

MONETARY POLICY REPORT

NOVEMBER, 2015



Canada's Capital University



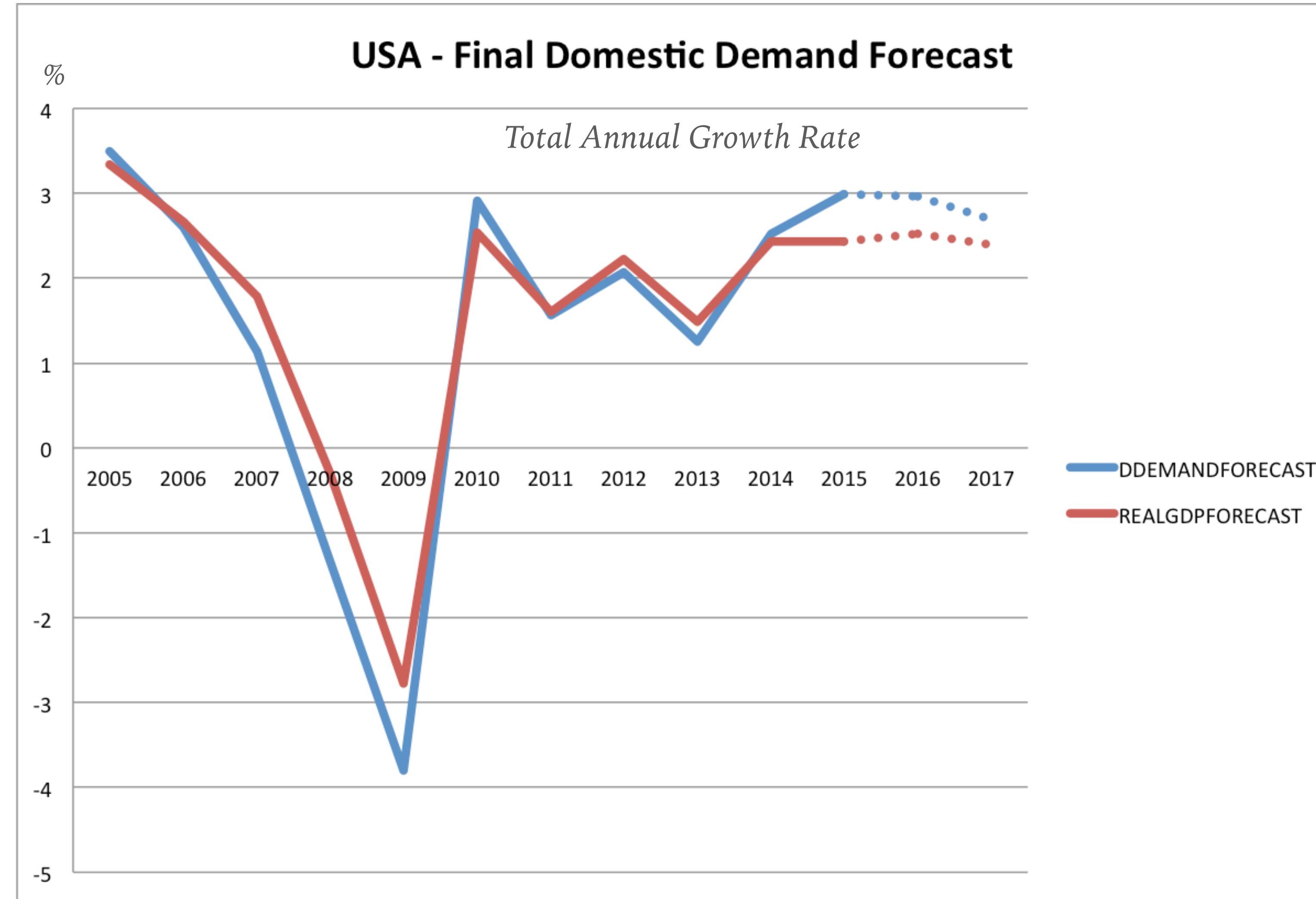
MONETARY POLICY STRATEGY

Currently inflation is sitting near the lower bound of the Bank's target range of 1 to 3 percent



Given the projections and the anticipated shocks to the economy, we plan to decrease the current overnight rate to 1/4 percent

