

Qualitative Research on the Monetary Policy Report, 17 June 2009

(study conducted by Ipsos Reid on behalf of the Bank of Canada)

Executive Summary

Introduction and Methodology

This report provides detailed findings from our recent qualitative research on behalf of the Bank. This research was conducted to also evaluate reactions to a redesigned *MPR* among several key stakeholder groups, and to learn more about how these stakeholders use the report. To accomplish these goals, we conducted two phases of research, including:

- In-depth interviews conducted by telephone between April 29 and June 11, 2009 among 34 key domestic and international readers of the *MPR*, the *Summary* and the *MPR (U)*. The interview subjects were identified by the Bank of Canada. The domestic interview subjects represented several audiences, including financial market analysts, commercial banks' chief economists, media, businesses, parliamentarians, academia, and senior bureaucrats. Internationally, interviews were conducted with market analysts in the major financial centers of New York and London.
- Focus groups were also conducted between May 21 and May 27, 2009 among key domestic audiences including academics, media, financial markets and institutional investors, and chartered banks' chief economists. In total, nine groups were conducted—four groups in Toronto, two groups each in Montreal and Ottawa, and one group in Vancouver. The groups were small in size, ranging from two to five members.

Overall Assessment of the *Monetary Policy Report*

The Bank enjoys a high degree of goodwill and respect among the research participants. The *MPR* and its companion document, the *Summary*, and the *MPR(U)* are commonly considered to be a positive and credible reflection on the Bank. As the primary means through which the Bank communicates its monetary policy, the *MPR* is read and referred to regularly as a key source of information on the present and future state of the Canadian economy.

The research participants often viewed the *MPR* as an essential publication that is highly relevant to the work they do. Familiarity with the *MPR* was generally very high. While each audience seemed very familiar with the *MPR* and generally considered it to be relevant and valuable, we found that the different readers use the publication in very different ways. For example, the media treat the *MPR* as a news event on the day of release and as a reference point between issues. Academics employ the report as a classroom tool and as a point of reference for their research and publications. Financial markets analysts view the report as a highly time-sensitive, market-moving source of information they need to interpret quickly in order to provide the best advice to their clients. The rest of our report expands on the different ways in which the key audiences use the *MPR*.

Though different readership groups use the document in different ways, the consensus is that both the Report itself, and the Bank of Canada's monetary policy actions reported therein, are highly credible, as transparent as is reasonable and emanate from a "model" central bank. That being said, many constructive criticisms and suggestions for improvement and additions were proffered by participants. There were also outliers to the consensus whose views may offer a basis for consideration of changes to the Report.

The *Summary* itself serves a key purpose for several key users, most notably financial market analysts and their clients and industry associations and business people (but not the media), as it allows them to get a quick idea of what the *MPR* contains so they can prepare their own reports, views, briefing notes, etc. However, it was suggested that the Bank could consider bullet-form reporting for the *Summary* rather than full text.

Though the *MPR(U)* is generally well received (there is an appreciation for the continuity and update on changes in the projection provided in the Update), many key users noted that they would prefer more information, as opposed to less, as a matter of course. The possible move to a quarterly full-length *MPR* was generally applauded, though some questioned whether it would be feasible for the Bank to do so.

Focus on the April *MPR*

Perhaps the greatest compliment to the changes made by the Bank in the recent April edition of the *MPR* is that few participants found it to be a departure from the *MPR* they know and respect. The quality of the analysis and the writing in the April issue continue to meet expectations and needs.

When prompted, many participants did observe key changes to the document, such as the organization of the content, the addition of the fan

charts for inflation and the Annex. The re-organization of content to treat the global and Canadian perspectives separately was generally well-received, although some participants preferred the former thematic ordering of content (i.e., treating global and Canadian developments in the real economy and in the financial sector separately). The fan charts on inflation were commonly considered a positive addition, as was the Annex, though there were participants who felt the Bank may have ‘over-promised’ content on quantitative and credit easing prior to the release of the April *MPR*. A number of participants –particularly the international and domestic financial analysts— said that they don’t need as much on global economic developments and the outlook, but would appreciate more on the domestic economic dynamics.

The new format and font used in the April *MPR* were popular among a number of participants, while others were indifferent. Only a few criticized the changed look and feel (one participant asked whether the font had gotten smaller).

