



Bank of Canada maintains overnight rate target at 1 ¾ per cent

OTTAWA – The Bank of Canada today maintained its target for the overnight rate at 1 ¾ per cent. The Bank Rate is correspondingly 2 per cent and the deposit rate is 1 ½ per cent.

Recent data suggest that the slowdown in the global economy has been more pronounced and widespread than the Bank had forecast in its January *Monetary Policy Report* (MPR). While the sources of moderation appear to be multiple, trade tensions and uncertainty are weighing heavily on confidence and economic activity. It is difficult to disentangle these confidence effects from other adverse factors, but it is clear that global economic prospects would be buoyed by the resolution of trade conflicts.

Many central banks have acknowledged the building headwinds to growth, and financial conditions have eased as a result. Meanwhile, progress in US-China trade talks and policy stimulus in China have improved market sentiment and contributed to firmer commodity prices.

For Canada, the Bank was projecting a temporary slowdown in late 2018 and early 2019, mainly because of last year's drop in oil prices. The Bank had forecast weak exports and investment in the energy sector and a decline in household spending in oil-producing provinces. However, the slowdown in the fourth quarter was sharper and more broadly based. Consumer spending and the housing market were soft, despite strong growth in employment and labour income. Both exports and business investment also fell short of expectations. After growing at a pace of 1.8 per cent in 2018, it now appears that the economy will be weaker in the first half of 2019 than the Bank projected in January.

Core inflation measures remain close to 2 per cent. CPI inflation eased to 1.4 per cent in January, largely because of lower gasoline prices. The Bank expects CPI inflation to be slightly below the 2 per cent target through most of 2019, reflecting the impact of temporary factors, including the drag from lower energy prices and a wider output gap.

Governing Council judges that the outlook continues to warrant a policy interest rate that is below its neutral range. Given the mixed picture that the data present, it will take time to gauge the persistence of below-potential growth and the implications for the inflation outlook. With increased uncertainty about the timing of future rate increases, Governing Council will be watching closely developments in household spending, oil markets, and global trade policy.

Information note:

The next scheduled date for announcing the overnight rate target is April 24, 2019. The next full update of the Bank's outlook for the economy and inflation, including risks to the projection, will be published in the MPR at the same time.