

## Prime Rate Forecasting Process

### 2020 Rate Case – Phase VI

#### 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 institutions<sup>1</sup> 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.

Table 1 displays the six financial institutions’ forecasts of the overnight rate for the remainder of 2019 and 2020, as of July 15th, 2019:

**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:						
	17-Jul-19	18-Jul-19	21-Jun-19	12-Jul-19	12-Jul-19	17-Jun-19	2019 Q3
2019 Q1	1.75	1.75	1.75	1.75	1.75	1.75	1.75
2019 Q2	1.75	1.75	1.75	1.75	1.75	1.75	1.75
2019 Q3	1.75	1.75	1.75	1.75	1.75	1.75	1.75
2019 Q4	1.75	1.75	1.75	1.75	1.75	1.75	1.75
2020 Q1	1.75	1.75	1.75	1.50	1.75	1.75	1.71
2020 Q2	1.75	1.50	1.75	1.50	1.75	1.75	1.67
2020 Q3	1.75	1.50	1.75	1.50	1.75	1.75	1.67
2020 Q4	1.75	1.50	1.75	1.50	1.75	1.75	1.67

<sup>1</sup> 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.<sup>2</sup>
2. The Bank of Canada decides to increase/decrease the overnight rate each year on eight (8) predetermined dates.<sup>3</sup>

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:		
	2019 Q3	2019 Q3
2019 Q1	1.75	1.75
2019 Q2	1.75	1.75
2019 Q3	1.75	1.75
2019 Q4	1.75	1.75
2020 Q1	1.71	1.75
2020 Q2	1.67	1.75
2020 Q3	1.67	1.75
2020 Q4	1.67	1.75
2019	1.75	1.75
2020	1.68	1.75

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.

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

<sup>3</sup> Example of the Bank of Canada’s Interest Rate Announcement Schedule for 2019:

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

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 the daily expected overnight rate for 2019<sup>4</sup> and 2020 respectively.

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<sup>4</sup> January 2019 to June 2019 are actual data.