The re-designed graphs provoked both positive and negative reactions: there were differing views on the effectiveness of the new placement of the legends and the removal of the boxes around the charts. Many also mentioned that since they printed the reports in black and white, they often had to go online to double-check certain charts. Some participants suggested that charts and tables be produced as a separate package—a supplement to the Report. Others mentioned that they would like growth rates in the projection table to be presented quarterly throughout (in some instances, year-over-year or semi-annual data are referenced).

Several participants did call for an expansion of the section on the Risks to the Outlook, though many acknowledged that too large a risk section could undermine the outlook to an unreasonable degree. Another common suggestion was the addition of more technical boxes (seen by many to be *de facto* risk indicators, as they annotate specific issues the Bank is actively following) for example, on the implications of oil price changes for the Canadian economy, potential output, etc. A mechanism to deliver to users the actual data behind the graphs (through an addendum or website link) was also requested by a number of participants, as was an extended list of forecast variables, and, in the current circumstances, more discussion of financial market developments, the inventory adjustment process, household sector developments, and inflation expectations. Some would also appreciate more information on labour trends (employment, wages and salaries) as well as some regional and/or sectoral flavour (such information is available through the Bank’s regional offices and the *Business Outlook Survey*).

Bank of Canada Communications around the *Monetary Policy Report*

The Bank of Canada is considered by most participants to be quite transparent. Overall, the Bank is seen to be making continuous strides toward improving communications and transparency, though there were certainly criticisms on this front, including arguments for and against more transparency with respect to the dissenting views and opinions that the Governing Council considers as it reaches its own consensus on monetary policy actions. There was some frustration with the Bank's inflexibility on messaging between *MPR* releases, especially when common sense would seem to dictate a redirection from the Bank in light of changing conditions. Also, the two-day lag between the interest rate announcement and the release of the *MPR* was questioned by several participants: why does the Bank not announce the rate decision and publish the report on the same day?

Conclusions and Recommendations

- The consensus among participants is that the *MPR*, its *Summary*, the *MPR(U)*, and the Bank of Canada's monetary policy actions reported therein, are highly credible, as transparent as is reasonable and emanate from a "model" central bank. Though there were suggestions for improvement, participants were not clamoring for change.
- Few participants found the newly designed April *MPR* to be a marked departure from the *MPR* they know and respect. Their reaction to the April edition parallels their positive assessment of the document overall, and this edition was seen to continue to meet their expectations and needs.
- Though different audiences utilize the report in different ways, there was no key audience whose needs were not met by the publications content and structure.
- Key to the positive reaction to these publications is the commonly held perception that the Bank of Canada has made dramatic improvements in the transparency of its communications. Nevertheless, there were certainly criticisms on this front, including arguments for and against more transparency with respect to the dissenting views and opinions that the Governing Council considers as it reaches its own consensus on monetary policy actions.
- Though the *Summary* is of limited use to some audiences (interestingly the media), it is vital for others (namely, financial analysts). The new more streamlined *Summary* accompanying the April *MPR* was very well

received; though some thought it could be further shortened to include bullet points only.

- The *MPR(U)* is considered to be as significant as the full report by many. A large number, though, would prefer to have a more fulsome report every quarter, as the additional information and analysis is useful to them. Some felt that this would be unnecessary in times of economic stability. Overall, though, the move to four full *MPRs* would be well received. (During this debate some focus group participants did note they would like advance notice of any significant change planned for the *MPR*.)
- Overall, the quality of the analysis was considered to be very good. There was some call for more detailed analysis of the U.S. economy from the Bank's perspective: a more in-depth analysis separate from the global section might be considered. Some raised concerns about overly optimistic forecasts in the recent past and speculated that perhaps the Bank felt the need to provide an optimistic outlook to boost confidence at the risk of credibility.
- Though most considered the writing to be on target, in tone and style, for an audience of professionals in business and economics, some participants, the media in particular, noted that the writing could be difficult and full of jargon. More specifically, there are passages where run-on sentences written with conditional language, or in the passive voice, seem to defy interpretation (such as the fourth paragraph of the Overview in the April report, page 1). The solution for media was better, clearer, and more candid responses from the Bank during the embargo period and the press conference when they have the opportunity to ask questions. Some did note that this type of writing is likely deliberate at times, and that absolute clarity in some cases might not even be desirable (given the market-moving potential of communications from the Bank).
- Most participants read the document either online or they print it. For those who print in black and white, the potential confusion created by the graphs that include colour was easily remedied by looking at the document online. Many want the bound edition of the *MPR*, some keep it as a reference "bible"; others felt it was a waste of resources. This could be simply resolved with a quick questionnaire to readers on the mailing list asking them if they want to continue to receive the bound copy.
- The most valuable element of the April *MPR* for many participants is the Outlook for the Canadian economy (and the forecast table specifically).