GLOBAL ECONOMY - USA

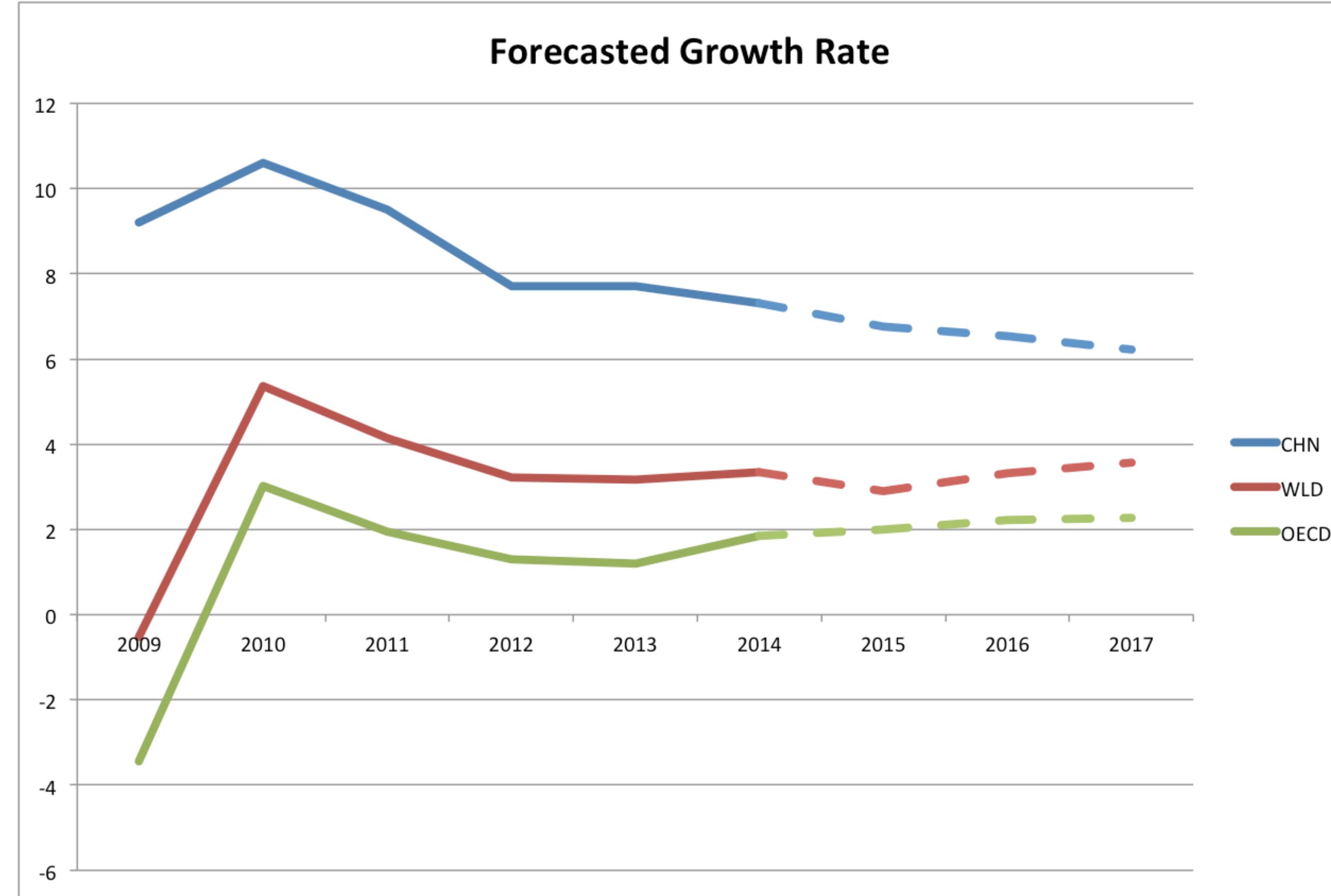


Source: OECD Data, Domestic product, Domestic demand forecast

US Economy:

- housing market: gaining traction
 - via pent up demand
- credit growth is picking up
- increase in HH spending
- labour market is doing well

