ECONOMIC RESEARCH AND STRATEGY

LAURENTIAN BANK SECURITIES

Sébastien Lavoie,
Chief Economist
LavoieS@vmbl.ca
514 350-2931

Dominique Lapointe, CFA,
Senior Economist
LapointeD@vmbl.ca
514 350-2924

June 9, 2021

Bank of Canada (June Decision) – Positive Outlook Restated but no Rush to Roll Back Accommodation

In the grand scheme of things, this morning's statement suggests that BoC officials have not changed their view regarding improving economic conditions and inflationary pressures relative to the April MPR. There were no major fundamental changes to the outlook since the BoC's decision to taper QE weekly purchases from $4B to $3B and to peg the overnight rate target at 0.25% until the second half of 2022.

On one hand, the BoC does not see as disappointing weaker-than-expected 2021Q1 real GDP growth, at 5.7% Q/Q AR versus the April MPR's 7.0% forecast. The BoC notably interprets strong imports and weaker inventories in 2021Q1 as a sign of resilient strength on the demand side. Furthermore, progress on the vaccination campaign and some easing in provincial lockdown measures bode well for real GDP, starting in 2021Q3. Economic momentum will also improve as stronger commodity prices and foreign demand will stimulate business investment, a key element for a broader recovery.

On the other hand, the statement emphasises the uneven state of the labour market: "*The employment rate remains well below its pre-pandemic level, with low wage workers, youth and women continuing to bear the brunt of job losses*." Only 59.4% of the Canadian working-age population had a job this Spring, compared to almost 62% before the pandemic. Employment maximization comments are common from the U.S. FOMC, less so from the Bank of Canada. In other words, the BoC's focus on an inclusive labour market recovery has become more prevalent since Tiff Macklem became Governor. Financial conditions during the early stages of this new business cycle will be more accommodative than they were during previous expansions.

The BoC also forecasts some moderation in core and headline CPI inflation following the ongoing short-term acceleration, supported by its view regarding broad excess capacity in the economy. Considering signs of persistency in microprocessors and raw material shortages, in addition to businesses usually being reluctant to lower prices after increasing them due to runaway input costs, we see Canadian inflation to slowly moderate over time, but staying above 2% until at least the end of 2022.

Major progress in the job market will likely occur this summer but the next $1B/week tapering decision regarding asset purchases (QE) will have to wait until after the upcoming July 14th meeting, in our view. Depending on the speed of improvements, and assuming new variants do not fuel another infection wave and financial uncertainty, the next QE tapering move could be announced at the September 8th or the October 27th meetings.

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