

September 3, 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 September 2016

September 3, 2015 – The C.D. Howe Institute’s **Monetary Policy Council** (MPC) today The group 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 September 9, 2015. Looking ahead, the Council called for the Bank to hold the target at 0.50 percent through to March of 2016 and hike it to 0.75 percent by September 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 call for the Bank to hold the overnight rate target at 0.50 percent next week was unanimous. Similarly, all eleven members attending the meeting called for a 0.50 percent target at the following setting in October. Seven of the members supported maintaining the rate at 0.50 through March of 2016, with three calling for a hike to 0.75 percent, and one for a hike to 1.00 percent by then. By September 2016, five supported an unchanged target of 0.50 percent and six called for a hike: one to 0.75 percent, four to 1.00 percent, and one to 1.25 percent.

The consensus in favour of no change in the target at the next two settings reflected a balance. Council members generally judged that Canada’s economy is accelerating out of its early-year weakness, and that inflation should return to 2 percent as the drop in oil prices during the second half of 2014 disappears from the year-over-year measures. A number of concerns tempered enthusiasm for overnight-rate increases, however, with problems in the world economy and the slowdown in China particularly heading the list.



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Much of the commentary on Canada's near-term prospects was favourable, with recent strong trade numbers suggesting that output and demand would be robust in the second half of the year. Although many members were more cautious about growth as they looked further ahead, that caution did not translate straightforwardly into recommendations for more supportive monetary policy. The discussion touched on several factors – notably loss of productive capacity in the energy sector, low business investment and slow productivity growth – that could have lowered Canada's potential growth rate, making steady inflation likely with slower growth of demand than in the past. On balance, the mixed short-term picture and longer-term uncertainties made the Council favour a stable overnight rate in the coming months, with a bare majority favouring modest increases in 2016.

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.



September 3, 2015

MPC Members	Sept 9	Oct 21	6 months	12 months
Steve Ambler Université du Québec à Montréal (UQAM)	0.50%	0.50%	0.75%	1.00%
Paul Beaudry University of British Columbia	0.50%	0.50%	0.50%	0.50%
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%	0.50%	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%
Pierre Siklos Wilfrid Laurier University	0.50%	0.50%	0.75%	1.00%
Craig Wright RBC Financial Group	0.50%	0.50%	0.50%	0.75%
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 October 15, 2015 prior to the Bank of Canada's interest rate announcement on October 21, 2015.

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Contact: Kristine Gray – phone: 416-865-1904; e-mail: kgray@cdhowe.org.