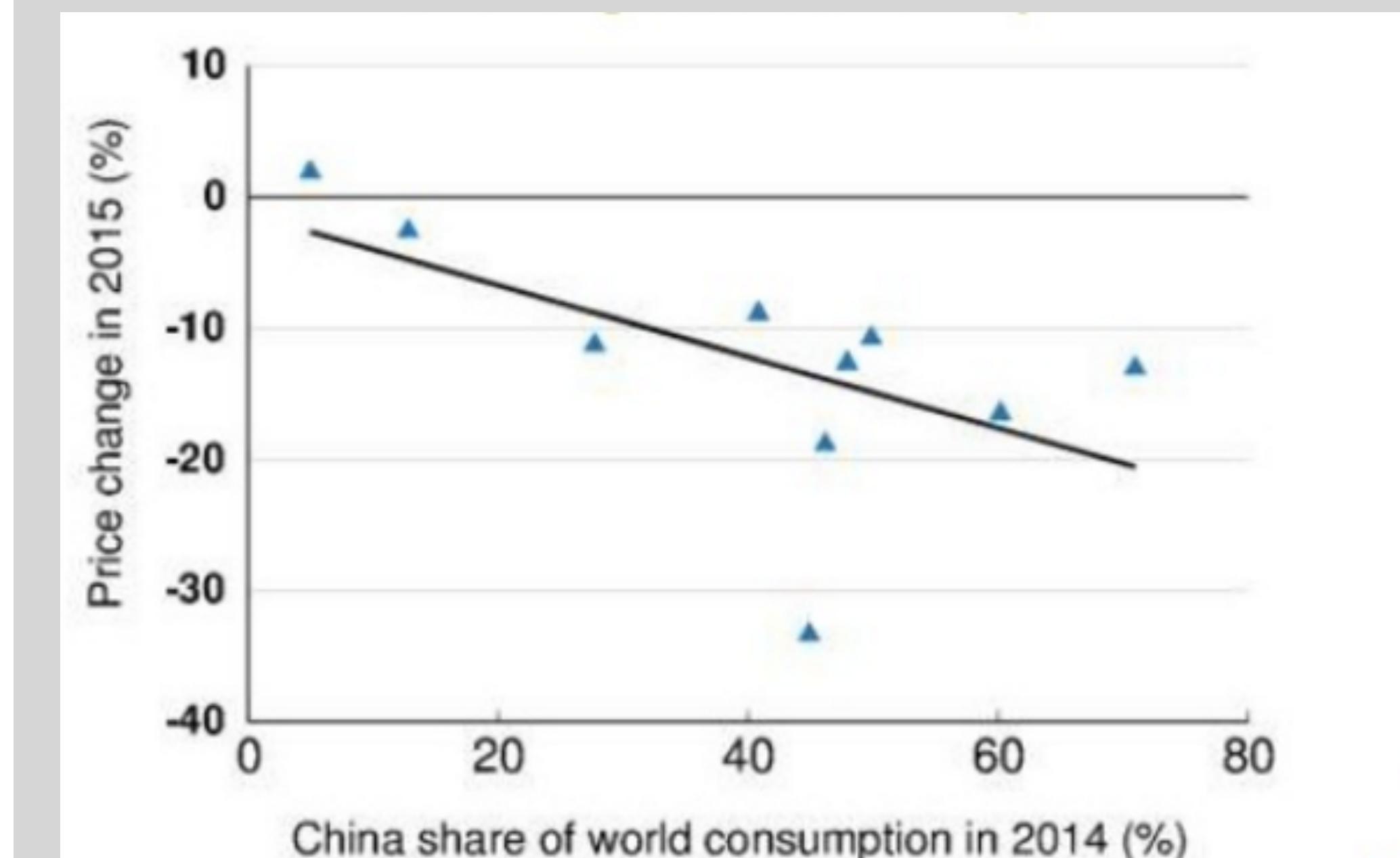
GLOBAL ECONOMY - CHINA



Source: World Bank national accounts data, and OECD