Data Release: Bank of Canada stands pat as its outlook remains unchanged

- The Bank of Canada kept its policy rate unchanged at 0.75% this morning. The Bank continues to expect both economic growth and inflation to evolve largely in line with past communications, resulting in the output gap closing by the end of 2016 and inflation returning to the 2% target around the same time.
- In terms of inflation, the Bank reiterated that abstracting from temporary factors such as energy prices and movements in the dollar, ‘underlying’ inflation remains around 1.6% to 1.8%, consistent with slack in the economy.
- Regarding the economic growth outlook, the Bank of Canada maintained its view that despite very weak first quarter growth in the U.S., growth south of the border will return in the second quarter, helping advance the rotation of the Canadian economy towards exports and investment.
- Despite rises in some interest rates since the Bank cut rates in January, the Bank of Canada views financial conditions as remaining stimulative. Risks are seen around recent strength in the Canadian dollar and oil prices, and the Bank of Canada stated that it will need to assess their impact on financial conditions should these moves be sustained.
- Overall, the Bank views the current level of the policy rate to be appropriate given the current outlook for Canadian economic growth and inflation. It also considers the risks around both the economic outlook and financial stability to be elevated but evolving in line with expectations.

Key Implications

- This morning’s interest rate decision and accompanying statement reconfirmed recent Bank of Canada communications - in the Bank’s view, the largest shock to the Canadian economy is now behind us. First quarter real GDP, which will be released this Friday, is likely to have been effectively flat. Growth is anticipated to resume this quarter, accelerating further into the end of the year.
- Our base case continues to anticipate a steady closing of the Canadian output gap, and a return of inflation to close to the 2% target by the end of 2016, broadly consistent with the Bank of Canada’s outlook. With the worst of the oil price shock likely behind us, the current stance of monetary policy remains appropriately stimulative for balancing monetary policy and financial stability concerns through the remainder of this year and into the latter part of next year.
- While our expectation is for rates to remain on hold, the outlook for Canadian growth remains in many ways contingent on external developments, particularly the evolution of both crude oil prices and the U.S. economy.

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