

Prime Rate Forecasting Process

2019 & 2020 Rate Case

Overview

A consensus forecast is used to estimate the prime rate charged by commercial banks. As the prime rate is subject to competitive pressures faced by individual lenders and is set on an individual financial institution basis, the effective interest rate is not widely forecast.

However, the prime rate shares a consistent relationship with the Bank of Canada's overnight interest rate target (or the "overnight rate") which is a widely forecasted data series. To provide a reasonable estimate of the prime rate, the consensus view of the overnight rate is used as a proxy.

Process

Overnight Rate Forecast

A consensus approach is used to establish the overnight rate forecast. Six major Canadian financial institutions¹ views of the overnight rate target are provided multiple times throughout the year. In most cases, projections are published over a two-year horizon which allows for a 24-month consensus forecast. The current proceeding requires an additional 12-month consensus outlook, which is not available. To preserve the methodology in place, we recommend that the 2019 prime rate forecast be used for 2020 in the interim, and revisited as economic conditions warrant.

Table 1 displays the six financial institutions' forecasts of the overnight rate for the remainder of 2018 and 2019, as of May 2, 2017:

TABLE 1: Overnight Rate Forecasts by Six Canadian Financial Institutions

	BMO Capital Markets	CIBC Economics	Desjardins Economic Studies	RBC Economics Research	Scotiabank	TD Economics	Average
	FORECAST DATE:						
	27-Apr-18	30-Apr-18	28-Mar-18	March 2018	12-Apr-18	14-Mar-18	2018 Q2
2018 Q1	1.25	1.25	1.25	1.25	1.25	1.25	1.25
2018 Q2	1.25	1.25	1.25	1.50	1.25	1.25	1.29
2018 Q3	1.50	1.50	1.50	1.75	1.50	1.50	1.54
2018 Q4	1.75	1.50	1.75	2.00	1.75	1.50	1.71
2019 Q1	2.00	1.75	1.75	2.25	2.00	1.75	1.92
2019 Q2	2.25	1.75	2.00	2.25	2.25	1.75	2.04
2019 Q3	2.50	2.00	2.25	2.25	2.25	2.00	2.21
2019 Q4	2.50	2.00	2.25	2.25	2.50	2.00	2.25

¹ The following six Canadian Financial Institutions are considered: BMO – Capital Markets, CIBC – Economics, Desjardins – Economic Studies, RBC – Economics Research, Scotiabank Group, TD – Economics.

To determine an average that is representative of the overnight lending rate, a few considerations are made:

1. The Bank of Canada increases/decreases the overnight rate in 25 basis point increments.²
2. The Bank of Canada decides to increase/decrease the overnight rate each year on eight (8) predetermined dates.³

Recognizing the Bank of Canada’s mechanism for setting the overnight rate is important since the aim of this forecast is to closely mimic the process used by the Bank of Canada to arrive at a reasonable estimate of the overnight rate.

To satisfy this, the average quarter-end overnight rate forecast as determined in Table 1 is then rounded to the nearest 25-basis points. Table 2 displays the average quarter-end forecast of the consensus group rounded to the nearest 25 basis points:

**TABLE 2: Average Quarter-End Overnight Rate
Forecast Rounded to Nearest 25 bps**

	Average	Rounded to Nearest 25 bps
	FORECAST DATE:	
	2018 Q2	2018 Q2
2018 Q1	1.25	1.25
2018 Q2	1.29	1.25
2018 Q3	1.54	1.50
2018 Q4	1.71	1.75
2019 Q1	1.92	2.00
2019 Q2	2.04	2.00
2019 Q3	2.21	2.25
2019 Q4	2.25	2.25

The next step in the process is to generate the expected overnight rate on the rate announcement dates based on the adjusted consensus quarterly forecasts.

Drawing on the average quarter-end view of the forecasters rounded to the nearest 25 basis points, and considering the eight dates on which rate announcements will take place, Figure 1 and Figure 2 display

² Since August 9, 1996 the Bank of Canada has adjusted the overnight rate by increments of base 25.