National Accounts data files

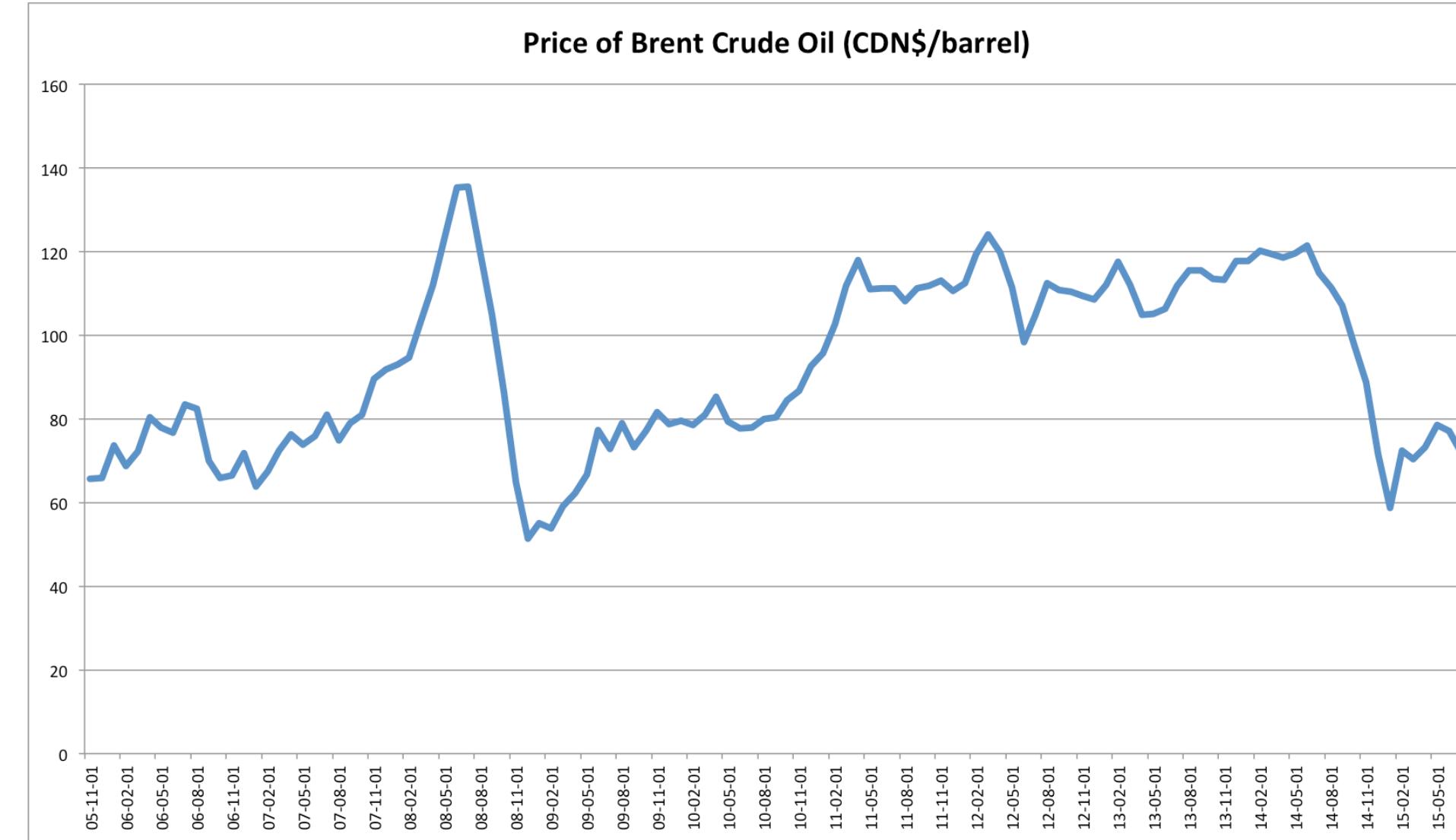
COMMODITY PRICES AND CHINA'S SHARE OF WORLD PRODUCTION

