



Monetary Policy Report Summary

October 2015

This text is a commentary of the Governing Council of the Bank of Canada.

Highlights

- Total CPI inflation remains near the bottom of the Bank's target range of 1 to 3 per cent; core inflation is close to 2 per cent.
- Global economic growth in 2015 has been a little weaker than expected, but the dynamics pointing to a pickup in 2016 and 2017 remain largely intact.
- Canada's economy has rebounded, as expected. The Bank projects real GDP will grow by just over 1 per cent in 2015 before firming to about 2 per cent in 2016 and 2 1/2 per cent in 2017.
- The Bank judges that growth in potential output is more likely to be in the lower part of its range of estimates and that the Canadian economy will return to full capacity, and inflation sustainably to target, around mid-2017.
- On 21 October, the Bank maintained the target for the overnight rate at 1/2 per cent.

Inflation has evolved in line with the outlook in the July *Monetary Policy Report* (MPR). Total CPI inflation remains near the bottom of the Bank's target range, owing to declines in consumer energy prices. Core inflation is close to 2 per cent as the transitory effects of the past depreciation of the Canadian dollar are roughly offsetting disinflationary pressures from economic slack, which has increased this year. The Bank judges that the underlying trend in inflation continues to be about 1.5 to 1.7 per cent.

Global economic growth has been a little weaker than expected this year, but the dynamics pointing to a pickup in 2016 and 2017 remain largely intact. Uncertainty about China's transition to a slower growth path has contributed to further downward pressure on prices for oil and other commodities. These factors are weighing on growth in many emerging markets and some other economies. Looking ahead to 2016 and 2017, the positive effects of cheaper energy and broadly accommodative financial conditions should become increasingly evident. In the United States, the economy is expected to continue growing at a solid pace with particular strength in private domestic demand, which is important for Canadian exports.

Canada's economy has rebounded, as projected in July. In non-resource sectors, the looked-for signs of strength are more evident, supported by the stimulative effects of previous monetary policy actions and past depreciation of the Canadian dollar. Household spending continues to underpin economic activity and is expected to grow at a moderate pace over the projection period. However, lower prices for oil and other commodities since the summer have further lowered Canada's terms of trade and are dampening business

investment and exports in the resource sector. This has led to a modest downward revision to the Bank's growth forecast for 2016 and 2017.

The Bank projects real GDP will grow by just over 1 per cent in 2015 before firming to about 2 per cent in 2016 and 2 1/2 per cent in 2017. The complex economic adjustments to the decline in Canada's terms of trade will continue to play out over the projection horizon. The weaker profile for business investment suggests that, in the near term, growth in potential output is more likely to be in the lower part of the Bank's range of estimates. Given this judgment about potential output, the Canadian economy can be expected to return to full capacity, and inflation sustainably to target, around mid-2017.

The outlook for inflation is subject to several risks emanating from both the external environment and the domestic economy. The most important risks are:

1. weaker Canadian exports and investment;
2. imbalances in the Canadian household sector;
3. higher non-energy commodity prices;
4. stronger U.S. private demand; and
5. financial market stress in emerging-market economies.

The Bank judges that the risks around the inflation profile are roughly balanced. Meanwhile, as financial vulnerabilities in the household sector continue to edge higher, risks to financial stability are evolving as expected. Taking all of these developments into consideration, the Bank judges that the current stance of monetary policy remains appropriate. Therefore, the target for the overnight rate remains at 1/2 per cent.

Projection for global economic growth

	Share of real global GDP ^a (per cent)	Projected growth ^b (per cent)			
		2014	2015	2016	2017
United States	16	2.4 (2.4)	2.5 (2.3)	2.6 (2.8)	2.5 (2.6)
Euro area	12	0.9 (0.9)	1.5 (1.2)	1.5 (1.3)	1.5 (1.4)
Japan	4	-0.1 (-0.1)	0.6 (0.8)	0.8 (1.2)	0.7 (1.2)
China	17	7.3 (7.4)	6.8 (6.8)	6.3 (6.6)	6.2 (6.4)
Oil-importing EMEs^c	33	3.7 (3.8)	3.2 (3.6)	3.8 (4.1)	4.2 (4.4)
Rest of the world^d	18	2.9 (2.9)	1.3 (1.8)	2.7 (3.2)	3.2 (3.2)
World	100	3.4 (3.5)	3.0 (3.2)	3.4 (3.7)	3.6 (3.7)

a. GDP shares are based on International Monetary Fund (IMF) estimates of the purchasing-power-parity valuation of country GDPs for 2014 from the IMF's October 2015 *World Economic Outlook*.

b. Numbers in parentheses are projections used for the Bank's July 2015 *Monetary Policy Report*, but world GDP growth is reweighted to reflect updated GDP shares.

c. The oil-importing emerging-market economies (EMEs) grouping excludes China. The group was formed by removing oil-importing emerging markets from the rest-of-the-world block as it was presented at the time of the *April Report*. It includes large emerging markets from Asia, Latin America, the Middle East and Africa (such as India, Brazil and South Africa), as well as newly industrialized economies (such as South Korea).

d. "Rest of the world" is a grouping of all other economies not included in the first five regions—the United States, the euro area, Japan, China and oil-importing EMEs (excluding China). It is composed of oil-exporting emerging markets (such as Russia, Nigeria and Saudi Arabia) and other advanced economies (such as Canada, the United Kingdom and Australia).

Source: Bank of Canada

Summary of the projection for Canada^a

	2014	2015				2016				2017			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP (quarter-over-quarter percentage change at annual rates)	2.2 (2.2)	-0.8 (-0.6)	-0.5 (-0.5)	2.5 (1.5)	1.5 (2.5)	2.0 (2.6)	2.5 (2.8)	2.7 (2.9)	2.7 (2.9)	2.5 (2.8)	2.3 (2.5)	2.2 (2.2)	2.0 (1.8)
Real GDP (year-over-year percentage change)	2.5 (2.5)	2.0 (2.1)	1.0 (1.1)	0.8 (0.7)	0.7 (0.7)	1.4 (1.5)	2.1 (2.3)	2.2 (2.7)	2.5 (2.8)	2.6 (2.8)	2.5 (2.8)	2.4 (2.6)	2.2 (2.3)
Core inflation (year-over-year percentage change)	2.2 (2.2)	2.2 (2.2)	2.2 (2.2)	2.2 (2.1)	2.1 (2.0)	2.1 (2.0)	2.1 (1.9)	2.0 (1.8)	2.0 (1.9)	2.0 (1.9)	2.0 (2.0)	2.0 (2.0)	2.0 (2.0)
Total CPI (year-over-year percentage change)	2.0 (2.0)	1.0 (1.0)	1.0 (0.9)	1.2 (1.2)	1.4 (1.4)	1.6 (2.1)	1.5 (1.9)	1.4 (1.8)	1.6 (1.9)	2.0 (1.9)	2.0 (2.0)	2.0 (2.0)	2.0 (2.0)

a. Numbers in parentheses are from the projection in the previous *Report*. Assumptions for the price for crude oil are based on a recent average of spot prices.

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