



Laurentian Bank Securities **ECONOMIC RESEARCH AND STRATEGY**

Bank of Canada December Decision: Neutral and on hold for 2020

As expected, the Bank of Canada (BoC) left its overnight rate target unchanged at 1.75% for a 9th consecutive time this morning. Financial markets participants rightly interpreted the December statement as less dovish than the October one. The economic and financial developments relative to October highlighted by the BoC reinforce, in our view, its neutral stance and significantly lower the odds of a rate cut in 2020.

The BoC projections are slightly more positive on the global front. It notes that recession concerns have diminished and that the global economic outlook is “intact” and “stabilizing”. The domestic economy mostly evolved as expected by economists and the Bank of Canada. 2019Q3 GDP growth was 1.3% Q/Q SAAR and included a moderate rebound in consumer spending. Residential investment, a reliable measure for broad housing activity, rose 13.3% in 2019Q3, a pace unseen since 2012 (see our full [GDP report](#)). However, a surge in housing activity, tied to financial vulnerabilities remains a trend to monitor. Recently, residential mortgage growth increased to its fastest pace since early 2017. In those conditions, lower interest rates would not stabilize financial vulnerabilities. In its statement, the BoC also took note of stronger-than-expected investment spending in 2019Q3 and 2019Q2. The “extent to which this points to renewed momentum in investment” will be assessed by the BoC and is a key positive remark in the statement.

The BoC continues to emphasize that the impact of trade conflicts “against the sources of resilience in the Canadian economy (consumer spending and housing activity)” will guide future interest rate decisions. Unless trade tensions deteriorate significantly beyond what the market currently expects and start weighing on the Canadian economy, we do not see the need for a more accommodative monetary policy stance in 2020.

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