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Data Release: Poloz and Wilkins reiterate the Bank of Canada's economic outlook

- Bank of Canada Governor Stephen Poloz and Senior Deputy Governor Wilkins appeared before the Parliament's Standing Committee on Finance. In their prepared statement, they reiterated the Bank's past communications regarding the impacts of the oil price downturn and movements in the Canadian dollar.
- It was reiterated that the two interest rate cuts in 2015 are seen as helping cushion the blow of lower resource prices, as well as assisting with the ongoing economic adjustment process. The prepared statement also defended the Bank's use of the Department of Finance's fiscal multipliers (measures of the growth impact of fiscal spending), stating that these figures are in line with the Bank's own analysis.
- Within the question and answer period, Poloz and Wilkins reiterated that at low interest rates, monetary policy moves tend to be less impactful, resulting in a bigger role for fiscal policy. It was also stressed that there is a fair amount of uncertainty embedded in the Bank's analysis, and that monetary policy is set around 'boundaries' of growth, rather than specific numbers.
- Regarding the renewal of the inflation target, it was emphasized that although a higher inflation target would create additional space for easing, the Bank's willingness to move interest rates into negative territory, if necessary, mitigates some of this benefit. The governor also continued to point to the benefits that Canada has experienced in the more than 25 years of the current monetary policy regime.
- The Governor also stated that businesses outside of the energy sector are 'primed' to deliver investment in coming quarters, citing the Business Outlook Survey.
- *Note that the Governor and Senior Deputy Governor will also appear before the Standing Senate Committee on Banking, Trade and Commerce tomorrow at 4:15 EST. We expect that much the same messages will be communicated as today.*

Key Implications

- Although there were no juicy nuggets to be found in today's testimony, it nevertheless provided a nice overview of the Bank of Canada's thinking around monetary policy in the current economic context, as well as some insight into the inflation target renewal process. The Bank continues to see Canada's adjustment process as unfolding slowly, helped along by the low level of the policy interest rate. Inflationary pressures are not seen as concerning, while the Bank's downgrade to economic potential was characterized as temporary, reflecting changes in the energy sector.
- When it comes to the inflation target, it is clear that the Bank is setting a very high bar for moving away from the 2% target. Emphasis was placed on the additional tools at the Bank's disposal, such as negative interest rates and quantitative easing, that should have similar impacts in crisis situations. The measure of inflation used to guide the Bank's decision making is also under consideration, with the Senior Deputy Governor pointing to research suggesting that core CPI may not be the optimal guide.
- On balance, today's testimony reinforces that caution seems to have become the Bank of Canada's guiding principal. Uncertainty surrounding impacts of fiscal measures, alongside the ongoing economic rebalancing, point to a Bank of Canada that is unlikely to move interest rates any time soon.

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