FIGURE 1: 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	1.75	4/1/2019	1.75	7/1/2019	1.75	10/1/2019	1.75
1/2/2019	1.75	4/2/2019	1.75	7/2/2019	1.75	10/2/2019	1.75
1/3/2019	1.75	4/3/2019	1.75	7/3/2019	1.75	10/3/2019	1.75
1/4/2019	1.75	4/4/2019	1.75	7/4/2019	1.75	10/4/2019	1.75
1/5/2019	1.75	4/5/2019	1.75	7/5/2019	1.75	10/5/2019	1.75
1/6/2019	1.75	4/6/2019	1.75	7/6/2019	1.75	10/6/2019	1.75
1/7/2019	1.75	4/7/2019	1.75	7/7/2019	1.75	10/7/2019	1.75
1/8/2019	1.75	4/8/2019	1.75	7/8/2019	1.75	10/8/2019	1.75
1/9/2019	1.75	4/9/2019	1.75	7/9/2019	1.75	10/9/2019	1.75
1/10/2019	1.75	4/10/2019	1.75	7/10/2019	1.75	10/10/2019	1.75
1/11/2019	1.75	4/11/2019	1.75	7/11/2019	1.75	10/11/2019	1.75
1/12/2019	1.75	4/12/2019	1.75	7/12/2019	1.75	10/12/2019	1.75
1/13/2019	1.75	4/13/2019	1.75	7/13/2019	1.75	10/13/2019	1.75
1/14/2019	1.75	4/14/2019	1.75	7/14/2019	1.75	10/14/2019	1.75
1/15/2019	1.75	4/15/2019	1.75	7/15/2019	1.75	10/15/2019	1.75
1/16/2019	1.75	4/16/2019	1.75	7/16/2019	1.75	10/16/2019	1.75
1/17/2019	1.75	4/17/2019	1.75	7/17/2019	1.75	10/17/2019	1.75
1/18/2019	1.75	4/18/2019	1.75	7/18/2019	1.75	10/18/2019	1.75
1/19/2019	1.75	4/19/2019	1.75	7/19/2019	1.75	10/19/2019	1.75
1/20/2019	1.75	4/20/2019	1.75	7/20/2019	1.75	10/20/2019	1.75
1/21/2019	1.75	4/21/2019	1.75	7/21/2019	1.75	10/21/2019	1.75
1/22/2019	1.75	4/22/2019	1.75	7/22/2019	1.75	10/22/2019	1.75
1/23/2019	1.75	4/23/2019	1.75	7/23/2019	1.75	10/23/2019	1.75
1/24/2019	1.75	4/24/2019	1.75	7/24/2019	1.75	10/24/2019	1.75
1/25/2019	1.75	4/25/2019	1.75	7/25/2019	1.75	10/25/2019	1.75
1/26/2019	1.75	4/26/2019	1.75	7/26/2019	1.75	10/26/2019	1.75
1/27/2019	1.75	4/27/2019	1.75	7/27/2019	1.75	10/27/2019	1.75
1/28/2019	1.75	4/28/2019	1.75	7/28/2019	1.75	10/28/2019	1.75
1/29/2019	1.75	4/29/2019	1.75	7/29/2019	1.75	10/29/2019	1.75
1/30/2019	1.75	4/30/2019	1.75	7/30/2019	1.75	10/30/2019	1.75
1/31/2019	1.75	5/1/2019	1.75	7/31/2019	1.75	10/31/2019	1.75
2/1/2019	1.75	5/2/2019	1.75	8/1/2019	1.75	11/1/2019	1.75
2/2/2019	1.75	5/3/2019	1.75	8/2/2019	1.75	11/2/2019	1.75
2/3/2019	1.75	5/4/2019	1.75	8/3/2019	1.75	11/3/2019	1.75
2/4/2019	1.75	5/5/2019	1.75	8/4/2019	1.75	11/4/2019	1.75
2/5/2019	1.75	5/6/2019	1.75	8/5/2019	1.75	11/5/2019	1.75
2/6/2019	1.75	5/7/2019	1.75	8/6/2019	1.75	11/6/2019	1.75
2/7/2019	1.75	5/8/2019	1.75	8/7/2019	1.75	11/7/2019	1.75
2/8/2019	1.75	5/9/2019	1.75	8/8/2019	1.75	11/8/2019	1.75
2/9/2019	1.75	5/10/2019	1.75	8/9/2019	1.75	11/9/2019	1.75
2/10/2019	1.75	5/11/2019	1.75	8/10/2019	1.75	11/10/2019	1.75
2/11/2019	1.75	5/12/2019	1.75	8/11/2019	1.75	11/11/2019	1.75
2/12/2019	1.75	5/13/2019	1.75	8/12/2019	1.75	11/12/2019	1.75
2/13/2019	1.75	5/14/2019	1.75	8/13/2019	1.75	11/13/2019	1.75
2/14/2019	1.75	5/15/2019	1.75	8/14/2019	1.75	11/14/2019	1.75
