

July 6, 2017

Bank of Canada Should Hold Overnight Rate at 0.50 Percent Next Week; Hike to 1.25 Percent by July 2018: C.D. Howe Institute Monetary Policy Council

July 6, 2017 – The C.D. Howe Institute’s **Monetary Policy Council** (MPC) 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 July 12, 2017. The MPC called for the Bank to hike to 0.75 percent at the following announcement in September, with further hikes to 1.00 by January 2018 and 1.25 by July 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.

Six of the 11 MPC members attending this meeting called for a target of 0.50 percent at the upcoming setting, while five called for 0.75 percent. Looking ahead to September, the balance had shifted to eight favouring 0.75 percent, while three favoured 0.50 percent. For the setting six months out, six favoured 1.00 percent, four favoured 0.75 percent and one called for 1.25 percent. One year out, one called for 0.75 percent, three for 1.00 percent, four for 1.25 percent, and three for 1.50 percent (see table below).

A key tension underlying the split vote regarding the upcoming setting was the positive tone of many indicators of economic activity, accompanied by continued below-target inflation readings. Some members who voted for the Bank of Canada to hold its target at 0.50 percent said they expected the Bank to hike, but felt that a hike was premature in advance of a pick-up in inflation. Some who voted for a hike either at the upcoming setting or later in the year noted that their recommendation owed more to concerns about financial stability than concerns about inflation. Although MPC members’ recommendations reflect their judgements about what the Bank should do to hit its inflation target, some also mentioned concerns about recent changes in Bank communications that were not accompanied by public evidence of changes in economic conditions, and problems these might create for public understanding of its actions.

The dominant theme as the group looked further ahead was the improved breadth of Canada’s economic expansion, the decreased likelihood of deflation globally and domestically, and the desirability of moving



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the overnight rate toward a level consistent with steady growth at 2 percent inflation. Some members argued that this “neutral” level of the overnight rate was considerably higher than the level anticipated in the MPC’s recommendations over the coming year. However, uncertainty about the neutral level and how quickly the Bank should aim to achieve it, combined with continued subdued inflation readings, led the group as a whole to favour a moderate pace of increases.

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

MPC Members	July 12	Sep 6	Jan 2018	Jul 2018
Steve Ambler Université du Québec à Montréal (UQAM)	0.50	0.75	1.00	1.50
Beata Caranci TD Bank Group	0.50	0.50	0.75	1.00
Edward A. Carmichael Ted Carmichael Global Macro	0.50	0.75	0.75	0.75
Michael Devereux University of British Columbia	0.75	0.75	1.00	1.25
Stéfane Marion National Bank Financial	0.75	0.75	1.25	1.50
Angelo Melino University of Toronto	0.50	0.50	0.75	1.00
Douglas Porter BMO Capital Markets	0.75	0.75	1.00	1.25
Nicholas Rowe Carleton University	0.50	0.50	0.75	1.00
Avery Shenfeld CIBC	0.75	0.75	1.00	1.25
Pierre Siklos Wilfrid Laurier University	0.50	0.75	1.00	1.50
Craig Wright RBC	0.75	0.75	1.00	1.25
Median Vote	0.50	0.75	1.00	1.25

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 August 31, 2017 prior to the Bank of Canada’s interest rate announcement on September 6, 2017.

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