³ Example of the Bank of Canada’s Interest Rate Announcement Schedule for 2016:

<http://www.bankofcanada.ca/core-functions/monetary-policy/key-interest-rate/>. Note that February, June, August and November have no scheduled rate announcement.

the daily expected overnight rate for 2018⁴ and 2019, respectively, where the same announcement dates are assumed for 2019:

⁴ January 2018, February 2018, March 2018 and April 2018 are actual data.

FIGURE 1: 2018 Daily Overnight Rate Forecast

First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
Day	Overnight Rate Target (%)	Day	Overnight Rate Target (%)	Day	Overnight Rate Target (%)	Day	Overnight Rate Target (%)
1/1/2018	1.00	4/1/2018	1.25	7/1/2018	1.25	10/1/2018	1.50
1/2/2018	1.00	4/2/2018	1.25	7/2/2018	1.25	10/2/2018	1.50
1/3/2018	1.00	4/3/2018	1.25	7/3/2018	1.25	10/3/2018	1.50
1/4/2018	1.00	4/4/2018	1.25	7/4/2018	1.25	10/4/2018	1.50
1/5/2018	1.00	4/5/2018	1.25	7/5/2018	1.25	10/5/2018	1.50
1/6/2018	1.00	4/6/2018	1.25	7/6/2018	1.25	10/6/2018	1.50
1/7/2018	1.00	4/7/2018	1.25	7/7/2018	1.25	10/7/2018	1.50
1/8/2018	1.00	4/8/2018	1.25	7/8/2018	1.25	10/8/2018	1.50
1/9/2018	1.00	4/9/2018	1.25	7/9/2018	1.25	10/9/2018	1.50
1/10/2018	1.00	4/10/2018	1.25	7/10/2018	1.25	10/10/2018	1.50
1/11/2018	1.00	4/11/2018	1.25	7/11/2018	1.50	10/11/2018	1.50
1/12/2018	1.00	4/12/2018	1.25	7/12/2018	1.50	10/12/2018	1.50
1/13/2018	1.00	4/13/2018	1.25	7/13/2018	1.50	10/13/2018	1.50
1/14/2018	1.00	4/14/2018	1.25	7/14/2018	1.50	10/14/2018	1.50
1/15/2018	1.00	4/15/2018	1.25	7/15/2018	1.50	10/15/2018	1.50
1/16/2018	1.00	4/16/2018	1.25	7/16/2018	1.50	10/16/2018	1.50
1/17/2018	1.25	4/17/2018	1.25	7/17/2018	1.50	10/17/2018	1.50
1/18/2018	1.25	4/18/2018	1.25	7/18/2018	1.50	10/18/2018	1.50
1/19/2018	1.25	4/19/2018	1.25	7/19/2018	1.50	10/19/2018	1.50
1/20/2018	1.25	4/20/2018	1.25	7/20/2018	1.50	10/20/2018	1.50
1/21/2018	1.25	4/21/2018	1.25	7/21/2018	1.50	10/21/2018	1.50
1/22/2018	1.25	4/22/2018	1.25	7/22/2018	1.50	10/22/2018	1.50
1/23/2018	1.25	4/23/2018	1.25	7/23/2018	1.50	10/23/2018	1.50
