



ESSENTIALS OF MONETARY POLICY

Bank of Canada (BoC)

Long-Awaited Central Bank Pause Officially Begins

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ACCORDING TO THE BOC

- ▶ The Bank of Canada held its policy rate steady at 4.5% today as was widely anticipated by forecasters. That follows rate increases at each of the prior meetings starting in March 2022.
- ▶ The Bank's policy rate is 425 bps higher than the emergency level at which we began 2022. It remains the highest level since late 2007 and is well outside the 2–3% range estimated for the long-term nominal neutral rate.
- ▶ Today's statement noted that "Global economic developments have evolved broadly in line with the outlook in the January Monetary Policy Report (MPR)." Developments cited included a moderating global expansion and a slowdown in Canadian economic momentum and inflation.
- ▶ Although consumption, government spending, and business investment continued to rise in Q4 2022, the BoC sees signs that tighter monetary policy is weighing on household expenditures and foreign demand.
- ▶ Labour market tightness remains on the minds of monetary policymakers with wage growth running at levels inconsistent with 2% inflation. The statement noted the surprise strength in recent employment growth as well as Canada's near-record-low unemployment rate and high numbers of job vacancies. However, it noted that the expected further slowdown in economic activity should help cool the labour market.
- ▶ The Bank stated that "the latest data remains in line with the Bank's expectation that CPI inflation will come down to around 3% in the middle of this year." This partly reflects predictions that soft economic growth will ease product and labour market pressures, thereby cooling wage growth, increasing competition, and reducing opportunities for businesses to pass on higher costs to consumers. But it also

relies on the so-called base effects that will see large price increases from a year ago falling out of the calculation.

- ▶ It reiterated that the Governing Council "expected to hold the policy interest rate at its current level, conditional on economic developments evolving broadly in line with the MPR outlook." Ongoing quantitative tightening measures continue to complement restrictive monetary policy.

IMPLICATIONS

The Bank of Canada confirmed that its long-awaited pause has officially begun. When combined with a slowing pace of inflation and a stalling economy in Q4, January's job surge doesn't appear to qualify as an "accumulation of evidence" contradictory to BoC forecasts. Previous statements indicated that this was necessary to deviate from plans to hold rates steady. Indeed, the Bank appears to be particularly encouraged by signs that measures of underlying inflation are easing as intended as is momentum in GDP growth.

The question now is how strongly Canada's debt-saddled economy responds following months of aggressive monetary tightening. We think that this year, the Canadian economy will increasingly feel the full impact of last year's interest rate hikes, which tend to take six to eight quarters to materialize. We also expect quantitative tightening to have a bigger impact on bond yields this year. Lagged and significant rate impacts anchor our call for a recession later in 2023. Evidently, the Bank also feels that there is more economic weakness to come, and that will help bring price pressures closer to the 2% target. How strongly and how quickly that economic slowdown comes will determine whether the BoC continues to stick to its plan.

2023 Schedule of Central Bank Meetings

Date	Central bank	Decision	Rate
January			
13	Bank of Korea	+25 b.p.	3.50
18	Bank of Japan	unchanged	-0.10
19	Bank of Norway	unchanged	2.75
25	Bank of Canada*	+25 b.p.	4.50
February			
1	Bank of Brazil	unchanged	13.75
1	Federal Reserve	+25 b.p.	4.75
2	European Central Bank	+50 b.p.	3.00
2	Bank of England	+50 b.p.	4.00
6	Reserve Bank of Australia	+25 b.p.	3.35
9	Bank of Sweden	+50 b.p.	3.00
9	Bank of Mexico	+50 b.p.	11.00
21	Reserve Bank of New Zealand	+50 b.p.	4.75
23	Bank of Korea	unchanged	3.50
March			
6	Reserve Bank of Australia	+25 b.p.	3.60
8	Bank of Canada		
10	Bank of Japan		
16	European Central Bank		
22	Bank of Brazil		
22	Federal Reserve		
23	Bank of England		
23	Bank of Norway		
23	Swiss National Bank		
30	Bank of Mexico		
April			
4	Reserve Bank of Australia		
4	Reserve Bank of New Zealand		
12	Bank of Canada*		
13	Bank of Korea		
26	Bank of Sweden		
28	Bank of Japan		
May			
2	Reserve Bank of Australia		
3	Bank of Brazil		
3	Federal Reserve		
4	European Central Bank		
4	Bank of Norway		
11	Bank of England		
18	Bank of Mexico		
23	Reserve Bank of New Zealand		
25	Bank of Korea		
June			
6	Reserve Bank of Australia		
7	Bank of Canada		
14	Federal Reserve		
15	European Central Bank		
16	Bank of Japan		
21	Bank of Brazil		
22	Bank of England		
22	Bank of Norway		
22	Bank of Mexico		
22	Swiss National Bank		
29	Bank of Sweden		

Date	Central bank	Decision	Rate
July			
4	Reserve Bank of Australia		
11	Reserve Bank of New Zealand		
12	Bank of Canada*		
13	Bank of Korea		
26	Federal Reserve		
27	European Central Bank		
28	Bank of Japan		
August			
1	Reserve Bank of Australia		
2	Bank of Brazil		
3	Bank of England		
10	Bank of Mexico		
15	Reserve Bank of New Zealand		
17	Bank of Norway		
24	Bank of Korea		
September			
5	Reserve Bank of Australia		
6	Bank of Canada		
14	European Central Bank		
20	Bank of Brazil		
20	Federal Reserve		
21	Bank of England		
21	Bank of Norway		
21	Swiss National Bank		
22	Bank of Japan		
28	Bank of Mexico		
**	Bank of Sweden		
October			
2	Reserve Bank of Australia		
3	Reserve Bank of New Zealand		
19	Bank of Korea		
25	Bank of Canada*		
26	European Central Bank		
31	Bank of Japan		
November			
1	Bank of Brazil		
1	Federal Reserve		
2	Bank of England		
2	Bank of Norway		
6	Reserve Bank of Australia		
9	Bank of Mexico		
28	Reserve Bank of New Zealand		
30	Bank of Korea		
**	Bank of Sweden		
December			
4	Reserve Bank of Australia		
6	Bank of Canada		
13	Bank of Brazil		
13	Federal Reserve		
14	European Central Bank		
14	Bank of England		
14	Bank of Norway		
14	Bank of Mexico		
14	Swiss National Bank		
19	Bank of Japan		

NOTE: Central banks may decide to change rates between the scheduled meetings. The abbreviation b.p. stands for basis points. * Monetary Policy Report published; ** To be determined.