

October 16, 2014

C.D. Howe Institute Monetary Policy Council Urges Bank of Canada to Hold Overnight Rate at 1.00 Percent for Next Six Months; Looks for 1.50 Percent by October 2015

October 16, 2014 – 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 1.00 percent at its next announcement on October 22, 2014. Looking ahead, the Council called for the Bank to hold the target at 1.00 percent through the spring of 2015, but called for a target of 1.50 a year from now.

The MPC provides an independent assessment of the monetary stance appropriate for the Bank of Canada as it aims for its 2 percent inflation target. Finn Poschmann, the Institute’s Vice President, Policy Analysis, chaired the Council’s 89th meeting.

MPC 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, rounded up to the nearest quarter percentage point.

All six of the MPC members attending this meeting called for a 1.00 percent target at the upcoming announcement and at the subsequent announcement in December. Looking ahead to the April 2015 setting, five members favoured a target of 1.00 percent, while one voted for 1.25 percent. The range for the October 2015 setting was three members wanting 1.25 percent and three looking for 1.50 percent.

In the context of an otherwise unchanged outlook for economic growth, the group was principally concerned with global risk prospects – particularly those risks emanating from the euro zone – and their impact on market sentiment.

With respect to Canada’s economic performance, a number of positive indicators were addressed, such as consumer price inflation near target and moderate wage growth. Other positives were reasonable



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employment growth and moderate credit growth, as well as output growth running at a pace that seemed likely to bring gross domestic product (GDP) nearer its potential. Further, the overall growth outlook in the United States was generally seen as building momentum.

MPC members, however, also perceived a buildup of negative risks abroad, which strongly coloured sentiments. Among the concerns raised were continued turmoil in Europe and an apparent flagging of growth expectations in Germany. Recent drops in energy commodity prices, while likely to put downward pressure on the Canadian dollar and eventually on measured inflation, were seen by the group as a significant negative influence on domestic output and exports. Financial market unrest and evidence of investor “flight to safety” also concerned MPC members.

There was considerable discussion about the “normal” future level for the overnight rate – the rate that would be appropriate if the output gap were zero and inflation were at 2 percent. Some members expressed the view that demographic aging and household deleveraging would continue, for an extended period, to depress equilibrium interest rates.

The prospect that the neutral level of the overnight rate will be significantly lower in the future than in the past, together with the balance of risks discussed above, persuaded some members of the MPC to extend the time horizon over which they would look for an overnight rate higher than its current one percent.

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.

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 November 27, 2014, prior to the Bank of Canada’s interest rate announcement on December 3, 2014.

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MPC Members	Oct. 22	Dec. 3	6 months	12 months
Craig Alexander TD Bank Group	1.00%	1.00%	1.00%	1.25%
Steve Ambler Université du Québec à Montréal (UQAM)	1.00%	1.00%	1.25%	1.50%
Thorsten Koepl Queens University	1.00%	1.00%	1.00%	1.50%
Angelo Melino University of Toronto	1.00%	1.00%	1.00%	1.50%
Doug Porter BMO Capital Markets	1.00%	1.00%	1.00%	1.25%
Nicholas Rowe Carleton University	1.00%	1.00%	1.00%	1.25%
Median Vote (Rounded)	1.00%	1.00%	1.00%	1.50%