Downward pressure on commodity prices

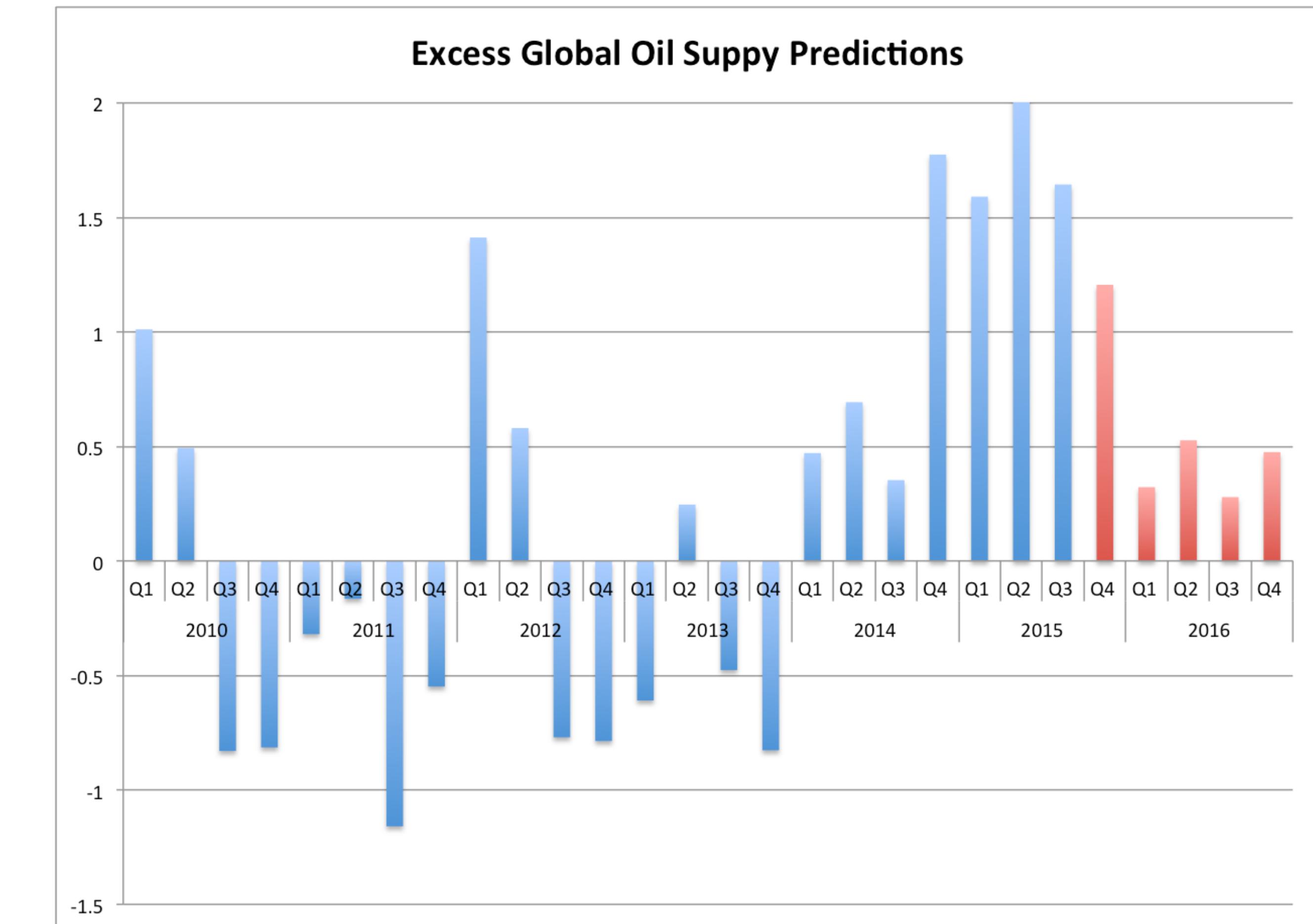
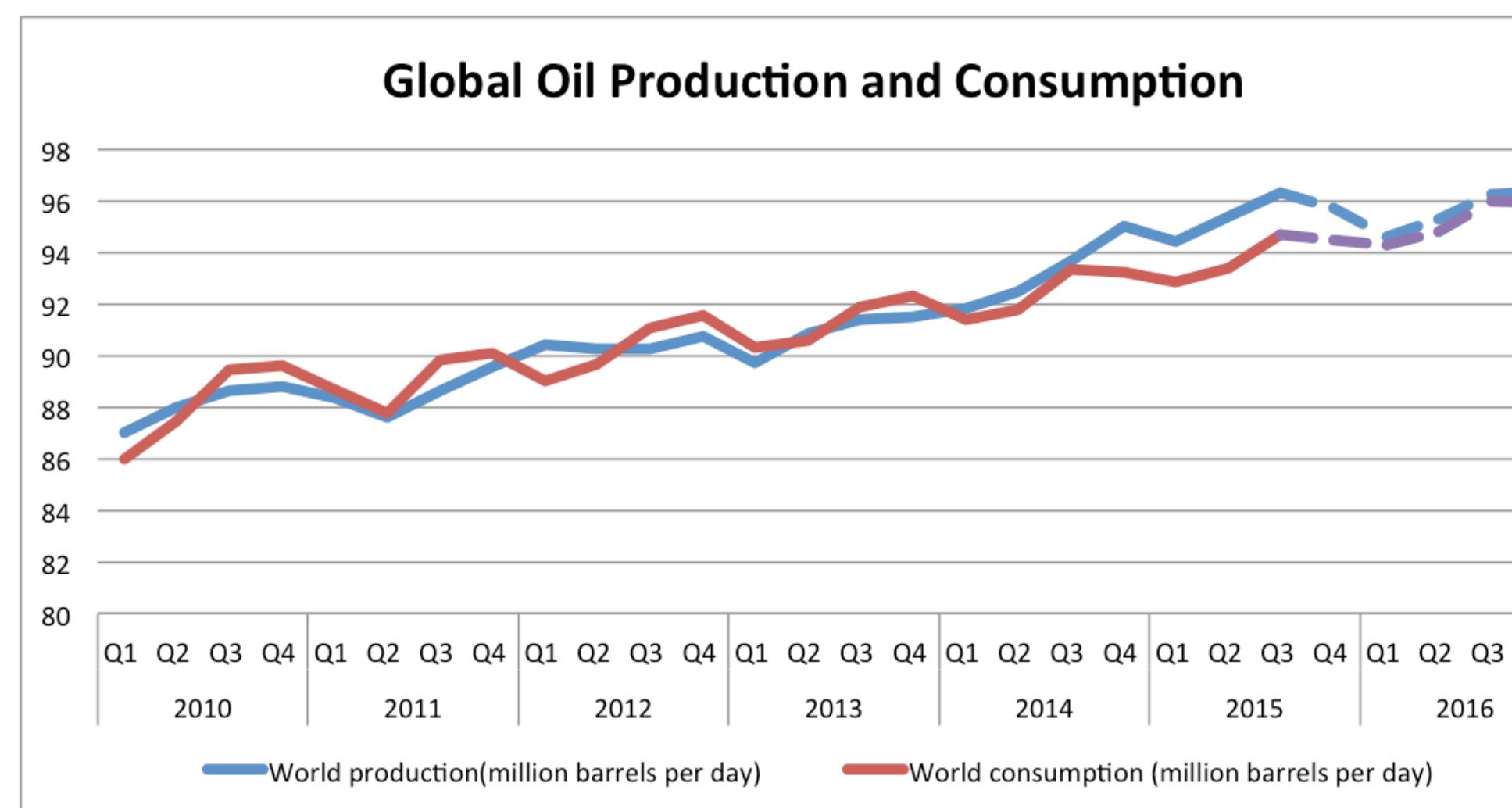


