is rounded in the direction of no change.

Seven of the eight MPC members attending this meeting called for the Bank to hold the target at 0.50 percent at the upcoming announcement, while one called for a cut to 0.25 percent. The pattern of recommendations for the January 2017 announcement was the same. Six months out, all members called for a target of 0.50 percent. One year out, four members recommended a target of 0.50 percent, and four recommended 0.75 percent (see table below).

The weight of opinion favouring an unchanged overnight rate for some time reflected a degree of comfort with the Bank of Canada’s view that the disinflationary output gap in the Canadian economy will close sometime in 2018, and that inflation will return to target. The group did not judge that the global environment outlook for growth over the relevant horizon had changed in any major way since the Bank’s last announcement in October, and noted that most recent indicators of domestic demand and growth in the United States and Canada had been healthy.



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Some members judged the rise in long-term interest rates in North America and abroad since the U.S. presidential election to be potentially negative for spending and output, but others felt that efforts by borrowers to lock in before rates went higher might encourage near-term activity, especially in housing. Other major points of discussion were the size and timing of any boost to U.S. activity from tax cuts, infrastructure spending, and deregulation under the new administration, which would be positive for Canadian exports, versus the potential for protectionist sentiment in the United States to damp capital spending by potential Canadian exporters. MPC members noted that policy uncertainty is unusually high, with the U.S. election having widened the range of potential outcomes both on the downside and the upside.

A major theme of the discussion at this meeting was the persistence of inflation below target since the financial crisis and slump of 2008-09, as forecasts of closing output gaps and inflation returning to 2 percent had repeatedly been disappointed. This experience explains the complete lack of enthusiasm in the group for a policy rate hike in the near term, and lacklustre support for any increase over the coming year.

Votes of MPC members and the Council median for each announcement, percent.



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MPC Members	Dec 7	Jan 18	May 2017	Dec 2017
<b>Steve Ambler</b> Université du Québec à Montréal (UQAM)	0.50	0.50	0.50	0.75
<b>Beata Caranci</b> TD Bank Group	0.50	0.50	0.50	0.50
<b>Edward A. Carmichael</b> Ted Carmichael Global Macro	0.50	0.50	0.50	0.50
<b>Michael Devereux</b> University of British Columbia	0.50	0.50	0.50	0.75
<b>Angelo Melino</b> University of Toronto	0.50	0.50	0.50	0.50
<b>Nicholas Rowe</b> Carleton University	0.25	0.25	0.50	0.75
<b>Pierre Siklos</b> Wilfrid Laurier University	0.50	0.50	0.50	0.75
<b>Craig Wright</b> RBC	0.50	0.50	0.50	0.50
<b>Median Vote</b>	0.50	0.50	0.50	0.50

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 January 12, 2017 prior to the Bank of Canada's interest rate announcement on January 18, 2017.

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