



Laurentian Bank Securities **ECONOMIC RESEARCH AND STRATEGY**

BoC Interest Rate Decision – Next policy rate hike could come later in 2019

The Bank of Canada (BoC) left its overnight rate target unchanged at 1.75% this morning.

In its statement, the BoC highlighted the negative global and domestic developments affecting activity in the Canadian oil sector, including the 8.7% mandatory curtailment in Alberta's oil output announced earlier this week. This being said, economic activity related to non-energy sectors is expected to improve. The 90-day truce between US-China, the signature of the USMCA at the G20 summit and the massive LNG project under construction in BC are steps in the right direction.

Thus, the BoC could not go as far as saying that challenges in the Canadian oil sector are currently sufficient to abruptly stop the monetary tightening cycle. The BoC still wishes to increase its policy rate down the road towards neutral, but the timing of the next few hikes could be delayed. Also, the BoC highlighted that "*Downward historical revisions by Statistics Canada to GDP, together with recent macroeconomic developments, indicate there may be additional room for non-inflationary growth*". Total and core CPI inflation are unlikely to accelerate in the short-term. Furthermore, the BoC also noted a fading economic momentum in 2018Q4, which in our view may end up persisting in 2019Q1. This makes a 25 basis points increase at the January 9th meeting even less likely.

In summary, lower crude oil prices have been front and center lately but the BoC's statement is a good reminder for investors that there are also positive developments for the Canadian economy. We continue to project the overnight rate target to end 2019 at 2.25% but the next hike may only occur in the Spring or Summer of 2019.

Sébastien Lavoie | Chief Economist
514 350-2931 | lavoies@vmbi.ca

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