1/24/2018	1.25	4/24/2018	1.25	7/24/2018	1.50	10/24/2018	1.75
1/25/2018	1.25	4/25/2018	1.25	7/25/2018	1.50	10/25/2018	1.75
1/26/2018	1.25	4/26/2018	1.25	7/26/2018	1.50	10/26/2018	1.75
1/27/2018	1.25	4/27/2018	1.25	7/27/2018	1.50	10/27/2018	1.75
1/28/2018	1.25	4/28/2018	1.25	7/28/2018	1.50	10/28/2018	1.75
1/29/2018	1.25	4/29/2018	1.25	7/29/2018	1.50	10/29/2018	1.75
1/30/2018	1.25	4/30/2018	1.25	7/30/2018	1.50	10/30/2018	1.75
1/31/2018	1.25	5/1/2018	1.25	7/31/2018	1.50	10/31/2018	1.75
2/1/2018	1.25	5/2/2018	1.25	8/1/2018	1.50	11/1/2018	1.75
2/2/2018	1.25	5/3/2018	1.25	8/2/2018	1.50	11/2/2018	1.75
2/3/2018	1.25	5/4/2018	1.25	8/3/2018	1.50	11/3/2018	1.75
2/4/2018	1.25	5/5/2018	1.25	8/4/2018	1.50	11/4/2018	1.75
2/5/2018	1.25	5/6/2018	1.25	8/5/2018	1.50	11/5/2018	1.75
2/6/2018	1.25	5/7/2018	1.25	8/6/2018	1.50	11/6/2018	1.75
2/7/2018	1.25	5/8/2018	1.25	8/7/2018	1.50	11/7/2018	1.75
2/8/2018	1.25	5/9/2018	1.25	8/8/2018	1.50	11/8/2018	1.75
2/9/2018	1.25	5/10/2018	1.25	8/9/2018	1.50	11/9/2018	1.75
2/10/2018	1.25	5/11/2018	1.25	8/10/2018	1.50	11/10/2018	1.75
2/11/2018	1.25	5/12/2018	1.25	8/11/2018	1.50	11/11/2018	1.75
2/12/2018	1.25	5/13/2018	1.25	8/12/2018	1.50	11/12/2018	1.75
2/13/2018	1.25	5/14/2018	1.25	8/13/2018	1.50	11/13/2018	1.75
2/14/2018	1.25	5/15/2018	1.25	8/14/2018	1.50	11/14/2018	1.75
2/15/2018	1.25	5/16/2018	1.25	8/15/2018	1.50	11/15/2018	1.75
2/16/2018	1.25	5/17/2018	1.25	8/16/2018	1.50	11/16/2018	1.75
2/17/2018	1.25	5/18/2018	1.25	8/17/2018	1.50	11/17/2018	1.75
2/18/2018	1.25	5/19/2018	1.25	8/18/2018	1.50	11/18/2018	1.75
2/19/2018	1.25	5/20/2018	1.25	8/19/2018	1.50	11/19/2018	1.75
2/20/2018	1.25	5/21/2018	1.25	8/20/2018	1.50	11/20/2018	1.75
2/21/2018	1.25	5/22/2018	1.25	8/21/2018	1.50	11/21/2018	1.75
2/22/2018	1.25	5/23/2018	1.25	8/22/2018	1.50	11/22/2018	1.75
2/23/2018	1.25	5/24/2018	1.25	8/23/2018	1.50	11/23/2018	1.75
2/24/2018	1.25	5/25/2018	1.25	8/24/2018	1.50	11/24/2018	1.75
2/25/2018	1.25	5/26/2018	1.25	8/25/2018	1.50	11/25/2018	1.75
2/26/2018	1.25	5/27/2018	1.25	8/26/2018	1.50	11/26/2018	1.75
