

Asset Management

Bank of Canada maintains its policy rate at 4.5% amid its conditional rate hike pause

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The first pause in interest rate hikes after eight consecutive hikes since last March

At its March meeting, the Bank of Canada (BoC) maintained its policy rate at 4.5% amid its conditional pause laid out in its January decision. This is the first pause in interest rate hikes after eight consecutive hikes that started in March 2022 for a total increase of 425 basis points. The BoC continues to assess economic developments and the impact of past interest rate increases and maintains a tightening bias to increase the policy rate further if needed to return inflation to the 2% target.

Economic developments evolved broadly in line with the outlook from January's Monetary Policy Report and inflation eased but more progress is still needed

Data since the Bank's January decision has been broadly in line with the projection from January's Monetary Policy Report. The Canadian economy slowed down further in the fourth quarter of 2022. Although fourth quarter GDP growth slowed to 0%, below BoC's projection, the weakness was largely caused by a sizeable slowdown in inventory investment which tends to be volatile especially amid the post COVID full reopening in 2022. So, the overall Canadian economy slowed as needed to move towards a better supply-demand balance but did not weaken more than expected. Inflation also eased to 5.9% year-over-year in January which is below 6% for the first time since February 2022. As projected, inflation is still on track to ease towards around 3% in the middle of this year. But elevated food and shelter price increases remain problematic and the current inflation trend and short-term inflation expectations level need to come down further to return inflation down to the 2% target.

- The first pause in rate hikes after eight consecutive increases since last March.
- The BoC maintains its conditional pause as economic developments have evolved broadly in line with the outlook
- BoC needs more data to determine if the current interest rate level is sufficient to bring inflation down to 2%.

More data to come to form a more holistic assessment on the sufficiency of the current interest rate level

The BoC maintains its tightening bias in the monetary policy stance by reiterating that it is prepared to increase the policy rate further if needed to return inflation to the 2% target. Looking ahead towards the April decision, there will be more data for BoC to form a more holistic assessment on the sufficiency of the current interest rate level. Multiple employment and inflation reports, and the quarterly business and consumer surveys over the next several weeks will be the key inputs to BoC's assessment in determining if the current interest rate level is sufficient.

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