

July 9, 2015

## C.D. Howe Institute Monetary Policy Council Recommends Bank of Canada Hold Overnight Rate at 0.75 Percent through Mid-Year; Looks for 1.00 Percent by July 2016

July 9, 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 0.75 percent at its next announcement on July 15, 2015. Looking ahead, the Council called for the Bank to hold the target at 0.75 percent through the end of the year, raising it to 1.00 percent by July 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.

While the majority of Council members called for the overnight rate target to stay at 0.75 percent next week and in September, four called for the Bank of Canada to cut its target to 0.50 percent next week and hold it there in September. By January 2016, five members called for 0.75 percent and three for 0.50 percent, while three called for an increase to 1.00 percent. By July 2016, three members called for 0.75 percent and one for 0.50 percent, with the majority of members calling for an increase (four looking for 1.00 percent and three for 1.25 percent).

The split between members favouring no change and those favouring a cut, and the gradual pace of increases envisioned even by those favouring rate hikes over the coming year, reflected disappointment about recent Canadian growth, and concern that the disinflationary output gap in the Canadian economy will take time to close. Several members commented on divergent indicators, and although Labour Force Survey measures of employment growth are inevitably volatile, more than one member suggested that Friday's employment figures should affect the Bank's interest-rate decision.



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Looking at the world environment in the months ahead, MPC members generally felt that a robust second-half in the United States would be positive for Canada, with ongoing troubles in Europe and potential economic and financial setbacks in China being the most important risks. The group discussed the impact of lower oil prices on the Canadian economy at some length: the size and scope of its negative impact on activity was one point of concern; another was the extent to which the Bank of Canada should think of it as a temporary depressor of demand as opposed to a permanent cut in Canada's productive potential.

The MPC also discussed the impact of the Bank of Canada's upcoming announcement on expectations and on the foreign-exchange value of the Canadian dollar. While members favouring a cut tended to feel that the Canadian economy's recent weakness warranted "taking out insurance," some of them expressed concern that the Bank's actions and language could hurt confidence. Several members noted the risks of further stimulating housing-related activity and borrowing. Many of those favouring no change emphasized the dangers of over-reacting, and argued that the Canadian economy remains on course to close the output gap and hit the 2 percent inflation target.

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.

# MONETARY POLICY COUNCIL

# COMMUNIQUÉ

July 9, 2015

MPC Members	July 15	Sept 9	6 months	12 months
<b>Steve Ambler</b> Université du Québec à Montréal (UQAM)	0.75%	0.75%	0.75%	1.00%
<b>Edward A. Carmichael</b> Ted Carmichael Global Macro	0.50%	0.50%	0.50%	0.75%
<b>Thorsten Koeppel</b> Queens University	0.75%	0.75%	1.00%	1.25%
<b>Stéfane Marion</b> National Bank	0.75%	0.75%	0.75%	0.75%
<b>Angelo Melino</b> University of Toronto	0.50%	0.50%	0.75%	1.00%
<b>Doug Porter</b> BMO Capital Markets	0.75%	0.75%	0.75%	1.00%
<b>Nicholas Rowe</b> Carleton University	0.75%	0.75%	1.00%	1.25%
<b>Avery Shenfeld</b> CIBC World Markets Inc.	0.50%	0.50%	0.50%	0.75%
<b>Pierre Siklos</b> Wilfrid Laurier University	0.75%	0.75%	1.00%	1.25%
<b>David Tulk</b> TD Bank	0.50%	0.50%	0.50%	0.50%
<b>Craig Wright</b> RBC Financial Group	0.75%	0.75%	0.75%	1.00%
<b>Median Vote</b>	<b>0.75%</b>	<b>0.75%</b>	<b>0.75%</b>	<b>1.00%</b>

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 September 3, 2015 prior to the Bank of Canada's interest rate announcement on September 9, 2015.

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