Laurentian Bank Securities
ECONOMIC RESEARCH AND STRATEGY

Bank of Canada Decision (April 2019) – Completely neutral for now

The Bank of Canada (BoC) left its overnight rate target unchanged at 1.75% this morning. Since the Bank of Canada'S (BoC) monetary policy decision on March 6th, the IMF has revised down its global outlook, supporting the BoC's assessment of an ongoing economic slowdown caused in part by trade policy uncertainty. Today's BoC interest rate decision is consistent with the view that trade conflicts, easing financial conditions and the extent to which China is reflating its economy are blurring both the timing and the direction of the next policy rate move.

The April Monetary Policy Report (*MPR*) shows considerable downward revisions to the BoC's Canadian economic forecast, relative to January. All sectors of the economy are now projected to experience much weaker growth than anticipated earlier this year. The contribution to growth (CTG) from exports, which has been weak year-to-date, has been revised down from 1.0 ppt to 0.3 ppt in 2019. But, it will mostly be offset by weaker imports. The CTG of business investment has also been lowered by 0.4 ppt in 2019 (from 0.2 to -0.2 ppt), mostly due to trade uncertainty and possible delays induced by the *Accelerated Investment Incentive* announced by the federal and provincial governments.

Most of the Canadian economic growth soft patch occurred in 2018Q4 (0.4% Q/Q SAAR) and 2019Q1 (forecast by the BoC at 0.3%) and should prove temporary. Household consumption, which slowed down recently due to the delayed effect of previous rate hikes, will be supported by the strong employment growth we have witnessed so far this year. At the same time, the Governing Council judges that policy-induced weakness in the housing sector will fade by year-end. All these factors lead the BoC to forecast real GDP growth of 1.2% in 2019 (1.7% in the January MPR) and 2.1% in 2020 (unchanged, see chart).

We do not see the current economic outlook as meaningfully different from the March Statement. Nonetheless, the Governing Council judges that the April outlook no longer justifies keeping any reference to "*future rate increases*". Indeed, the April statement claims that "accommodative policy interest rate continues to be warranted" while the "*factors weighing on growth and the inflation outlook are dissipating*". This dovish twist is another step towards a more lenient accommodative stance by the BoC which was initially set in motion following the last rate hike back in October 2018. Following today's statement, we do not see any room to introduce additional easing bias without explicitly mentioning rate cuts, which would require economic conditions to further deteriorate.

Such an outcome is not our base case scenario as we continue to think, in agreement with the BoC, that the Canadian economy will rebound starting in the second quarter of this year. Governor Poloz also seems to personally hold this view as he mentioned in his press conference that "rates are more likely to go up than down" if his forecast turns out to be right.

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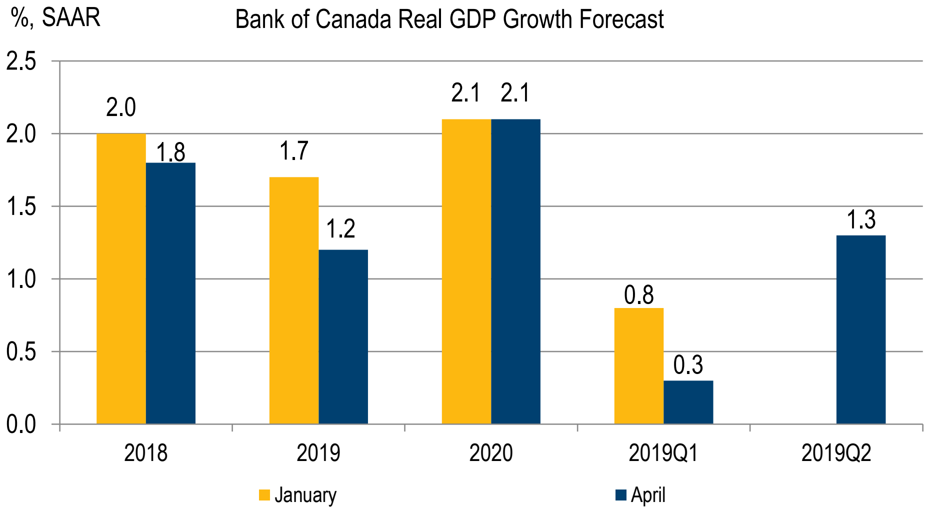

Source: Bank of Canada.