

February 23, 2017

Bank of Canada Should Hold Overnight Rate at 0.50 Percent through September; Hike to 0.75 Percent by Early 2018, Says C.D. Howe Institute Monetary Policy Council

February 23, 2017 – 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 March 1, 2017. Looking ahead, the Council said the Bank should hold the target at 0.50 percent over the next six months, and raise it to 0.75 percent by March of 2018.

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.

All seven of the MPC members attending this meeting called for an overnight rate target of 0.50 percent at the upcoming announcement, in April, and through September. By March 2018, three members called for a 0.50 percent target, but four called for 0.75 percent (see table below).

A major theme in the discussion at this meeting of the Council was the positive tone of many indicators of economic activity in Canada over the past six weeks. The group noted continuing strength in sales of cars and trucks, in housing sales and starts, and in most job-market indicators. While commodity prices and net exports are well below boom levels, the group noted more positive than negative surprises in those areas also. With most forecasters expecting CPI inflation to register year-over-year increases above two percent in early 2018, the group’s concerns that persistent undershooting of the inflation target might pull inflation expectations below two percent had diminished.

Notwithstanding that positive tone, a number of uncertainties and risks tempered the group’s enthusiasm for any increase in the overnight target in the near term. Some members noted that, after a period of quiet, European bank and sovereign debt may be approaching another acute phase. Economic policies in the United States were a major topic of conversation. While some members expressed doubt that a border-adjustment tax would come into effect, many noted that potential



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protectionism and tax cuts would make Canada relatively less attractive to high-income earners and investors – especially if the upcoming federal budget features significant tax increases – and are negatives for activity in Canada. In fact, absent concerns that the US Federal Reserve will respond to US economic strength by hiking the Fed funds rate, which might oblige the Bank of Canada to follow suit, the balance of votes in the MPC might have tipped toward a 50 percent overnight rate target in a year’s time.

Votes of MPC Members and the Council Median for Each Announcement (*percent*)

MPC Members	Mar 1	Apr 12	Sept 2017	Mar 2018
Steve Ambler Université du Québec à Montréal (UQAM)	0.50	0.50	0.50	0.75
Edward A. Carmichael Ted Carmichael Global Macro	0.50	0.50	0.50	0.50
Michael Devereux University of British Columbia	0.50	0.50	0.50	0.75
Angelo Melino University of Toronto	0.50	0.50	0.50	0.75
Douglas Porter BMO Capital Markets	0.50	0.50	0.50	0.50
Nicholas Rowe Carleton University	0.50	0.50	0.50	0.75
Avery Shenfeld CIBC	0.50	0.50	0.50	0.50
Median Vote	0.50	0.50	0.50	0.75

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 6, 2017 prior to the Bank of Canada’s interest rate announcement on April 12, 2017.

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