

ESSENTIALS OF MONETARY POLICY

Bank of Canada (BoC)

As Housing Activity Sinks, the Bank of Canada Blinks

By Randall Bartlett, Senior Director of Canadian Economics

ACCORDING TO THE BOC

- ▶ The Bank of Canada hiked the overnight rate by 50 bps today, coming in below market expectations, tempering the pace of rate increases following 100 bps and 75 bps increases in July and September, respectively. This takes the Bank's policy rate to 3.75%, 350 bps higher than where we started the year. It has now reached a level we haven't seen since early 2008 and that is well outside of the estimated range of the nominal neutral rate (2-3%).
- ▶ The Governing Council also watered down its hawkish language somewhat, saying it "... expects that the policy interest rate will need to rise further... Future rate increases will be influenced by our assessments of how tighter monetary policy is working to slow demand, how supply challenges are resolving, and how inflation and inflation expectations are responding."
- ▶ The Bank made clear that the "... effects of recent policy rate increases by the Bank are becoming evident in interest-sensitive areas of the economy: housing activity has retreated sharply, and spending by households and businesses is softening." A slowdown in foreign demand is also weighing on exports. The Bank now expects economic growth "... to stall through the end of this year and the first half of next year as the effects of higher interest rates spread through the economy." It revised down its forecast for 2023 real GDP growth to 0.9% from 1.8% in the July Monetary Policy Report (MPR) as a result.
- ▶ But the Bank of Canada believes the economy continues to operate in excess demand, putting upward pressure on domestic inflation. While the Bank gave a nod to a deceleration in headline inflation over the past few months, "... price pressures remain broadly based, with two-thirds of CPI components increasing more than 5% over the past year." The Bank's core measures also remain elevated, as do short-term consumer inflation expectations. The Canadian

labour market remains tight as well, with businesses reporting widespread labour shortages and wage growth being too high for comfort.

- ▶ However, there are signs that inflationary pressures are easing. Commodity prices have come down since the Bank's July MPR, and supply chain disruptions are backing off. The rapid deceleration in the short-term changes in the Bank's core measures of CPI also support this view. And then there is the move down in business and long-term inflation expectations. Together, this supports the softer language in today's press release.

IMPLICATIONS

Is this the pivot markets, businesses and homeowners have been waiting for? It looks like it could be. With monetary policy acting with long and variable lags, the Canadian economy hasn't yet felt to full impact of interest rate hikes this year and the risks remain tilted to the downside. As such, we believe the Bank of Canada will revise its forecast for Canadian real GDP growth for 2023 lower at its January meeting, bringing it closer to our recessionary forecast (see our most recent [Economic and Financial Outlook](#)). Indeed, as Governor Tiff Macklem said in his opening statement to the MPR press conference, "This tightening phase will draw to a close. We are getting closer, but we are not there yet."

