A Not-So-New Face at the Bank of Canada

The new face at the top of the Bank of Canada pyramid will be one that’s well recognized in the corridors of the central bank, and unlikely to represent a major change in the institution’s policy stance.

Tiff Macklem spent much of his career in senior government roles in the Department of Finance and the Bank of Canada, most recently as the central bank’s Senior Deputy Governor. In recent years he has been Dean of one of Canada’s leading business schools. Dr. Macklem has widely written on monetary policy, and one of his final reports before leaving the central bank, on flexible inflation targeting, is in our view the best descriptor of its policy approach.

Because the Bank speaks with a unified voice on policy decisions, with no public dissents and speeches from its leadership aligned on such matters, market participants aren’t able to identify specific dovish or hawkish leanings in the way they can for members of the Fed’s policy team.

In naming the former Senior Deputy as Governor, the government has underscored the institutional stability that has been the history of the Bank in recent decades. New Governors have been chosen from the ranks of those who had at least some years in a senior policy position in Ottawa. Its flexible inflation targeting regime, and the 2% CPI target, has now been in place for several governors.

Moreover, the method by which that framework is applied also has a substantial institutional component. The core of that approach starts with an economic outlook with staff modelling efforts being a key input. The Bank then undertakes an assessment of future inflation pressures that takes current indicators as a starting point, but puts most of the weight on the degree of slack in the economy as a guide to whether there will be sustained upward or downward pressure on inflation relative to the 2% target. Less emphasis is placed on temporary divergences that arise from commodity movements, one-off shifts in the exchange rate, or other non-cyclical developments.

We see little chance that a new Governor will alter those basis tenets. Tactics can and will change given the economic circumstances, as witnessed in the past few months with large scale asset purchases being adopted. Over time, the bank has put greater or less emphasis on commodity prices or the exchange rate as a headwind or tailwind. And the market will have to get used to what’s likely to be a somewhat less colourful communication style than the outgoing Governor’s. But for those projecting where inflation will head in the coming years, given the Bank’s track record, the 2% target is as good a forecast as any for the post-Covid period.