2/27/2018	1.25	5/28/2018	1.25	8/27/2018	1.50	11/27/2018	1.75
2/28/2018	1.25	5/29/2018	1.25	8/28/2018	1.50	11/28/2018	1.75
3/1/2018	1.25	5/30/2018	1.25	8/29/2018	1.50	11/29/2018	1.75
3/2/2018	1.25	5/31/2018	1.25	8/30/2018	1.50	11/30/2018	1.75
3/3/2018	1.25	6/1/2018	1.25	8/31/2018	1.50	12/1/2018	1.75
3/4/2018	1.25	6/2/2018	1.25	9/1/2018	1.50	12/2/2018	1.75
3/5/2018	1.25	6/3/2018	1.25	9/2/2018	1.50	12/3/2018	1.75
3/6/2018	1.25	6/4/2018	1.25	9/3/2018	1.50	12/4/2018	1.75
3/7/2018	1.25	6/5/2018	1.25	9/4/2018	1.50	12/5/2018	1.75
3/8/2018	1.25	6/6/2018	1.25	9/5/2018	1.50	12/6/2018	1.75
3/9/2018	1.25	6/7/2018	1.25	9/6/2018	1.50	12/7/2018	1.75
3/10/2018	1.25	6/8/2018	1.25	9/7/2018	1.50	12/8/2018	1.75
3/11/2018	1.25	6/9/2018	1.25	9/8/2018	1.50	12/9/2018	1.75
3/12/2018	1.25	6/10/2018	1.25	9/9/2018	1.50	12/10/2018	1.75
3/13/2018	1.25	6/11/2018	1.25	9/10/2018	1.50	12/11/2018	1.75
3/14/2018	1.25	6/12/2018	1.25	9/11/2018	1.50	12/12/2018	1.75
3/15/2018	1.25	6/13/2018	1.25	9/12/2018	1.50	12/13/2018	1.75
3/16/2018	1.25	6/14/2018	1.25	9/13/2018	1.50	12/14/2018	1.75
3/17/2018	1.25	6/15/2018	1.25	9/14/2018	1.50	12/15/2018	1.75
3/18/2018	1.25	6/16/2018	1.25	9/15/2018	1.50	12/16/2018	1.75
3/19/2018	1.25	6/17/2018	1.25	9/16/2018	1.50	12/17/2018	1.75
3/20/2018	1.25	6/18/2018	1.25	9/17/2018	1.50	12/18/2018	1.75
3/21/2018	1.25	6/19/2018	1.25	9/18/2018	1.50	12/19/2018	1.75
3/22/2018	1.25	6/20/2018	1.25	9/19/2018	1.50	12/20/2018	1.75
3/23/2018	1.25	6/21/2018	1.25	9/20/2018	1.50	12/21/2018	1.75
3/24/2018	1.25	6/22/2018	1.25	9/21/2018	1.50	12/22/2018	1.75
3/25/2018	1.25	6/23/2018	1.25	9/22/2018	1.50	12/23/2018	1.75
3/26/2018	1.25	6/24/2018	1.25	9/23/2018	1.50	12/24/2018	1.75
3/27/2018	1.25	6/25/2018	1.25	9/24/2018	1.50	12/25/2018	1.75
3/28/2018	1.25	6/26/2018	1.25	9/25/2018	1.50	12/26/2018	1.75
3/29/2018	1.25	6/27/2018	1.25	9/26/2018	1.50	12/27/2018	1.75
3/30/2018	1.25	6/28/2018	1.25	9/27/2018	1.50	12/28/2018	1.75
3/31/2018	1.25	6/29/2018	1.25	9/28/2018	1.50	12/29/2018	1.75
		6/30/2018	1.25	9/29/2018	1.50	12/30/2018	1.75
				9/30/2018	1.50	12/31/2018	1.75

