December 2, 2015

TD Economics

Data Release: Poloz stands pat, with all eyes on Yellen

- The Bank of Canada left its key policy rate unchanged at 0.50% today. The Bank characterized the economy and inflation as evolving broadly in line with its October outlook as outlined in its Monetary Policy Report (MPR).
- It also reiterated that Canada's economy continues to "undergo a complex and lengthy adjustment to the decline in Canada's terms of trade." This adjustment is being aided by stronger US growth, a weaker Canadian dollar, and the Bank's interest rate cuts earlier this year.
- Interestingly, the Bank did not mention its measure of "underlying" inflation, which strips out the temporary impact of the weaker Canadian dollar on consumer prices. Instead the Bank said that core inflation is close to 2% as the effects of the lower loonie and a weaker economy are having opposite and offsetting impacts on inflation.
- Finally, the Bank stated that financial vulnerabilities in the household sector continue to edge higher, but overall risks to financial stability are evolving as expected.

Key Implications

- The Bank's decision was well anticipated by markets since the Canadian economy has evolved broadly in line with the outlook in October. The Bank had already downgraded its economic outlook in the MPR, and it maintained its cautious tone in today's communique.
- The Bank of Canada is juggling a lot of balls in its monetary policy calculus these days. It has cut rates this year to help offset the hit to Canada's economy from the downturn in the resource sector, at the same time as keeping an eye on financial stability in light of high household indebtedness. Now it is facing imminent rate hikes in the U.S. which are expected to tighten financial conditions in Canada (by increasing longer-term bond yields and weighing on growth). Balancing all of these considerations, we expect the Bank to keep rates at their current low level until the middle of 2017.

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