

October 15, 2015

C.D. Howe Institute Monetary Policy Council Calls for Bank of Canada to Hold Overnight Rate at 0.50 Percent through Mid-Year; Hike to 0.75 Percent by October 2016

October 15, 2015 – 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 0.50 percent at its next announcement on October 21, 2015. Looking ahead, the Council called for the Bank to hold the target at 0.50 percent through to April of 2016 and hike it to 0.75 percent by October of 2016.

The MPC provides an independent assessment of the monetary stance appropriate for the Bank of Canada as it pursues its 2 percent inflation target. **William Robson**, the Institute’s President and Chief Executive Officer, 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.

On this occasion, the calls for the Bank to hold the overnight rate target at 0.50 percent next week and at the following setting in December were unanimous. By April of next year, four of the ten members attending the meeting called for a higher overnight rate, with three calling for 0.75 percent and one for 1.00 percent. Calls for October of next year split evenly: five members called for a hike – four to 1.00 percent and one to 1.25 percent – while five called for no change. The median call was therefore 0.75 percent: halfway between 0.50 percent and 1.00 percent.

The division between the two groups looking further ahead primarily reflected more than one difference in views about the forces driving inflation in Canada. Some members calling for a continued low overnight rate target argued that actual output in Canada is well below potential output, and that weak demand will close that gap only slowly. Some members calling for the overnight rate target to rise took the opposite view. Not all members supporting a 0.50 percent target for the next 12 months, however, thought the current output gap was necessarily very large: they focused more on the potential impact of sluggish world growth and weak commodity prices on Canadian incomes, which would tend to keep inflation below target for some time.



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The group also debated how to read recent measures of total and “underlying” or “core” inflation in Canada. In general, members favouring a continued low overnight rate target expected that the dropping out of lower energy prices and the impacts of a lower Canadian dollar from the annual inflation measures would leave the CPI below target. Members favouring a higher target in a year’s time tended to emphasize the role of lower energy prices in depressing the total CPI, and the possibility of a faster rebound to annual increases of 2 percent or more.

Among other topics of discussion at the meeting, the state of the housing market and household debt got considerable attention. Not all members agreed that excesses and consequent threats to financial stability from that source are a problem. Among those who did worry about it, some argued that the Bank of Canada did not have the appropriate tools to address the issue, while others argued that if the federal government did not use other tools such as less generous government-backed insurance for large-value mortgages, the Bank should tighten sooner or more than it otherwise would. The future stance of federal fiscal policy was also mentioned, with some members noting that their calls on the overnight rate might change if a new government set a different course.

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.

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MPC Members	Oct 21	Dec 2	6 months	12 months
Steve Ambler Université du Québec à Montréal (UQAM)	0.50%	0.50%	0.75%	1.00%
Edward A. Carmichael Ted Carmichael Global Macro	0.50%	0.50%	0.50%	0.50%
Thorsten Koepl Queens University	0.50%	0.50%	1.00%	1.25%
Stéfane Marion National Bank	0.50%	0.50%	0.50%	0.50%
Angelo Melino University of Toronto	0.50%	0.50%	0.75%	1.00%
Douglas Porter BMO Capital Markets	0.50%	0.50%	0.50%	0.50%
Nicholas Rowe Carleton University	0.50%	0.50%	0.75%	1.00%
Avery Shenfeld CIBC World Markets Inc.	0.50%	0.50%	0.50%	0.50%
David Tulk TD Bank	0.50%	0.50%	0.50%	0.50%
Craig Wright RBC Financial Group	0.50%	0.50%	0.50%	1.00%
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 November 26, 2015 prior to the Bank of Canada's interest rate announcement on December 2, 2015.

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