BoC Hikes And Leaves The Door Open For More To Come

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- I believe the BoC did the right thing in raising its overnight rate to 1%. The broad tone of the accompanying statement is generally balanced but it leaves the door wide open to further interest rate hikes. The key here is that if the BoC had wanted to simply reverse the two quarter-point cuts of 2015 then they would have been clearer while indicating as much as opposed to indicating that future moves will be informed by data and other developments. A hike with a moderately hawkish bias met our expectations. One should not rule out another hike over the duration of 2017. The C$ appreciated by about two full pennies versus the USD post-statement and the two year GoC yield increased by about 10bps.
- On the C$, the BoC flags its appreciation but at least partly says that's ok with the remark that it is "also reflecting the relative strength of Canada's economy." That says to me that it is mindful of the currency's recent strength but not overly concerned as yet which is fair and balanced.
- The second paragraph largely repeats the BoC's prior messaging that the economy has been exceeding expectations and is driven by more balanced sources of growth in the context of an expected slowdown. That's hardly unreasonable, as slower growth than the torrid pace of 4.4% and 3.7% GDP growth in Q2 and Q1 respectively would not be unwelcome.
- The BoC flags that global growth is becoming more synchronous but continues to flag geopolitical, trade policy and fiscal policy risks. Herein lies some of the cautious and frankly spot-on balance in the statement in addition to flagging housing uncertainties in relation to more broadened sources of growth elsewhere in the Canadian economy. The statement is therefore not stridently hawkish, but to repeat, nowhere in the balanced assessment does it indicate that the BoC's work is done.
- The messaging on inflation is largely unchanged in the fourth paragraph.
- The concluding paragraph is balanced but in the direction of potential future hikes at a fairly modest, careful pace that will be informed by incoming developments. It says:
- "Future monetary policy decisions are not predetermined and will be guided by incoming economic data and financial market developments as they inform the outlook for inflation. Particular focus will be given to the evolution of the economy's potential, and to labour market conditions. Furthermore, given elevated household indebtedness, close attention will be paid to the sensitivity of the economy to higher interest rates.
- On that note, it's on to Friday's jobs report after a string of extremely positive labour market readings since last summer.
- Please see the attached statement comparison.
- The next BoC policy statement will be accompanied by an MPR and press conference on October 25th. The next scheduled BoC communication will be a speech by Deputy Governor Tim Lane on September 18th.

RELEASE DATE: SEPTEMBER 6, 2017

The Bank of Canada is raising its target for the overnight rate to 1 per cent. The Bank Rate is correspondingly 1 1/4 per cent and the deposit rate is 3/4 per cent.

Recent economic data have been stronger than expected, supporting the Bank's view that growth in Canada is becoming more broadly-based and self-sustaining. Consumer spending remains robust, underpinned by continued solid employment and income growth. There has also been more widespread strength in business investment and in exports. Meanwhile, the housing sector appears to be cooling in some markets in response to recent changes in tax and housing finance policies. The Bank continues to expect a moderation in the pace of economic growth in the second half of 2017, for the reasons described in the July *Monetary Policy Report* (MPR), but the level of GDP is now higher than the Bank had expected.

The global economic expansion is becoming more synchronous, as anticipated in July, with stronger-than-expected indicators of growth, including higher industrial commodity prices. However, significant geopolitical risks and uncertainties around international trade and fiscal policies remain, leading to a weaker US dollar against many major currencies. **In this context, the Canadian dollar has appreciated, also reflecting the relative strength of Canada's economy.**

While inflation remains below the 2 per cent target, it has evolved largely as expected in July. There has been a slight increase in both total CPI and the Bank's core measures of inflation, consistent with the dissipating negative impact of temporary price shocks and the absorption of economic slack. Nonetheless, there remains some excess capacity in Canada's labour market, and wage and price pressures are still more subdued than historical relationships would suggest, as observed in some other advanced economies.

Given the stronger-than-expected economic performance, Governing Council judges that today's removal of some of the considerable monetary policy stimulus in place is warranted. **Future monetary policy decisions are not predetermined and will be guided by incoming economic data and financial market developments as they inform the outlook for inflation. Particular focus will be given to the evolution of the economy's potential, and to labour market conditions. Furthermore, given elevated household indebtedness, close attention will be paid to the sensitivity of the economy to higher interest rates.**

RELEASE DATE: JULY 12, 2017

The Bank of Canada is raising its target for the overnight rate to 3/4 per cent. The Bank Rate is correspondingly 1 per cent and the deposit rate is 1/2 per cent. Recent data have bolstered the Bank's confidence in its outlook for above-potential growth and the absorption of excess capacity in the economy. The Bank acknowledges recent softness in inflation but judges this to be temporary. Recognizing the lag between monetary policy actions and future inflation, Governing Council considers it appropriate to raise its overnight rate target at this time.

The global economy continues to strengthen and growth is broadening across countries and regions. The US economy was tepid in the first quarter of 2017 but is now growing at a solid pace, underpinned by a robust labour market and stronger investment. Above-potential growth is becoming more widespread in the euro area. However, elevated geopolitical uncertainty still clouds the global outlook, particularly for trade and investment. Meanwhile, world oil prices have softened as markets work toward a new supply/demand balance.

Canada's economy has been robust, fuelled by household spending. As a result, a significant amount of economic slack has been absorbed. The very strong growth of the first quarter is expected to moderate over the balance of the year, but remain above potential. Growth is broadening across industries and regions and therefore becoming more sustainable. As the adjustment to lower oil prices is largely complete, both the goods and services sectors are expanding. Household spending will likely remain solid in the months ahead, supported by rising employment and wages, but its pace is expected to slow over the projection horizon. At the same time, exports should make an increasing contribution to GDP growth. Business investment should also add to growth, a view supported by the most recent *Business Outlook Survey.*

The Bank estimates real GDP growth will moderate further over the projection horizon, from 2.8 per cent in 2017 to 2.0 per cent in 2018 and 1.6 per cent in 2019. The output gap is now projected to close around the end of 2017, earlier than the Bank anticipated in its April *Monetary Policy Report* (MPR).

CPI inflation has eased in recent months and the Bank's three measures of core inflation all remain below 2 per cent. The factors behind soft inflation appear to be mostly temporary, including heightened food price competition, electricity rebates in Ontario, and changes in automobile pricing. As the effects of these relative price movements fade and excess capacity is absorbed, the Bank expects inflation to return to close to 2 per cent by the middle of 2018. The Bank will continue to analyze short-term inflation fluctuations to determine the extent to which it remains appropriate to look through them.

Governing Council judges that the current outlook warrants today's withdrawal of some of the monetary policy stimulus in the economy. Future adjustments to the target for the overnight rate will be guided by incoming data as they inform the Bank's inflation outlook, keeping in mind continued uncertainty and financial system vulnerabilities.