The 5 Things You Need to Know From Last Week's Bank of Canada Meeting

Description

Last week, the Bank of Canada held the fifth of its eight scheduled meetings for this year to discuss monetary policy and the outlook for the country's economy.

Here are the five things you need to know that came out of that meeting.

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Canada's central bank is raising its key policy rate again

The biggest thing to take away from last week's meeting is that the Bank of Canada (BoC) is once again raising the overnight lending rate for the fourth time in the last 12 months.

The overnight lending rate is the key policy tool that the central bank has at its disposal, and higher rates signal that the bank is taking on a more restrictive stance.

When interest rates increase, it raises the cost to borrow money for businesses and individuals; while it tends to lead to higher profits for lenders like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **Royal Bank of Canada** (TSX:RY)(NYSE:RY), among others, it also tends to dampen growth. While that isn't a complete nightmare, it is not exactly the best thing for the markets.

The Canadian economy remains on solid footing … sort of

The BoC also released its updated outlook for the Canadian economy.

Basically, the bank is predicting more of the same sluggish growth that we have seen for much of the last decade.

Canadian GDP is forecast to grow by 2% in 2018, followed by expected growth of 2.2% in 2019 and falling to 1.9% in 2020.

That's not exactly the type of news that is going to blow your socks off, but then again, it could be a lot worse, right?

The U.S. economy is doing just fine, but that's not quite the case for other foreign markets

In its release, the BoC stated that U.S. economic growth had been "stronger than expected," and accordingly, it raised its outlook for U.S. GDP growth for 2018 to 3.1% from 2.7%.

However, at the same time, the BoC also lowered its forecast for several key international markets, including China, Japan, and the Euro area, owing to the "considerable risks" facing those economies.

Canada's employment report is a bit of a "mixed bag"

The bank reported that wage growth remains above 2%; however, it also pointed out that growth is a bit less than what one might expect from an economy that is supposedly at or at least close to full employment.

Part of the reason for that may be that more people have been entering the workforce lately at the same time that firms have been slower to hire new employees.

The elephant in the room

Besides hiking the policy rate, the other biggest takeaway from last week's meeting probably had to be the statement that "escalating trade tensions pose considerable risks to the outlook."

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Escalating trade tensions were the main reason that the BoC lowered its outlook for key foreign markets, as it's growing increasingly apparent that the U.S. is determined to get more out of its existing trade relationships.

The good, the bad, and the ugly…

The good news out of all this is that the Canadian economy remains on solid ground, including expectations for unimpressive but nevertheless steady growth for the next few years, along with a fairly robust labour market.

The bad news is that the increase in borrowing costs and a restrictive monetary policy isn't going to do much to help stimulate the economy and, if ongoing trade negotiations were to suddenly take a turn for the worse, that could in fact end up embellishing the problem.

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