

Short but sweet from the Bank of Canada

A brief statement from the Bank of Canada revealed a neutral outlook, with surprisingly no mention of risks to NAFTA.



Source: iStock

Key takes from yesterday's monetary policy decision:

The trade-off between housing risks and lacklustre inflation is likely to become a continuous theme. Subdued core inflation and wage growth point to excess capacity in the economy; this is unlikely to change soon. Meanwhile, the macro prudential policy measures put in place are yet to cool Canada's closely watched housing markets. No policy action can be taken to solve one issue without aggravating the other, leaving the BoC locked into their current stance.

We see rates remaining unchanged throughout 2017

There is optimism in the economy. Despite weaker exports and a lack of core pressures, the BoC expects "very strong first quarter growth" and notes that recent data has been encouraging. Domestically, the labour market is improving and the adjustment to lower oil prices is seen as largely complete, whilst the global economy looks to be gaining traction. The positives are still listed with caution, but there are optimistic expectations.

Markets reacted positively to the statement: CAD hit its strongest level against the US dollar for the month so far. It's possible that the brief statement has underplayed certain risks to Canada: trade protectionism went unmentioned whilst "robust consumer spending" was praised, regardless of the record household debt underpinning this. Gov Poloz has stuck tightly to a more bearish tone for much of 2017, so even a neutral tone is enough for markets to see the upside.

The bottom line

Don't expect any movement from the Bank soon. We see rates remaining unchanged throughout 2017. There needs to be some evidence of core price pressures coming through on the back of stronger economic growth before the BoC will take a hawkish stance.

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

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