Note: Yellow highlights indicate 2018 rate announcement schedule.

FIGURE 2: 2019 Daily Overnight Rate Forecast

First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
Day	Overnight Rate Target (%)	Day	Overnight Rate Target (%)	Day	Overnight Rate Target (%)	Day	Overnight Rate Target (%)
1/1/2019	2.00	4/1/2019	2.00	7/1/2019	2.00	10/1/2019	2.25
1/2/2019	2.00	4/2/2019	2.00	7/2/2019	2.00	10/2/2019	2.25
1/3/2019	2.00	4/3/2019	2.00	7/3/2019	2.00	10/3/2019	2.25
1/4/2019	2.00	4/4/2019	2.00	7/4/2019	2.00	10/4/2019	2.25
1/5/2019	2.00	4/5/2019	2.00	7/5/2019	2.00	10/5/2019	2.25
1/6/2019	2.00	4/6/2019	2.00	7/6/2019	2.00	10/6/2019	2.25
1/7/2019	2.00	4/7/2019	2.00	7/7/2019	2.00	10/7/2019	2.25
1/8/2019	2.00	4/8/2019	2.00	7/8/2019	2.00	10/8/2019	2.25
1/9/2019	2.00	4/9/2019	2.00	7/9/2019	2.00	10/9/2019	2.25
1/10/2019	2.00	4/10/2019	2.00	7/10/2019	2.00	10/10/2019	2.25
1/11/2019	2.00	4/11/2019	2.00	7/11/2019	2.25	10/11/2019	2.25
1/12/2019	2.00	4/12/2019	2.00	7/12/2019	2.25	10/12/2019	2.25
1/13/2019	2.00	4/13/2019	2.00	7/13/2019	2.25	10/13/2019	2.25
1/14/2019	2.00	4/14/2019	2.00	7/14/2019	2.25	10/14/2019	2.25
1/15/2019	2.00	4/15/2019	2.00	7/15/2019	2.25	10/15/2019	2.25
1/16/2019	2.00	4/16/2019	2.00	7/16/2019	2.25	10/16/2019	2.25
1/17/2019	2.00	4/17/2019	2.00	7/17/2019	2.25	10/17/2019	2.25
1/18/2019	2.00	4/18/2019	2.00	7/18/2019	2.25	10/18/2019	2.25
1/19/2019	2.00	4/19/2019	2.00	7/19/2019	2.25	10/19/2019	2.25
1/20/2019	2.00	4/20/2019	2.00	7/20/2019	2.25	10/20/2019	2.25
1/21/2019	2.00	4/21/2019	2.00	7/21/2019	2.25	10/21/2019	2.25
1/22/2019	2.00	4/22/2019	2.00	7/22/2019	2.25	10/22/2019	2.25
1/23/2019	2.00	4/23/2019	2.00	7/23/2019	2.25	10/23/2019	2.25
1/24/2019	2.00	4/24/2019	2.00	7/24/2019	2.25	10/24/2019	2.25
1/25/2019	2.00	4/25/2019	2.00	7/25/2019	2.25	10/25/2019	2.25
1/26/2019	2.00	4/26/2019	2.00	7/26/2019	2.25	10/26/2019	2.25
1/27/2019	2.00	4/27/2019	2.00	7/27/2019	2.25	10/27/2019	2.25
1/28/2019	2.00	4/28/2019	2.00	7/28/2019	2.25	10/28/2019	2.25
1/29/2019	2.00	4/29/2019	2.00	7/29/2019	2.25	10/29/2019	2.25
1/30/2019	2.00	4/30/2019	2.00	7/30/2019	2.25	10/30/2019	2.25
1/31/2019	2.00	5/1/2019	2.00	7/31/2019	2.25	10/31/2019	2.25
2/1/2019	2.00	5/2/2019	2.00	8/1/2019	2.25	11/1/2019	2.25
2/2/2019	2.00	5/3/2019	2.00	8/2/2019	2.25	11/2/2019	2.25
2/3/2019	2.00	5/4/2019	2.00	8/3/2019	2.25	11/3/2019	2.25
2/4/2019	2.00	5/5/2019	2.00	8/4/2019	2.25	11/4/2019	2.25
2/5/2019	2.00	5/6/2019	2.00	8/5/2019	2.25	11/5/2019	2.25
2/6/2019	2.00	5/7/2019	2.00	8/6/2019	2.25	11/6/2019	2.25
2/7/2019	2.00	5/8/2019	2.00	8/7/2019	2.25	11/7/2019	2.25
2/8/2019	2.00	5/9/2019	2.00	8/8/2019	2.25	11/8/2019	2.25
2/9/2019	2.00	5/10/2019	2.00	8/9/2019	2.25	11/9/2019	2.25
2/10/2019	2.00	5/11/2019	2.00	8/10/2019	2.25	11/10/2019	2.25
2/11/2019	2.00	5/12/2019	2.00	8/11/2019	2.25	11/11/2019	2.25
2/12/2019	2.00	5/13/2019	2.00	8/12/2019	2.25	11/12/2019	2.25
2/13/2019	2.00	5/14/2019	2.00	8/13/2019	2.25	11/13/2019	2.25