Source: November 2015 OECD economic outlook

GLOBAL ECONOMY - OIL SHOCK



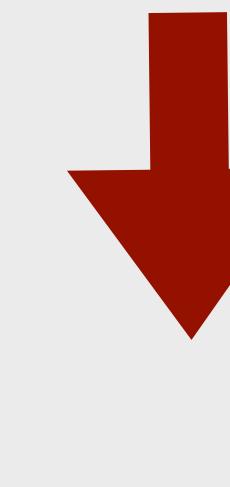
Source: World Bank Commodity Forecast Price data, October 2015



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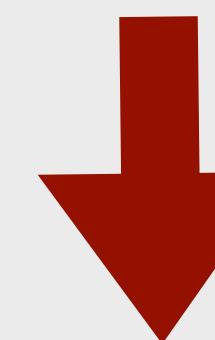
CANADIAN ECONOMY

CONSUMPTION



Retail Sales

Retail sales increase
when gas excluded



Residential Building Permits

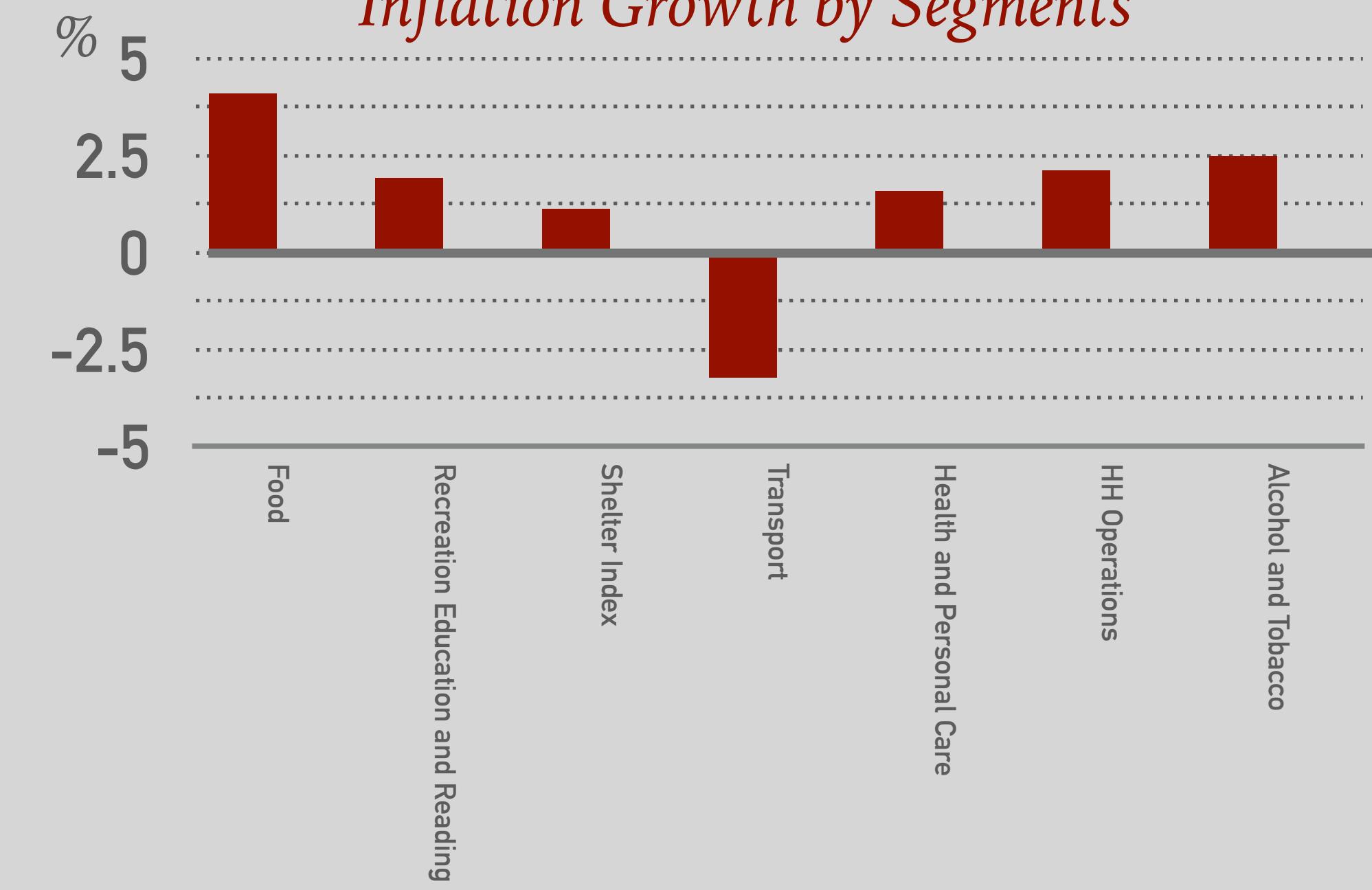


Labour Market

*Data: September, 2015

INFLATION

Inflation Growth by Segments



- gasoline index > down 17.1%
- energy index > down 10.9%

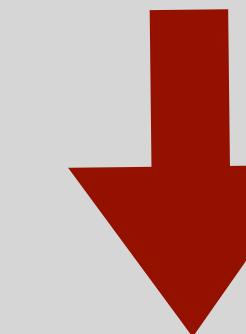
downward
pressure on
CPI

*Data: October, 2015 prices

CANADIAN ECONOMY

INTERNATIONAL TRADE

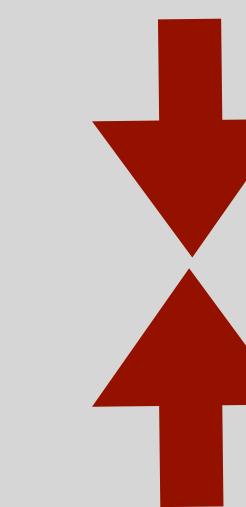
IMPORTS



EXPORTS



NARROWING
MERCHANDISE
TRADE DEFICIT



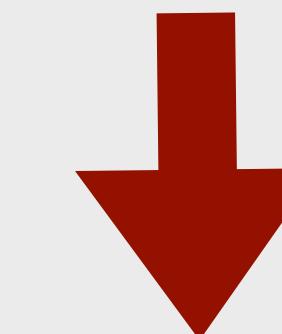
*Data: September, 2015

INVESTMENT

INVENTORIES:

- Increase in inventories → up 17.5% since January 2014

SUPPLY > DEMAND



Downward pressure on
price level

FISCAL:

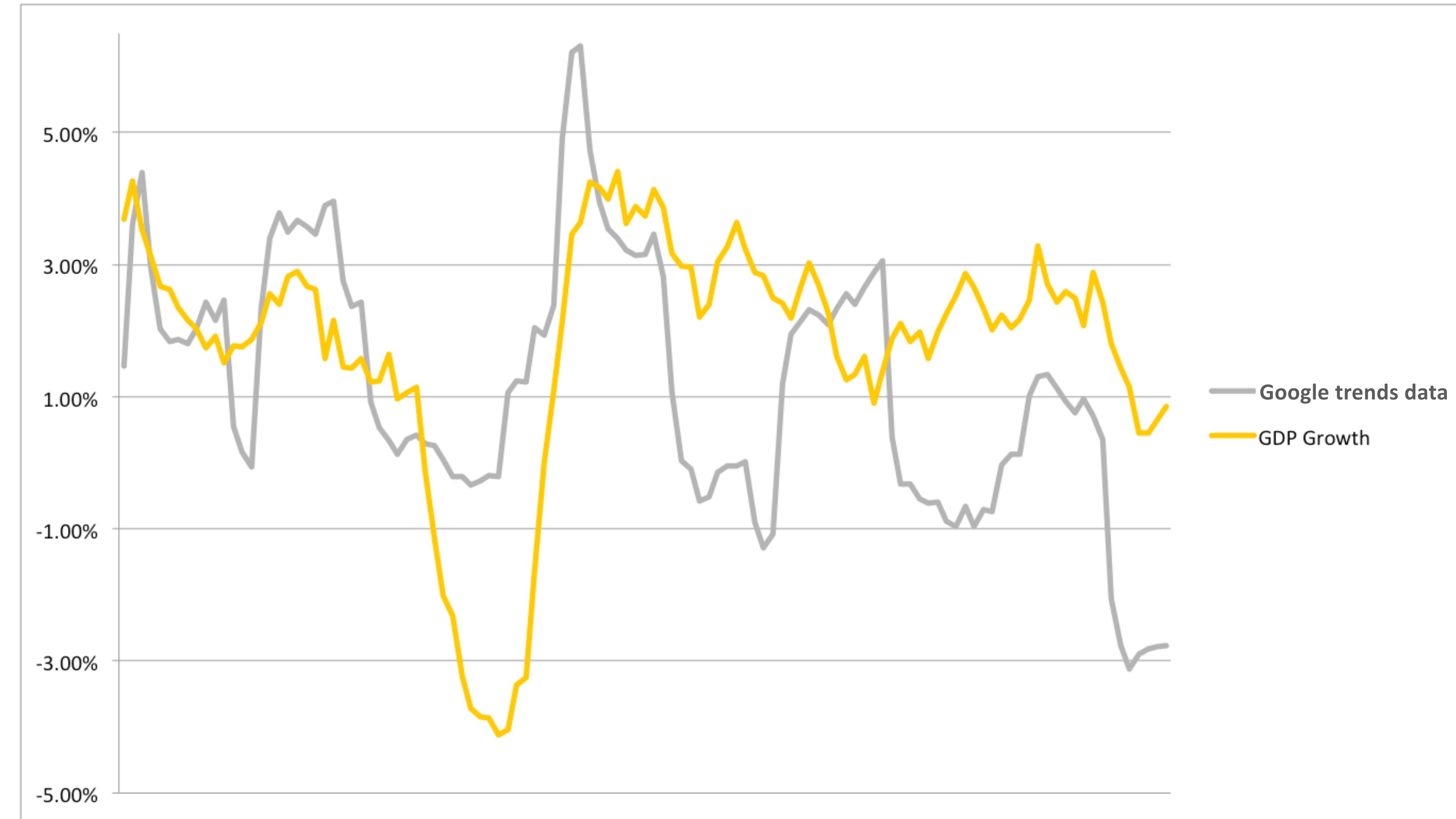
Expectations: expansionary fiscal policy