The two other most often mentioned key elements are the Canadian Credit Conditions section, with its link to the credit dashboard on the web site, and the technical boxes. As to what elements could be dropped, no major areas of content were identified.

- The new format of the April *MPR* was well received and generally preferred over older versions. Navigability was seen to be improved, and the increased white space and easier-to-read font were seen to “modernize” the document. The sidebars were especially well liked, allowing for easy scanning of the document’s highlights, and are considered a useful search tool when looking for a specific reference. The Bank should continue to utilize the new format.
- The re-organization of content to treat the global and Canadian perspectives separately was generally well-received, although some participants preferred the former thematic ordering of content (for example, bundling the global and Canadian developments in financial markets together).
- Several participants – particularly the international ones, but also some domestic financial analysts – said that while they didn’t need as much on global economic developments and the global outlook, they would appreciate more information on the domestic economy, including some regional analysis as well as analysis by sector/industry.
- Many participants noted that the Fan Charts on Inflation were a positive addition. Some London-based analysts noted that their clients were pleased with this new inclusion as it allowed them to compare and contrast the Bank’s Fan Charts on Inflation with those of the Bank of England. Some did feel that the fan charts should be continued and be more prominent, as they are in the Bank of England’s publication. Others would like to see more fan charts created around other key projection variables, such as GDP. The recommendation is that fan charts should be continued, perhaps given greater prominence and possibly extended to include other key indicators.
- The new design of the graphs in the April *MPR* received mixed reviews, though there were more positive than negative comments. The new colour scheme was almost universally liked, and many also liked the new placement of the legends at the bottom of the graph. Others preferred the old method of titling the lines on the graph itself, and some participants did not like the removal of the boxes around the charts. This particular point would seem to warrant more consideration. Also worth considering: a mechanism to allow readers to access the actual data

behind the graphs. This is especially important for the media and for those who use the *MPR* to inform their own forecasts.

- Though the Annex was positively – even enthusiastically - received by most, it was also generally felt that the Annex content failed to meet the expectations raised by the Bank prior to publication. Though there were certainly participants who felt that the Bank ‘over-promised’ content on Quantitative and Credit Easing, there were also those who felt the Bank delivered exactly what it promised, and that the Bank would include more in the next issue if warranted.
- The new Canadian Credit Conditions (credit dashboard) website was enthusiastically received by many participants. Some noted that the Bank of Canada should include (in the *MPR*) more hyperlinks to data and research. This seems a relatively easy improvement that would be received positively by key readership.
- More risk analysis was frequently requested. Many also called for the inclusion of more technical boxes (taken by several to contain *de facto* risk indications), as well as hyperlinks to the research behind the technical boxes on key economic issues. Some participants called for more information on labour trends, inflationary expectations and pressures, and more clues as to the Bank’s projections for the Canadian dollar.
- Overall, the Bank’s communication was seen to be cohesive, transparent, and continually improving. There was some frustration with the Bank’s inflexibility in changing key messages between Monetary Policy Reports. Some felt that speeches by members of the Governing Council filled in those gaps. Others were either unaware that the speeches fulfilled this purpose, or did not feel that the speeches did adequately fill in those gaps. The Bank could consider the increased promotion and use of key speeches between *MPRs* as a means of demonstrating its ongoing attention and response to conditions as they occur between issues.
- Post *MPR* release meetings between Deputy Governors and key audiences domestically and internationally were well received and should be continued.
- The two-day lag between the interest rate announcement and the release of the *MPR* was questioned. Could the Bank not make the announcement and issue the Report on the same day?