

October 24, 2019

Bank of Canada Should Hold Overnight Rate at 1.75 Percent Next Week, Cut to 1.50 Percent in Six Months: C.D. Howe Institute Monetary Policy Council

October 24, 2019 – The C.D. Howe Institute’s **Monetary Policy Council** (MPC) has recommended that the Bank of Canada keep its target for the overnight rate, its benchmark policy interest rate, at 1.75 percent at its next announcement on October 30, 2019, before lowering it to 1.50 percent by April 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. The Council’s formal recommendation for each announcement is the median vote of the members attending the meeting.

Nine of the eleven members attending this meeting called for the Bank to maintain the overnight rate target at 1.75 percent next week, while two called for a cut to 1.50 percent. Looking ahead to the next announcement in early December, eight members supported maintaining the target at 1.75 percent, two called for a cut to 1.50 percent, and one called for a cut to 1.25 percent. Looking further ahead to April 2020, the majority of members supported a cut: while five called for maintaining the target at 1.75 percent, three called for 1.50 percent, and three called for 1.25 percent. By October 2020, one member called for an increase in the target to 2.00 percent, four called for 1.75 percent, four called for 1.50 percent, and two called for 1.25 percent (see table).

The Council’s median recommendation for a steady overnight rate in the near term, but a lower one by the spring of 2020, largely reflected its view that the Bank of Canada’s current stance is appropriate for the current condition of the Canadian economy, but that a troubled world economy will likely warrant easing before long.

The group noted that growth in domestic activity is moderate by historical standards, but that weak business investment and productivity growth mean that the Canadian economy’s productive potential is also likely growing relatively slowly. While the labour market is strong and some indicators of wage growth have moved higher, inflation expectations remain subdued. CPI inflation is close to the 2 percent target, and several members remarked that, with the overnight rate below the inflation rate – negative in real terms – and continued concerns about the housing market and household debt, there is no convincing case for more monetary stimulus at the moment.

Looking abroad, council members noted that some concerns had become less severe since the Bank of Canada’s last interest rate announcement – in particular, an improved tone in trade relations, and



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the return of a positively sloped yield curve in the United States. They also noted, however, that most indicators of global economic activity are weakening, trends likely to hurt Canadian exports and business confidence over time. Some members commented that central banks abroad, notably the US Federal Reserve, were likely to ease over the coming year, which would make a cut in the overnight rate appropriate to limit upward pressure on the Canadian dollar. Members' judgements about the potential timing of these developments help explain the time profile of their individual recommendations for the Bank of Canada's policy rate.

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

MPC Members	Oct 30	Dec 4	April 2020	October 2020
Steve Ambler Université du Québec à Montréal (UQAM)	1.75	1.75	1.75	1.75
Beata Caranci TD Bank Group	1.75	1.75	1.25	1.25
Edward A. Carmichael Ted Carmichael Global Macro	1.50	1.25	1.25	1.25
Michael Devereux University of British Columbia	1.75	1.75	1.50	1.50
Thorsten Koepl Queen's University	1.75	1.75	1.50	1.50
Stéfane Marion National Bank of Canada	1.75	1.75	1.75	2.00
Angelo Melino University of Toronto	1.50	1.50	1.25	1.50
Doug Porter BMO	1.75	1.75	1.75	1.75
Avery Shenfeld CIBC	1.75	1.50	1.50	1.50
Pierre Siklos Wilfrid Laurier University	1.75	1.75	1.75	1.75
Craig Wright RBC	1.75	1.75	1.75	1.75
Median Vote	1.75	1.75	1.50	1.50

The views and opinions expressed by the participants are their own. They may not reflect the views of, and any forecasts by, the organizations with which they are affiliated.

The MPC's next vote will take place on November 28, 2019 prior to the Bank of Canada's interest rate announcement on December 4, 2019.

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