

Quick Hit – Bank of Canada: What’s in a word?

By Warren Lovely / Taylor Schleich / Sandra Kagango

Of the 393 words that comprised the core of today’s interest rate statement from the Bank of Canada—a decision that, not surprisingly, kept the overnight target rate at 1.75%—there was disproportionate interest in a single one: *appropriate*. As in, just how appropriate is the current rate stance. If the detailed text of the BoC statement passed you by, the concluding paragraph—which, more than the others, is parsed for forward-looking guidance—went like this:

“In sum, Canada’s economy is operating close to potential and inflation is on target. However, escalating trade conflicts and related uncertainty are taking a toll on the global and Canadian economies. In this context, the current degree of monetary policy stimulus remains appropriate. As the Bank works to update its projection in light of incoming data, Governing Council will pay particular attention to global developments and their impact on the outlook for Canadian growth and inflation.”

– Bank of Canada rate announcement with NBF emphasis

There it was: That key watch word “appropriate”, which presumably came as a disappointment to those who thought the Bank might well use today’s announcement to set up an October rate cut. But for all you doves out there, you needn’t necessarily despair. Without being too glib, the Bank didn’t move today, so the presumption is that the current rate is “appropriate”. Alternatively, if Poloz and company didn’t think 1.75% was appropriate, why not move today? Of course, what’s seemingly appropriate *today* may not be appropriate *tomorrow*.

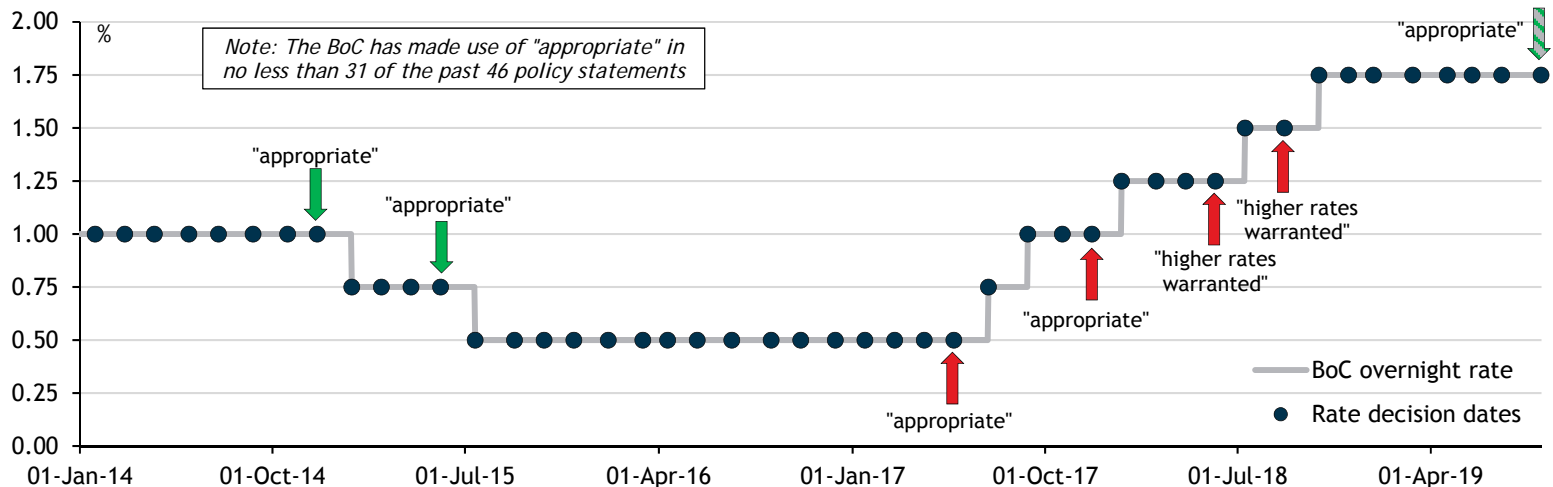
Fact is, if you look back over the historical record, the Bank has, on occasion, applied this “appropriate” label to the current policy rate only to reverse itself in its next decision. This happened back in late-2014, mid-2015, when “appropriate” policy assessments gave way to two 25 bp cuts on 21-Jan-2015 and 15-Jul-2015. For completeness, we’d likewise highlight that an “appropriate” policy rate setting gave way to hikes a couple of times more recently. [We’ve compiled a detailed summary of BoC decisions, including key language on the policy rate setting in Table 1.]