2/14/2019	2.00	5/15/2019	2.00	8/14/2019	2.25	11/14/2019	2.25
2/15/2019	2.00	5/16/2019	2.00	8/15/2019	2.25	11/15/2019	2.25
2/16/2019	2.00	5/17/2019	2.00	8/16/2019	2.25	11/16/2019	2.25
2/17/2019	2.00	5/18/2019	2.00	8/17/2019	2.25	11/17/2019	2.25
2/18/2019	2.00	5/19/2019	2.00	8/18/2019	2.25	11/18/2019	2.25
2/19/2019	2.00	5/20/2019	2.00	8/19/2019	2.25	11/19/2019	2.25
2/20/2019	2.00	5/21/2019	2.00	8/20/2019	2.25	11/20/2019	2.25
2/21/2019	2.00	5/22/2019	2.00	8/21/2019	2.25	11/21/2019	2.25
2/22/2019	2.00	5/23/2019	2.00	8/22/2019	2.25	11/22/2019	2.25
2/23/2019	2.00	5/24/2019	2.00	8/23/2019	2.25	11/23/2019	2.25
2/24/2019	2.00	5/25/2019	2.00	8/24/2019	2.25	11/24/2019	2.25
2/25/2019	2.00	5/26/2019	2.00	8/25/2019	2.25	11/25/2019	2.25
2/26/2019	2.00	5/27/2019	2.00	8/26/2019	2.25	11/26/2019	2.25
2/27/2019	2.00	5/28/2019	2.00	8/27/2019	2.25	11/27/2019	2.25
2/28/2019	2.00	5/29/2019	2.00	8/28/2019	2.25	11/28/2019	2.25
3/1/2019	2.00	5/30/2019	2.00	8/29/2019	2.25	11/29/2019	2.25
3/2/2019	2.00	5/31/2019	2.00	8/30/2019	2.25	11/30/2019	2.25
3/3/2019	2.00	6/1/2019	2.00	8/31/2019	2.25	12/1/2019	2.25
3/4/2019	2.00	6/2/2019	2.00	9/1/2019	2.25	12/2/2019	2.25
3/5/2019	2.00	6/3/2019	2.00	9/2/2019	2.25	12/3/2019	2.25
3/6/2019	2.00	6/4/2019	2.00	9/3/2019	2.25	12/4/2019	2.25
3/7/2019	2.00	6/5/2019	2.00	9/4/2019	2.25	12/5/2019	2.25
3/8/2019	2.00	6/6/2019	2.00	9/5/2019	2.25	12/6/2019	2.25
3/9/2019	2.00	6/7/2019	2.00	9/6/2019	2.25	12/7/2019	2.25
3/10/2019	2.00	6/8/2019	2.00	9/7/2019	2.25	12/8/2019	2.25
3/11/2019	2.00	6/9/2019	2.00	9/8/2019	2.25	12/9/2019	2.25
3/12/2019	2.00	6/10/2019	2.00	9/9/2019	2.25	12/10/2019	2.25
3/13/2019	2.00	6/11/2019	2.00	9/10/2019	2.25	12/11/2019	2.25
3/14/2019	2.00	6/12/2019	2.00	9/11/2019	2.25	12/12/2019	2.25
3/15/2019	2.00	6/13/2019	2.00	9/12/2019	2.25	12/13/2019	2.25
3/16/2019	2.00	6/14/2019	2.00	9/13/2019	2.25	12/14/2019	2.25
3/17/2019	2.00	6/15/2019	2.00	9/14/2019	2.25	12/15/2019	2.25
3/18/2019	2.00	6/16/2019	2.00	9/15/2019	2.25	12/16/2019	2.25
3/19/2019	2.00	6/17/2019	2.00	9/16/2019	2.25	12/17/2019	2.25
3/20/2019	2.00	6/18/2019	2.00	9/17/2019	2.25	12/18/2019	2.25
3/21/2019	2.00	6/19/2019	2.00	9/18/2019	2.25	12/19/2019	2.25
3/22/2019	2.00	6/20/2019	2.00	9/19/2019	2.25	12/20/2019	2.25
3/23/2019	2.00	6/21/2019	2.00	9/20/2019	2.25	12/21/2019	2.25
3/24/2019	2.00	6/22/2019	2.00	9/21/2019	2.25	12/22/2019	2.25
3/25/2019	2.00	6/23/2019	2.00	9/22/2019	2.25	12/23/2019	2.25
3/26/2019	2.00	6/24/2019	2.00	9/23/2019	2.25	12/24/2019	2.25
3/27/2019	2.00	6/25/2019	2.00	9/24/2019	2.25	12/25/2019	2.25
3/28/2019	2.00	6/26/2019	2.00	9/25/2019	2.25	12/26/2019	2.25
3/29/2019	2.00	6/27/2019	2.00	9/26/2019	2.25	12/27/2019	2.25
3/30/2019	2.00	6/28/2019	2.00	9/27/2019	2.25	12/28/2019	2.25
3/31/2019	2.00	6/29/2019	2.00	9/28/2019	2.25	12/29/2019	2.25
		6/30/2019	2.00	9/29/2019	2.25	12/30/2019	2.25
				9/30/2019	2.25	12/31/2019	2.25

