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BoC: SIDE-BY-SIDE COMPARISON

December 5, 2018

RELEASE DATE: DECEMBER 5, 2018

The Bank of Canada today maintained its target for the overnight rate at 1 ¾ per cent. The Bank Rate is correspondingly 2 per cent and the deposit rate is 1 ½ per cent.

The global economic expansion is moderating largely as expected, but ***signs are emerging that trade conflicts are weighing more heavily on global demand.*** Recent encouraging developments at the G20 meetings are a reminder that ***there are upside as well as downside risks around trade policy.*** Growth in major advanced economies has slowed, although activity in the United States remains above potential.

Oil prices have fallen sharply since the October *Monetary Policy Report* (MPR), reflecting a combination of geopolitical developments, uncertainty about global growth prospects, and expansion of U.S. shale oil production. Benchmarks for western Canadian oil – both heavy and, more recently, light – have been pulled down even further by transportation constraints and a buildup of inventories. In light of these developments and associated cutbacks in production, ***activity in Canada's energy sector will likely be materially weaker than expected.***

The Canadian economy as a whole grew in line with the Bank's projection in the third quarter, although data suggest ***less momentum going into the fourth quarter.*** Business investment fell in the third quarter, in large part due to heightened trade uncertainty during the summer. Business investment outside the energy sector is expected to strengthen with the signing of the USMCA, new federal government tax measures, and ongoing capacity constraints. Along with strong foreign demand, this increase in productive capacity should support continued growth in exports.

Household credit and regional housing markets appear to be stabilizing following a significant slowdown in recent quarters. The Bank continues to monitor the impact on both builders and buyers of tighter mortgage rules, regional housing policy changes, and higher interest rates.

Inflation has been evolving as expected and the Bank's core measures are all tracking 2 per cent, consistent with an economy that has been operating close to its capacity. CPI inflation, at 2.4 per cent in October, is just above target but is expected to ease in coming months by more than the Bank had previously forecast, due to lower gasoline prices. ***Downward historical revisions by Statistics Canada to GDP, together with recent macroeconomic developments, indicate there may be additional room for non-inflationary growth.*** The Bank will reassess all of these factors in its new projection for the January MPR.

Weighing all of these developments, Governing Council continues to judge that the policy interest rate will need to rise into a neutral range to achieve the inflation target. The appropriate pace of rate increases will depend on a number of factors. These include the effect of higher interest rates on consumption and housing, and global trade policy developments.

The persistence of the oil price shock, the evolution of business investment, and the Bank's assessment of the economy's capacity will also factor importantly into our decisions about the future stance of monetary policy.

RELEASE DATE: OCTOBER 24, 2018

The Bank of Canada today increased its target for the overnight rate to 1 ¾ per cent. The Bank Rate is correspondingly 2 per cent and the deposit rate is 1 ½ per cent.

The global economic outlook remains solid. The US economy is especially robust and is expected to moderate over the projection horizon, as forecast in the Bank's July *Monetary Policy Report* (MPR). The new US-Mexico-Canada Agreement (USMCA) will reduce trade policy uncertainty in North America, which has been an important curb on business confidence and investment. However, trade conflict, particularly between the United States and China, is weighing on global growth and commodity prices. Financial market volatility has resurfaced and some emerging markets are under stress but, overall, global financial conditions remain accommodative.

The Canadian economy continues to operate close to its potential and the composition of growth is more balanced. Despite some quarterly fluctuations, growth is expected to average about 2 per cent over the second half of 2018. Real GDP is projected to grow by 2.1 per cent this year and next before slowing to 1.9 per cent in 2020.

The projections for business investment and exports have been revised up, reflecting the USMCA and the recently-approved liquid natural gas project in British Columbia. Still, investment and exports will be dampened by the recent decline in commodity prices, as well as ongoing competitiveness challenges and limited transportation capacity. The Bank will be monitoring the extent to which the USMCA leads to more confidence and business investment in Canada.

Household spending is expected to continue growing at a healthy pace, underpinned by solid employment income growth. Households are adjusting their spending as expected in response to higher interest rates and housing market policies. In this context, household credit growth continues to moderate and housing activity across Canada is stabilizing. As a result, household vulnerabilities are edging lower in a number of respects, although they remain elevated.

CPI inflation dropped to 2.2 per cent in September, in large part because the summer spike in airfares was reversed. Other temporary factors pushing up inflation, such as past increases in gasoline prices and minimum wages, should fade in early 2019. Inflation is then expected to remain close to the 2 per cent target through the end of 2020. The Bank's core measures of inflation all remain around 2 per cent, consistent with an economy that is operating at capacity. Wage growth remains moderate, although it is projected to pick up in the coming quarters, consistent with the Bank's latest Business Outlook Survey.

Given all of these factors, Governing Council agrees that the policy interest rate will need to rise to a neutral stance to achieve the inflation target. In determining the appropriate pace of rate increases, Governing Council will continue to take into account how the economy is adjusting to higher interest rates, given the elevated level of household debt. In addition, we will pay close attention to global trade policy developments and their implications for the inflation outlook.