Really, where the global and Canadian outlooks are going to be in eight weeks’ time (come the BoC’s October 30th rate decision) is anybody’s guess. There will be any number of economic releases to pour over between now and then, including (but hardly limited to) a couple readings each on Canadian jobs and inflation. The IMF will serve up a fresh World Economic Outlook in October. Geopolitically, September could bring about a meeting of key trade combatants: the US and China. Then again, precious little progress could be made in tearing down tariff walls. One thing is clear, we’ll have plenty of tweets to read from Mr. Trump. Meanwhile, across the pond, the Brexit situation could go any number of ways, with an October 31st deadline hanging over parliament’s head (or maybe an election). For their part, Canadians head to the polls on October 21st, and between now and then we’ll get a sense of just how many fiscal promises the main parties are willing to make. Vitally, we’ll see what other central banks opt for in terms of marginal stimulus, with eyes rightly trained on both the ECB on September 12th and October 24th and the FOMC on September 18th and again on October 30th—that’s right, the same day as the next BoC decision.

It’s enough to make your head spin or keeping it spinning we suppose—even if, rather, *especially* if you’re a BoC governor. Like North American businesses holding back on major investment decisions in light of global trade uncertainty, the BoC too may be hesitant to make major policy changes when nobody has an idea of what the world will look like come the end of October. So, if today’s statement read (as it did to us) like a central bank that wants to keep its options open, that’s probably wise. This is hardly a time to be so literal.

Chart: Visualizing the Bank of Canada’s favourite word

Bank of Canada overnight rate and the selective use of “appropriate” in policy statements for meetings before interest rate changes



Source: NBF, Bloomberg, Bank of Canada

Table: Bank of Canada policy statements (2017-2019)

Bank of Canada interest rate decisions by rate, MPR, word count and key policy statement excerpt

	Rate decision	O/N target	Change to rate	MPR date	Word count	Rate statement excerpt (on appropriateness of current policy interest rate)
2019	4-Sep-19	1.75	-	N	393	...the current degree of monetary policy stimulus remains appropriate.
	10-Jul-19	1.75	-	Y	474	...the degree of accommodation being provided by the current policy interest rate remains appropriate.
	29-May-19	1.75	-	N	338	...the degree of accommodation being provided by the current policy interest rate remains appropriate.
	24-Apr-19	1.75	-	Y	494	...Governing Council judges that an accommodative policy interest rate continues to be warranted. We will continue to evaluate the appropriate degree of monetary policy accommodation as new data arrive.
	6-Mar-19	1.75	-	N	397	Governing Council judges that the outlook continues to warrant a policy interest rate that is below its neutral range. Given the mixed picture that the data present, it will take time to gauge the persistence of below-potential growth and the implications for the inflation outlook.
	9-Jan-19	1.75	-	Y	564	...Governing Council continues to judge that the policy interest rate will need to rise over time into a neutral range to achieve the inflation target.
2018	5-Dec-18	1.75	-	N	491	...Governing Council continues to judge that the policy interest rate will need to rise into a neutral range to achieve the inflation target.
	24-Oct-18	1.75	Hike 25	Y	500	...Governing Council agrees that the policy interest rate will need to rise to a neutral stance to achieve the inflation target.
	05-Sep-18	1.50	-	N	415	Recent data reinforce Governing Council's assessment that higher interest rates will be warranted to achieve the inflation target.
	11-Jul-18	1.50	Hike 25	Y	481	Governing Council expects that higher interest rates will be warranted to keep inflation near target and will continue to take a gradual approach, guided by incoming data.
	30-May-18	1.25	-	N	335	...developments since April further reinforce Governing Council's view that higher interest rates will be warranted to keep inflation near target.
	18-Apr-18	1.25	-	Y	553	...progress reinforces Governing Council's view that higher interest rates will be warranted over time, although some monetary policy accommodation will still be needed to keep inflation on target.
	07-Mar-18	1.25	-	N	402	While the economic outlook is expected to warrant higher interest rates over time, some continued monetary policy accommodation will likely be needed to keep the economy operating close to potential and inflation on target.
	17-Jan-18	1.25	Hike 25	Y	547	While the economic outlook is expected to warrant higher interest rates over time, some continued monetary policy accommodation will likely be needed to keep the economy operating close to potential and inflation on target.
2017	06-Dec-17	1.00	-	N	385	...Governing Council judges that the current stance of monetary policy remains appropriate. While higher interest rates will likely be required over time, Governing Council will continue to be cautious...
	25-Oct-17	1.00	-	Y	470	...Governing Council judges that the current stance of monetary policy is appropriate. While less monetary policy stimulus will likely be required over time, Governing Council will be cautious in making future adjustments to the policy rate.
	06-Sep-17	1.00	Hike 25	N	373	Governing Council judges that today's removal of some of the considerable monetary policy stimulus in place is warranted. Future monetary policy decisions are not predetermined and will be guided by incoming economic data and financial market developments as they inform the outlook for inflation.
	12-Jul-17	0.75	Hike 25	Y	506	Governing Council judges that the current outlook warrants today's withdrawal of some of the monetary policy stimulus in the economy.
	24-May-17	0.50	-	N	302	...Governing Council judges that the current degree of monetary stimulus is appropriate at present...
	12-Apr-17	0.50	-	Y	538	...Governing Council judges that the current stance of monetary policy is still appropriate...
	01-Mar-17	0.50	-	N	255	...Governing Council judges that the current stance of monetary policy is still appropriate...
	18-Jan-17	0.50	-	Y	417	...the Bank's Governing Council judges that the current stance of monetary policy is still appropriate...