Note: Yellow highlights indicate rate announcement where 2019 dates assume 2018 rate announcement schedule.

Daily projections of the overnight rate from Figure 1 and Figure 2 are rolled up to determine the monthly, quarterly and yearly averages in Figure 3. Note that January 2018 - April 2018 are actual data.

FIGURE 3: Various Overnight Rate Forecasts

<u>Monthly</u> ^{†*}		<u>Quarterly</u> *		<u>Yearly</u> *	
Month	Overnight Rate (%)	Quarter	Overnight Rate (%)	Year	Overnight Rate (%)
Jan-18	1.00	2018 Q1	1.25	2018	1.50
<i>Feb-18</i>	<i>1.25</i>	2018 Q2	1.25	2019	2.25
Mar-18	1.25	2018 Q3	1.50		
Apr-18	1.25	2018 Q4	1.75		
May-18	1.25	2019 Q1	2.00		
<i>Jun-18</i>	<i>1.25</i>	2019 Q2	2.00		
Jul-18	1.50	2019 Q3	2.25		
<i>Aug-18</i>	<i>1.50</i>	2019 Q4	2.25		
Sep-18	1.50				
Oct-18	1.50				
<i>Nov-18</i>	<i>1.75</i>				
Dec-18	1.75				
Jan-19	2.00				
<i>Feb-19</i>	<i>2.00</i>				
Mar-19	2.00				
Apr-19	2.00				
May-19	2.00				
<i>Jun-19</i>	<i>2.00</i>				
Jul-19	2.25				
<i>Aug-19</i>	<i>2.25</i>				
Sep-19	2.25				
Oct-19	2.25				
<i>Nov-19</i>	<i>2.25</i>				
Dec-19	2.25				

† *Red Italics* indicate month in which no interest rate announcement is scheduled.

Dashed line (----) indicates quarter-end.

* Monthly, Quarterly and Yearly forecasts are averages of the daily rate, rounded to two decimal places.

Prime Rate Differential

Table 3 on the next page displays the recent historical relationship between the overnight rate and the prime rate data series' extracted from Statistics Canada's CANSIM II database:

TABLE 3: Historical Prime Rate Differential

	<i>col. 1</i>	<i>col. 2</i>	<i>col. 3</i>
	Overnight Rate Target (%)	Prime Rate (%)	Prime Rate - Overnight Rate
	<i>CANSIM II Series ID: v39079</i>	<i>CANSIM II Series ID: v122495</i>	<i>col. 2 - col 1</i>
Jan-14	1.00	3.00	2.00
Feb-14	1.00	3.00	2.00
Mar-14	1.00	3.00	2.00
Apr-14	1.00	3.00	2.00
May-14	1.00	3.00	2.00
Jun-14	1.00	3.00	2.00
Jul-14	1.00	3.00	2.00
Aug-14	1.00	3.00	2.00
Sep-14	1.00	3.00	2.00
Oct-14	1.00	3.00	2.00
Nov-14	1.00	3.00	2.00
Dec-14	1.00	3.00	2.00
Jan-15	1.00	2.85	1.85
Feb-15	0.75	2.85	2.10
Mar-15	0.75	2.85	2.10
Apr-15	0.75	2.85	2.10
May-15	0.75	2.85	2.10
Jun-15	0.75	2.85	2.10
Jul-15	0.50	2.70	2.20
Aug-15	0.50	2.70	2.20
Sep-15	0.50	2.70	2.20
Oct-15	0.50	2.70	2.20
Nov-15	0.50	2.70	2.20
Dec-15	0.50	2.70	2.20
Jan-16	0.50	2.70	2.20
Feb-16	0.50	2.70	2.20
Mar-16	0.50	2.70	2.20
Apr-16	0.50	2.70	2.20
May-16	0.50	2.70	2.20
Jun-16	0.50	2.70	2.20
Jul-16	0.50	2.70	2.20
Aug-16	0.50	2.70	2.20
Sep-16	0.50	2.70	2.20
Oct-16	0.50	2.70	2.20
Nov-16	0.50	2.70	2.20
Dec-16	0.50	2.70	2.20
Jan-17	0.50	2.70	2.20
Feb-17	0.50	2.70	2.20
Mar-17	0.50	2.70	2.20
Apr-17	0.50	2.70	2.20
May-17	0.50	2.70	2.20
Jun-17	0.50	2.70	2.20
Jul-17	0.67	2.95	2.28
Aug-17	0.75	2.95	2.20
Sep-17	0.96	3.20	2.24
Oct-17	1.00	3.20	2.20
Nov-17	1.00	3.20	2.20
Dec-17	1.00	3.20	2.20
Jan-18	1.12	3.45	2.33
Feb-18	1.25	3.45	2.20
Mar-18	1.25	3.45	2.20
Apr-18	1.25	3.45	2.20

