BoC Speaks From Both Sides; Risk In Press Conference

- The BoC is a tad more optimistic sounding overall but left itself enough outs to merit a lengthy further pause as it evaluates uncertainties. The risk to the initial market reaction that is putting a bid to the C$ and selling the front-end lies in the press conference at 11:15am and particularly if Poloz is asked to reiterate whether downside risks remain and if cut risk is off the table; it would be a total 180 in a short period of time if he didn't respond affirmatively. While the broad thrust of the communications is more neutral than anticipated, there is a strong argument for interpreting them as reflecting skepticism at the BoC over the durability of recent gains which maintains a cautious stance.
- The BoC upgraded growth forecasts and marginally did the same to inflation and brought forward closure of the traditional output gap to 2018H1 while leaving uncertain the issue of whether this is the only spare capacity measure they are now following or whether it is a starting point in the dialogue that must also consider the broader measure of spare capacity. It did so while sounding more cautious in several important respects.
- The BoC now sees world growth of 3.3% this year (3.2% previously), 3.4% next year (3.6% previously) and 3.5% in 2019. On net, its views on the world economy are unchanged.
- On US growth the BoC dismisses Q1 softness as due to temporary factors while "the drivers of growth remain solid." It foresees growth of 2.1% this year (down from 2.2% previously) and then 2.3% next year (unchanged) and 1.9% in 2019. On net, its views on the US economy are also largely unchanged.
- Canadian growth was revised up sharply in 2017 to 2.6% from 2.1% previously, and revised down a little to 1.9% in 2018 from 2.1% previously. 2019 is projected at 1.8%. I think the BoC's sharp upward revision to 2017Q1 growth of 3.8% (2.5% previously) is largely responsible for the upward revision to the annual figures and the BoC says that's temporary. **That's forecast arithmetic doing much of the fancy footwork to the annual average rather than a committed view that strong growth will remain durable.**
- In fact, throughout the whole Canadian section of the MPR, the BoC is cautioning against the durability of recent gains. A simple scan of section headings reveals a not terribly subtle message in that regard. **Having said that, the BoC is simply pushing out a story that hasn't worked to date:** it is hoping for more balanced growth from exports and business investment than has been delivered thus far. Clearly any disappointment to such expectations risks renewed caution in future.
- **The economy's noninflationary speed limit was also brought lower in 2017** to a mid-point of 1.3% within a 1.0-1.6% range which is down from the previous estimate of 1.5% in a 1-2% range. For 2018, the speed limit was revised down a tick to 1.4% (1.1-1.7% range) from 1.5% in 2019 (1.1-1.9% range). This played a secondary role to the upward growth forecast revision in closing the output gap a little earlier than anticipated.
- The Canadian inflation forecast was revised up a tick this year and next to 1.9% and 2% in 2017 and 2018 respectively, and CPI is forecast to be up

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2.1% in 2019. The inflation guidance did not sound like a central bank in any rush to contemplate raising rates and it's worth fully quoting that paragraph of the statement:

> "CPI inflation is now at the 2 per cent target, largely because of the transitory effects of higher oil prices and carbon pricing measures in two provinces, as well as other temporary factors. The Bank's three measures of core inflation, on the other hand, have been drifting down in recent quarters and wage growth remains subdued, consistent with material excess capacity in the economy. CPI inflation is expected to dip in the months ahead, as the temporary factors unwind, and then return to 2 per cent later in the projection horizon as the output gap closes."

- The BoC acknowledged that a fair cross-section of data of late has been more encouraging but takes it back in stating "while the recent rebound in GDP is encouraging, it is too early to conclude that the economy is on a sustainable growth path."
- After revising everything higher, the BoC left itself the biggest out with its concluding paragraph:

> The Bank's Governing Council acknowledges the strength of recent data, some of which is temporary, and is mindful of the significant uncertainties weighing on the outlook."

- Please see the attached statement comparison.
- The full Monetary Policy Report including forecast details is available here.

