



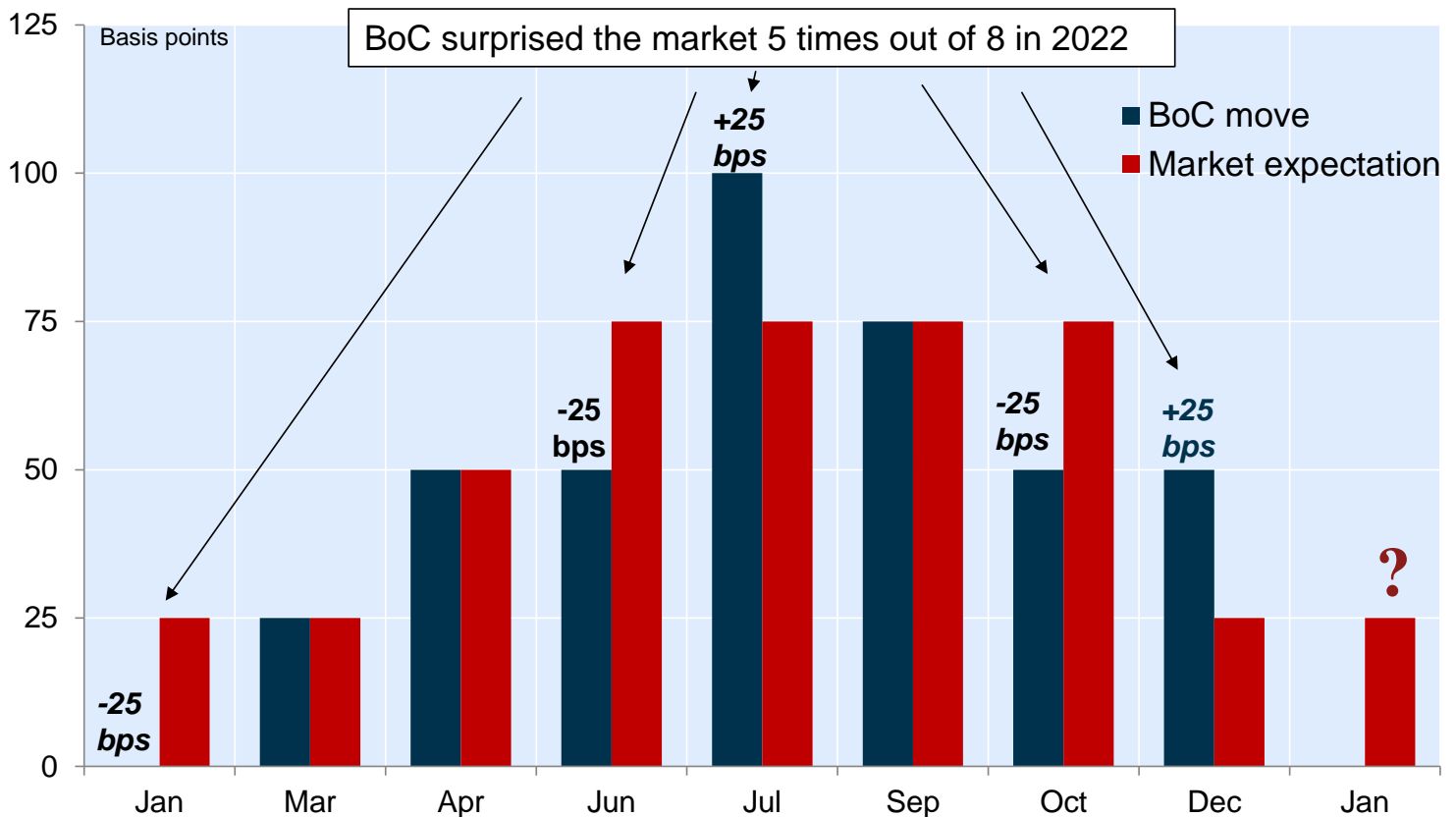
Canada Watch

By Matthieu Arseneau and Taylor Schleich

We published a [Bank of Canada preview](#) last week arguing for a pause in our country's monetary tightening campaign. The most aggressive policy rate increase in a generation is taking its toll on the economy. Canadian housing is in recession with cumulative price declines now exceeding what was observed in 2008-09. But even more broadly, the latest BOS and CSCE also showed businesses and consumers are generally becoming more cautious/pessimistic. Case in point, we just learned that core retail sales posted its largest monthly drop in 11 months in November and that December inflation is receding faster than expected. With monetary policy unequivocally restrictive, sentiment shouldn't improve anytime soon, even without further rate increases. Those who argue that another 25 basis points increase will not kill the economy forget that at this stage of the business cycle, the impact of further hikes is not linear. In other words, the marginal increase could be the straw that breaks the camel's back. What about the argument that the BoC wouldn't want to disappoint the markets by not delivering on expectations? Well, as today's Hot Chart shows our central bank has surprised the markets no less than five times in eight meetings in 2022 (three times down and twice up). So much for that argument!

Canada: The central bank is not there to please the markets

Policy rate change announcements since January 2022 vs. market's most likely expectation* on decision day



* We rounded market expectations to the closest full 25 bps.
NBF Economics and Strategy (data via Bloomberg)

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