

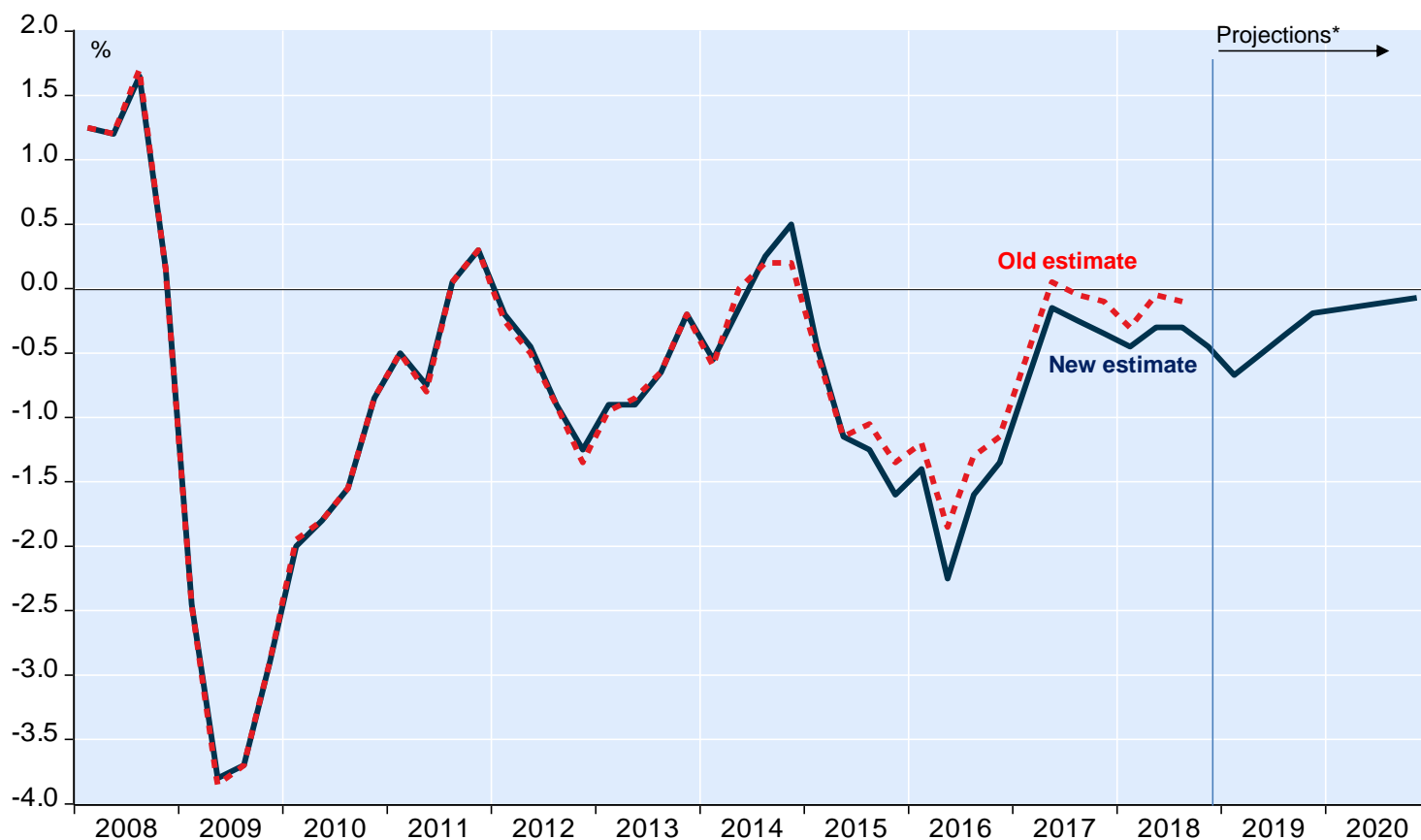
Canada Watch

By Krishen Rangasamy

It's looking like the Bank of Canada will be in pause mode for a while. The central bank said today that Canada's output gap at the end of 2018 was larger than first thought, between -1% and 0%. That's in part because of a weak final quarter last year, but mostly due to earlier downward revisions of GDP data by Statistics Canada. And odds are that the output gap won't close anytime soon. The oil price collapse of 2018Q4 caused the economic outlook to darken enough as to force the central bank to chop its 2019 Canadian GDP growth forecast from 2.1% to just 1.7%. While the BoC raised its 2020 GDP growth forecast slightly from 1.9% to 2.1%, this does not compensate for earlier downgrades. As today's *Hot Chart* shows, the output gap is set to remain open over the forecast horizon. So, unless the central bank turns more bullish on the economy or lowers its forecasts of potential GDP growth (either of which would help narrow the output gap), the case for further monetary policy tightening is weak.

Canada: Output gap likely to remain open for several quarters

Bank of Canada's estimate of the output gap (average of Integrated framework and Extended multivariate filter)



* Projections based on BoC's GDP growth forecasts and Potential GDP growth of 1.8% over forecast horizon
NBF Economics and Strategy (data via Bank of Canada)



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