

March 1, 2018

Bank of Canada Should Maintain Overnight Rate at 1.25 Percent through April: C.D. Howe Institute Monetary Policy Council

March 1, 2018 – The C.D. Howe Institute’s **Monetary Policy Council** (MPC) called for the Bank of Canada to maintain its target for the overnight rate, the very short-term interest rate it targets for monetary policy purposes, at 1.25 percent at its next announcement on March 7, 2018 and at the following announcement in April. Looking further ahead, the Council called for a target of 1.50 percent by September, and 1.75 percent by March of 2019.

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.

There was little dispersion in the views of the ten MPC members attending this meeting. The calls for a target of 1.25 percent next week and the April setting were unanimous. Eight of the ten called for 1.50 percent in September, with one member at 1.25 percent and one at 1.75 percent. By March of 2019, six members called for 1.75 percent, with three at 1.50 percent and one at 2.00 percent (see table below).

Although the Council favoured increases in the overnight rate over the coming year, the tone of its discussion was cautious. Members tempered positive comments on continued global growth, with notes about subdued inflation and political risks, particularly in Europe. Turning to the United States, they tempered comments about robust indicators of sentiment and positive impetus from fiscal measures, notably business tax reforms, with notes about weak recent indicators of activity. A similar tone characterized their discussions of Canada, where new information about weak capital spending intentions and less buoyant job numbers, along with general concerns about Canada’s loss of competitiveness, made the group more cautious about the outlook than they had been at their last meeting in January.

A number of uncertainties about the state of the economy and political developments reinforced the cautious tone. In addition to conflicting signals about the strength of the labour market, the group discussed the challenge of seeing through what may be temporary surges of activity in the housing market ahead of the new regulations that took force at the beginning of the year, as well as tax and other measures by provincial governments. With likely aggressive moves by the United States against



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steel and aluminum imports reinforcing ongoing nervousness about the future of NAFTA, the group judged potential bad news on the trade front to be a further justification for a cautious stance by the Bank of Canada.

Overall, the MPC judged that the economy has little, if any slack, that wages are growing, and that inflation is on track to hit the Bank of Canada's target – all of which would justify raising the overnight rate toward a level consistent with stable growth with inflation at 2 percent. In view of the many risks and uncertainties clouding the outlook, however, they favoured a slow approach to that level.

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

MPC Members	Mar 7	Apr 2018	Sept 2018	Mar 2019
Steve Ambler Université du Québec à Montréal (UQAM)	1.25	1.25	1.50	1.75
Beata Caranci TD Bank Group	1.25	1.25	1.50	1.75
Edward A. Carmichael Ted Carmichael Global Macro	1.25	1.25	1.25	1.50
Micahel Devereux University of British Columbia	1.25	1.25	1.50	1.75
Thorsten Koepl Queen's University	1.25	1.25	1.75	2.00
Angelo Melino University of Toronto	1.25	1.25	1.50	1.75
Douglas Porter BMO Capital Markets	1.25	1.25	1.50	1.75
Nicholas Rowe Carleton University	1.25	1.25	1.50	1.50
Avery Shenfeld CIBC	1.25	1.25	1.50	1.50
Pierre Siklos Wilfrid Laurier University	1.25	1.25	1.50	1.75
Median Vote	1.25	1.25	1.50	1.75

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 12, 2018 prior to the Bank of Canada's interest rate announcement on April 18, 2018.

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