

November 28, 2019

## Bank of Canada Should Hold the Overnight Rate at 1.75 Percent over Next Year, Cut if Necessary: C.D. Howe Institute Monetary Policy Council

November 28, 2019 – The C.D. Howe Institute’s **Monetary Policy Council** (MPC) recommends that the Bank of Canada keep its target for the overnight rate, its benchmark policy interest rate, at 1.75 until December 2020. 1.75 percent was the median vote of the nine members attending the meeting, and is the Council’s formal recommendation. With four members expecting that various risks to the outlook would justify a cut in the overnight rate at some point over the year, however, and no members calling for an increase, the Council’s mean recommendation tilted toward 1.50 in the second half of 2020.

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.

All nine members attending this meeting called for the Bank to maintain the overnight rate target at 1.75 percent next week, and five of them called for the same target through to December of 2020. For the next announcement in January 2020, the other four members called for a cut to 1.50 percent. Looking ahead to June 2020, one of those four called for a target of 1.50 percent, and three of them called for 1.25 percent. By December 2020, two of the four called for 1.50 percent, and two for 1.25 percent (see table).

This configuration of individual votes – a bare majority looking for no change and a substantial minority looking for a lower target – reflected a view that economic activity in Canada is expanding at a pace consistent with 2 percent inflation, but that a number of potential developments at home and abroad might jeopardize that performance.

The relatively sanguine assessment of current performance reflected the fact that inflation and inflation expectations are essentially at 2 percent, and a balance between some measures of economic capacity and activity that suggest a small disinflationary output gap on the one hand, and a robust labour market and wage gains suggesting the opposite on the other. The principal concern at home highlighted by the group was the financially stretched state of Canadian households and the importance of housing activity to domestic demand. Several members emphasized the need for the Bank of Canada to avoid encouraging more borrowing and residential investment with a lower overnight rate. At the same time, members noted that if higher mortgage rates and/or setbacks to household incomes damped housing activity, the Bank would need to cut the overnight rate to prevent a decline that could slow overall growth enough to cause inflation to undershoot its target. Some members also mentioned uncertainties about federal and provincial fiscal policy’s impact on domestic demand as material to their recommendations.



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Looking abroad, MPC members noted that concerns about recession in the United States and globally had abated somewhat since the Bank of Canada's last overnight rate target announcement. Yet the overall tone of the meeting was cautious, with unresolved trade tensions between the United States and China constituting a major risk to global sentiment and growth, and the potential for new tariffs in December helping explain the timing of some members' recommendations for an overnight rate cut.

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

MPC Members	Dec 4, 2019	Jan 22, 2020	June 3, 2020	Dec 9, 2020
<b>Steve Ambler</b> Université du Québec à Montréal (UQAM)	1.75	1.75	1.75	1.75
<b>Beata Caranci</b> TD Bank Group	1.75	1.50	1.25	1.25
<b>Michael Devereux</b> University of British Columbia	1.75	1.75	1.75	1.75
<b>Thorsten Koepl</b> Queen's University	1.75	1.75	1.75	1.75
<b>Angelo Melino</b> University of Toronto	1.75	1.50	1.25	1.50
<b>Jean-François Perreault</b> Scotiabank	1.75	1.50	1.25	1.25
<b>Doug Porter</b> BMO	1.75	1.75	1.75	1.75
<b>Avery Shenfeld</b> CIBC	1.75	1.50	1.50	1.50
<b>Craig Wright</b> RBC	1.75	1.75	1.75	1.75
<b>Median Vote</b>	1.75	1.75	1.75	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 January 16, 2020 prior to the Bank of Canada's interest rate announcement on January 22, 2020.

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