Schedule 2022 of Central Bank Meetings

Date	Central banks	Decision	Rate
January			
13	Bank of Korea	+25 b.p.	1.25
17	Bank of Japan	s.q.	-0.10
20	Bank of Norway	s.q.	0.50
26	Bank of Canada*	s.q.	0.25
26	Federal Reserve	s.q.	0.25
31	Reserve Bank of Australia	s.q.	0.10
February			
2	Bank of Brazil	+150 b.p.	10.75
3	European Central Bank	s.q.	0.00
3	Bank of England	+25 b.p.	0.50
10	Bank of Sweden	s.q.	0.00
10	Bank of Mexico	+50 b.p.	6.00
22	Reserve Bank of New Zealand	+25 b.p.	1.00
23	Bank of Korea	s.q.	1.25
28	Reserve Bank of Australia	s.q.	0.10
March			
2	Bank of Canada	+25 b.p.	0.50
10	European Central Bank	s.q.	0.00
16	Bank of Brazil	+100 b.p.	11.75
16	Federal Reserve	+25 b.p.	0.50
17	Bank of England	+25 b.p.	0.75
17	Bank of Japan	s.q.	-0.10
24	Bank of Norway	+25 b.p.	0.75
24	Bank of Mexico	+50 b.p.	6.50
24	Swiss National Bank	s.q.	-0.75
April			
5	Reserve Bank of Australia	s.q.	0.10
12	Reserve Bank of New Zealand	+50 b.p.	1.50
13	Bank of Korea	+25 b.p.	1.50
13	Bank of Canada*	+50 b.p.	1.00
14	European Central Bank	s.q.	0.00
27	Bank of Japan	s.q.	-0.10
28	Bank of Sweden	+25 b.p.	0.25
May			
3	Reserve Bank of Australia	+25 b.p.	0.35
4	Bank of Brazil	+100 b.p.	12.75
4	Federal Reserve	+50 b.p.	1.00
5	Bank of England	+25 b.p.	1.00
5	Bank of Norway	s.q.	0.75
12	Bank of Mexico	+50 b.p.	7.00
24	Reserve Bank of New Zealand	+50 b.p.	2.00
25	Bank of Korea	+25 b.p.	1.75
June			
1	Bank of Canada	+50 b.p.	1.50
7	Reserve Bank of Australia	+50 b.p.	0.85
9	European Central Bank	s.q.	0.00
15	Bank of Brazil	+50 b.p.	13.25
15	Federal Reserve	+75 b.p.	1.75
16	Bank of England	+25 b.p.	1.25
16	Bank of Japan	s.q.	-0.10
16	Swiss National Bank	+50 b.p.	-0.25
23	Bank of Norway	+50 b.p.	1.25
23	Bank of Mexico	+75 b.p.	7.75
30	Bank of Sweden	+50 b.p.	0.75

Date	Central banks	Decision	Rate
July			
5	Reserve Bank of Australia	+50 b.p.	1.35
12	Bank of Korea	+50 b.p.	2.25
12	Reserve Bank of New Zealand	+50 b.p.	2.50
13	Bank of Canada*	+100 b.p.	2.50
20	Bank of Japan	s.q.	-0.10
21	European Central Bank	+50 b.p.	0.50
27	Federal Reserve	+75 b.p.	2.50
August			
2	Reserve Bank of Australia	+50 b.p.	1.85
3	Bank of Brazil	+50 b.p.	13.75
4	Bank of England	+50 b.p.	1.75
11	Bank of Mexico	+75 b.p.	8.50
16	Reserve Bank of New Zealand	+50 b.p.	3.00
18	Bank of Norway	+50 b.p.	1.75
24	Bank of Korea	+25 b.p.	2.50
September			
6	Reserve Bank of Australia	+50 b.p.	2.35
7	Bank of Canada	+75 b.p.	3.25
8	European Central Bank	+75 b.p.	1.25
20	Bank of Sweden	+100 b.p.	1.75
21	Bank of Brazil	s.q.	13.75
21	Bank of Japan	s.q.	-0.10
21	Federal Reserve	+75 b.p.	3.25
22	Bank of England	+50 b.p.	2.25
22	Bank of Norway	+50 b.p.	2.25
22	Swiss National Bank	+75 b.p.	0.50
29	Bank of Mexico	+75 b.p.	9.25
October			
3	Reserve Bank of Australia	+25 b.p.	2.60
4	Reserve Bank of New Zealand	+50 b.p.	3.50
12	Bank of Korea	+50 b.p.	3.00
26	Bank of Brazil		
26	Bank of Canada*	+50 b.p.	3.75
27	European Central Bank		
27	Bank of Japan		
31	Reserve Bank of Australia		
November			
2	Federal Reserve		
3	Bank of England		
3	Bank of Norway		
10	Bank of Mexico		
22	Reserve Bank of New Zealand		
24	Bank of Korea		
24	Bank of Sweden		
December			
5	Reserve Bank of Australia		
7	Bank of Brazil		
7	Bank of Canada		
14	Federal Reserve		
15	European Central Bank		
15	Bank of England		
15	Bank of Norway		
15	Bank of Mexico		
15	Swiss National Bank		
19	Bank of Japan		

NOTE: Certain banks may decide to change rates in-between the scheduled meetings. The abbreviations s.q. and b.p. correspond to status quo and basis points respectively. * Monetary Policy Report published.