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Prime Rate Forecast

From December 2008 to December 2014 there was a consistent 200 basis point differential between the prime rate and the overnight rate. However, when the Bank of Canada decreased the overnight rate to 0.75% in January 2015 the differential between the prime rate and the overnight rate increased to 210 basis points. The differential increased yet again to 220 basis points when the Bank of Canada lowered the overnight rate further to 0.50%. In July 2017, the Bank of Canada raised interest rates for the first time in seven years, and prime rates followed suit, increasing the differential to close to 230 basis points. Since then, the differential has settled back to 220. In light of the higher inflation, moderately higher GDP growth projected for the next couple of years, the Bank of Canada's monetary policy targets, as well as uncertainties around exports, investments, and household debt, it is expected that the current differential will not likely return to the historical 200 basis point differential. The current differential of 220 basis points is assumed to remain for the duration of this forecast period.

Adding the 220 basis point differential to the overnight rate forecasts from May 2018 to December 2019 results in the prime rate forecasts shown in Figure 4. As noted earlier, it is recommended that the prime rate forecast for 2020 retain the same value as 2019 in the absence of additional information. The analysis can be updated at a later time to evaluate the appropriateness of this assumption.

FIGURE 4: Various Prime Rate Forecasts

<u>Monthly</u>		<u>Quarterly</u>		<u>Yearly</u>	
Month	Prime Rate (%)	Quarter	Prime Rate (%)	Year	Prime Rate (%)
Jan-18	3.20	2018 Q1	3.35	2018	3.60
Feb-18	3.45	2018 Q2	3.45	2019	4.35
Mar-18	3.45	2018 Q3	3.70		
Apr-18	3.45	2018 Q4	3.85		
May-18	3.45	2019 Q1	4.20		
Jun-18	3.45	2019 Q2	4.20		
Jul-18	3.70	2019 Q3	4.45		
Aug-18	3.70	2019 Q4	4.45		
Sep-18	3.70				
Oct-18	3.70				
Nov-18	3.95				
Dec-18	3.95				
Jan-19	4.20				
Feb-19	4.20				
Mar-19	4.20				
Apr-19	4.20				
May-19	4.20				
Jun-19	4.20				
Jul-19	4.45				
Aug-19	4.45				
Sep-19	4.45				
Oct-19	4.45				
Nov-19	4.45				
Dec-19	4.45				

*Note: January 2018 to April 2018 rates are actual values.

Overall

The prime rate is the rate commercial banks charge on loans to their best customers. Financial institutions set their own prime rates based on the cost of short-term funds and based on the competitive pressures among them.

A consensus view from financial institutions is used to forecast the prime rate. However, the prime rate is not widely forecast, so an approach to arrive at a reasonable forecast of the prime rate is needed. Conveniently, the prime rate shares a consistent relationship with the Bank of Canada's overnight rate. The overnight rate is widely forecast and, through a consensus view of overnight rate expectations, a prime rate forecast can be generated.

Forecasting of the overnight rate through a consensus approach requires consideration of the overnight rate setting mechanism used by the Bank of Canada. This process includes forecasting eight (8) interest

rate announcements during a given year and ensuring that any expected interest rate change at those announcement dates is made in the order of 25 basis points.

Finally, determining the consistent relationship between the reported prime rate and the overnight rate, and then applying this differential to the overnight rate forecast, yields the prime rate forecast. Although the prime rate has deviated slightly from its relationship to the overnight rate recently, the relationship is expected to hold over the long term. The prime rate is forecast to remain at 220 basis points above the overnight rate for the duration of the forecast period.