strong investment

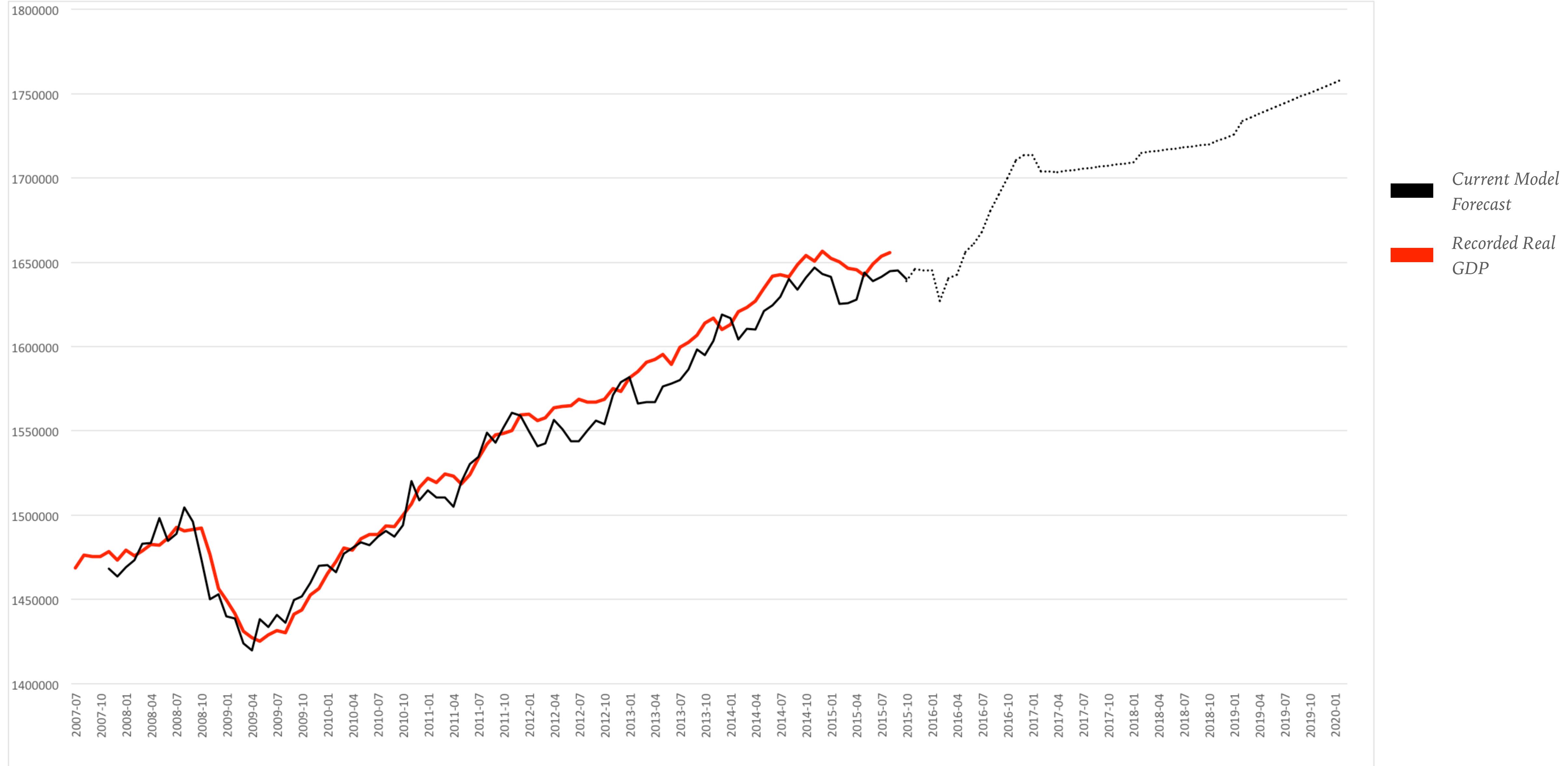


projection: 2016Q3-Q4

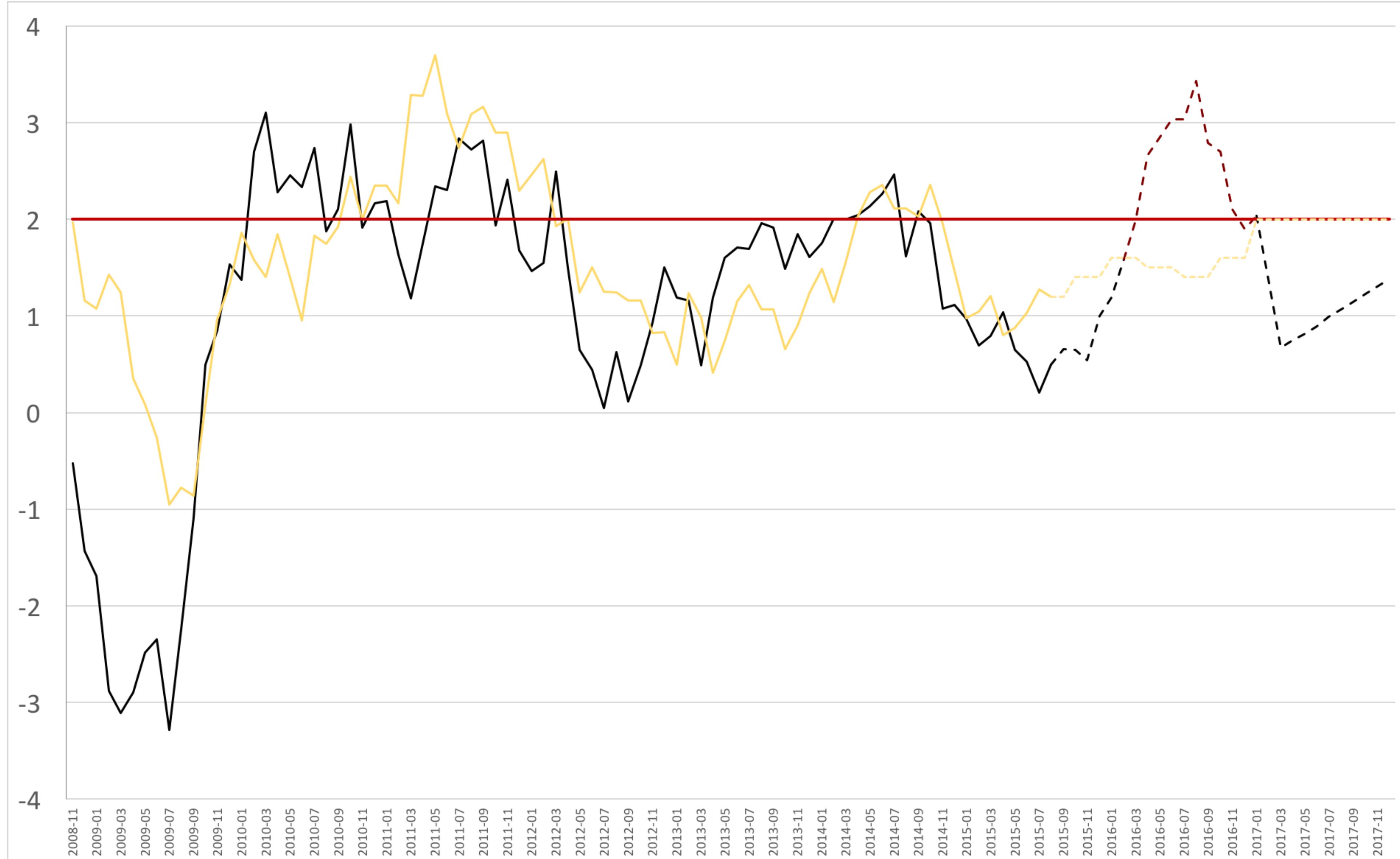
A NEW OUTLOOK:



FORECASTED REAL GDP



PROJECTIONS



RECOMMENDED STRATEGY

- **KEEP OVERNIGHT RATE CONSTANT AT 0.5 PERCENT**
- **IF ACTUAL GDP REMAINS ON TREND WITH PROJECTED GDP:**
 - **BEGIN INCREASING THE RATES IN 2016Q3**
 - **INFLATION SHOULD RETURN TO TARGET 2% MID 2017**

ASYMMETRIC RISKS

RISK ANALYSIS

1. WEAKER FOREIGN DEMAND
2. WEAKER BUSINESS INVESTMENT
3. OPTIMISTIC CONSUMER INTEREST – MEDIUM TERM
4. BUSINESS COMPETITIVENESS
5. FISCAL POLICY EFFECTS

ASYMMETRIC RISKS