RELEASE DATE: APRIL 12, 2017

The Bank of Canada today announced that it is maintaining its target for the overnight rate at 1/2 per cent. The Bank Rate is correspondingly 3/4 per cent and the deposit rate is 1/4 per cent.

Global economic growth is strengthening and becoming more broadly-based than the Bank had expected in its January *Monetary Policy Report* (MPR), although there is still considerable uncertainty about the outlook. In the United States, some **temporary factors weighed on economic activity in the first quarter but the drivers of growth remain solid.** The US is close to full employment, unlike many other advanced economies, including Canada, **where material slack remains**. Global financial conditions remain accommodative. The Bank expects global GDP growth to increase from 3 1/4 per cent this year to about 3 1/2 per cent in 2018 and 2019.

In Canada, recent data indicate that economic growth has been faster than was expected in the January MPR. **Growth was temporarily boosted by a resumption of spending in the oil and gas sector and the effects of the Canada Child Benefit on consumer spending.** Residential investment has also been stronger than expected. Employment data have been robust, although gains in hours worked are still soft. Meanwhile, export growth has been uneven in the face of ongoing competitiveness challenges. Further, despite a recent uptick in sentiment, business investment remains well below what could be expected at this stage in the recovery. Accordingly, while the recent rebound in GDP is encouraging, it is too early to conclude that the economy is on a sustainable growth path.

During the rest of this year and into 2018 and 2019, growth in Canada is expected to moderate but remain above potential. At the same time, its composition is expected to broaden as the pace of household spending, especially residential investment, slows while the contributions from exports and business investment increase. The Bank now projects real GDP growth of 2 1/2 per cent in 2017 and just below 2 per cent in 2018 and 2019. Meanwhile, **the Bank has revised down its projection of potential growth**, reflecting persistently weak investment. With this combination of a higher profile for economic activity and a lower profile for potential, the output gap is projected to close in the first half of 2018, a bit sooner than the Bank anticipated in January.

CPI inflation is now at the 2 per cent target, largely because of the transitory effects of higher oil prices and carbon pricing measures in two provinces, as well as other temporary factors. The **Bank's three measures of core inflation, on the other hand, have been drifting down in recent quarters and wage growth remains subdued, consistent with material excess capacity in the economy**. CPI inflation is expected to dip in the months ahead, as the temporary factors unwind, and then return to 2 per cent later in the projection horizon as the output gap closes.

The Bank's Governing Council acknowledges the strength of recent data, some of which is temporary, and is mindful of the significant uncertainties weighing on the outlook. In this context, Governing Council judges that the current stance of monetary policy is still appropriate and maintains the target for the overnight rate at 1/2 per cent.

RELEASE DATE: MARCH 1, 2017

The Bank of Canada today announced that it is maintaining its target for the overnight rate at 1/2 per cent. The Bank Rate is correspondingly 3/4 per cent and the deposit rate is 1/4 per cent.

CPI inflation rose to 2.1 per cent in January, reflecting higher energy prices due in part to carbon pricing measures introduced in two provinces. The Bank is looking through these effects, as their impact on inflation will be temporary. The Bank's three measures of core inflation, taken together, continue to point to material excess capacity in the economy.

Overall, recent data on the global and Canadian economies have been consistent with the Bank's projection of improving growth, as set out in the January *Monetary Policy Report* (MPR). In Canada, recent consumption and housing indicators suggest growth in the fourth quarter of 2016 may have been slightly stronger than expected. However, exports continue to face the ongoing competitiveness challenges described in the January MPR. The Canadian dollar and bond yields remain near levels observed at that time. While there have been recent gains in employment, subdued growth in wages and hours worked continue to reflect persistent economic slack in Canada, in contrast to the United States.

The Bank's Governing Council remains attentive to the impact of significant uncertainties weighing on the outlook and continues to monitor risks outlined in the January MPR. In this context, Governing Council judges that the current stance of monetary policy is still appropriate and maintains the target for the overnight rate at 1/2 per cent.