Source: NBF, Bank of Canada

Table: Bank of Canada policy statements (2014–2016)

Bank of Canada interest rate decisions by rate, MPR, word count and key policy statement excerpt

	Rate decision	O/N target	Change to rate	MPR date	Word count	Rate statement excerpt (on appropriateness of current policy interest rate)
2016	07-Dec-16	0.50	-	N	313	...the Bank's Governing Council judges that the current stance of monetary policy remains appropriate.
	19-Oct-16	0.50	-	Y	528	...the Bank's Governing Council judges that the overall balance of risks is still in the zone for which the current stance of monetary policy is appropriate...
	07-Sep-16	0.50	-	N	421	The Bank's Governing Council judges that the overall balance of risks remains within the zone for which the current stance of monetary policy is appropriate...
	13-Jul-16	0.50	-	Y	623	The Bank's Governing Council judges that the overall balance of risks remains within the zone for which the current stance of monetary policy is appropriate...
	25-May-16	0.50	-	N	354	...the Bank's Governing Council judges that the current stance of monetary policy is still appropriate...
	13-Apr-16	0.50	-	Y	609	The Bank's Governing Council judges that the overall balance of risks remains within the zone for which the current stance of monetary policy is appropriate...
	09-Mar-16	0.50	-	N	404	The Bank's Governing Council judges that the overall balance of risks remains within the zone for which the current stance of monetary policy is appropriate...
	20-Jan-16	0.50	-	Y	453	The Bank's Governing Council judges that the current stance of monetary policy is appropriate...
2015	02-Dec-15	0.50	-	N	394	...the Bank judges that the risks to the outlook for inflation remain within the zone for which the current stance of monetary policy is appropriate.
	21-Oct-15	0.50	-	Y	506	...the Bank judges that the current stance of monetary policy remains appropriate.
	09-Sep-15	0.50	-	N	335	...the Bank judges that the risks to the outlook for inflation remain within the zone for which the current stance of monetary policy is appropriate.
	15-Jul-15	0.50	Cut 25 ★	Y	522	Additional monetary stimulus is required at this time to help return the economy to full capacity and inflation sustainably to target.
	27-May-15	0.75	-	N	343	...the Bank judges that the current degree of monetary policy stimulus remains appropriate...
	15-Apr-15	0.75	-	Y	511	The Bank judges that the current degree of monetary policy stimulus remains appropriate...
	04-Mar-15	0.75	-	N	350	...we judge that the current degree of monetary policy stimulus is still appropriate...
	21-Jan-15	0.75	Cut 25 ★	Y	519	The Bank's policy action is intended to provide insurance against these risks, support the sectoral adjustment needed to strengthen investment and growth, and bring the Canadian economy back to full capacity and inflation to target within the projection horizon.
2014	03-Dec-14	1.00	-	N	331	...the balance of risks remains within the zone for which the current stance of monetary policy is appropriate...
	22-Oct-14	1.00	-	Y	446	Overall, the balance of risks falls within the zone for which the current stance of monetary policy is appropriate...
	03-Sep-14	1.00	-	N	353	The balance of these risks is still within the zone for which the current stance of monetary policy is appropriate...
	16-Jul-14	1.00	-	Y	433	...the monetary policy stance remains appropriate...
	04-Jun-14	1.00	-	N	382	The Bank judges that the balance of risks remains within the zone for which the current stance of monetary policy is appropriate...
	16-Apr-14	1.00	-	Y	568	The Bank judges that the balance of these risks remains within the zone for which the current stance of monetary policy is appropriate...
	05-Mar-14	1.00	-	N	373	The Bank judges that the balance of risks remains within the zone for which the current stance of monetary policy is appropriate...
	22-Jan-14	1.00	-	Y	427	...the Bank judges that the balance of risks remains within the zone articulated in October...

Source: NBF, Bank of Canada

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