2/15/2019	1.75	5/16/2019	1.75	8/15/2019	1.75	11/15/2019	1.75
2/16/2019	1.75	5/17/2019	1.75	8/16/2019	1.75	11/16/2019	1.75
2/17/2019	1.75	5/18/2019	1.75	8/17/2019	1.75	11/17/2019	1.75
2/18/2019	1.75	5/19/2019	1.75	8/18/2019	1.75	11/18/2019	1.75
2/19/2019	1.75	5/20/2019	1.75	8/19/2019	1.75	11/19/2019	1.75
2/20/2019	1.75	5/21/2019	1.75	8/20/2019	1.75	11/20/2019	1.75
2/21/2019	1.75	5/22/2019	1.75	8/21/2019	1.75	11/21/2019	1.75
2/22/2019	1.75	5/23/2019	1.75	8/22/2019	1.75	11/22/2019	1.75
2/23/2019	1.75	5/24/2019	1.75	8/23/2019	1.75	11/23/2019	1.75
2/24/2019	1.75	5/25/2019	1.75	8/24/2019	1.75	11/24/2019	1.75
2/25/2019	1.75	5/26/2019	1.75	8/25/2019	1.75	11/25/2019	1.75
2/26/2019	1.75	5/27/2019	1.75	8/26/2019	1.75	11/26/2019	1.75
2/27/2019	1.75	5/28/2019	1.75	8/27/2019	1.75	11/27/2019	1.75
2/28/2019	1.75	5/29/2019	1.75	8/28/2019	1.75	11/28/2019	1.75
3/1/2019	1.75	5/30/2019	1.75	8/29/2019	1.75	11/29/2019	1.75
3/2/2019	1.75	5/31/2019	1.75	8/30/2019	1.75	11/30/2019	1.75
3/3/2019	1.75	6/1/2019	1.75	8/31/2019	1.75	12/1/2019	1.75
3/4/2019	1.75	6/2/2019	1.75	9/1/2019	1.75	12/2/2019	1.75
3/5/2019	1.75	6/3/2019	1.75	9/2/2019	1.75	12/3/2019	1.75
3/6/2019	1.75	6/4/2019	1.75	9/3/2019	1.75	12/4/2019	1.75
3/7/2019	1.75	6/5/2019	1.75	9/4/2019	1.75	12/5/2019	1.75
3/8/2019	1.75	6/6/2019	1.75	9/5/2019	1.75	12/6/2019	1.75
3/9/2019	1.75	6/7/2019	1.75	9/6/2019	1.75	12/7/2019	1.75
3/10/2019	1.75	6/8/2019	1.75	9/7/2019	1.75	12/8/2019	1.75
3/11/2019	1.75	6/9/2019	1.75	9/8/2019	1.75	12/9/2019	1.75
3/12/2019	1.75	6/10/2019	1.75	9/9/2019	1.75	12/10/2019	1.75
3/13/2019	1.75	6/11/2019	1.75	9/10/2019	1.75	12/11/2019	1.75
3/14/2019	1.75	6/12/2019	1.75	9/11/2019	1.75	12/12/2019	1.75
3/15/2019	1.75	6/13/2019	1.75	9/12/2019	1.75	12/13/2019	1.75
3/16/2019	1.75	6/14/2019	1.75	9/13/2019	1.75	12/14/2019	1.75
3/17/2019	1.75	6/15/2019	1.75	9/14/2019	1.75	12/15/2019	1.75
3/18/2019	1.75	6/16/2019	1.75	9/15/2019	1.75	12/16/2019	1.75
3/19/2019	1.75	6/17/2019	1.75	9/16/2019	1.75	12/17/2019	1.75
3/20/2019	1.75	6/18/2019	1.75	9/17/2019	1.75	12/18/2019	1.75
3/21/2019	1.75	6/19/2019	1.75	9/18/2019	1.75	12/19/2019	1.75
3/22/2019	1.75	6/20/2019	1.75	9/19/2019	1.75	12/20/2019	1.75
3/23/2019	1.75	6/21/2019	1.75	9/20/2019	1.75	12/21/2019	1.75
3/24/2019	1.75	6/22/2019	1.75	9/21/2019	1.75	12/22/2019	1.75
3/25/2019	1.75	6/23/2019	1.75	9/22/2019	1.75	12/23/2019	1.75
3/26/2019	1.75	6/24/2019	1.75	9/23/2019	1.75	12/24/2019	1.75
3/27/2019	1.75	6/25/2019	1.75	9/24/2019	1.75	12/25/2019	1.75
3/28/2019	1.75	6/26/2019	1.75	9/25/2019	1.75	12/26/2019	1.75
3/29/2019	1.75	6/27/2019	1.75	9/26/2019	1.75	12/27/2019	1.75
3/30/2019	1.75	6/28/2019	1.75	9/27/2019	1.75	12/28/2019	1.75
3/31/2019	1.75	6/29/2019	1.75	9/28/2019	1.75	12/29/2019	1.75
		6/30/2019	1.75	9/29/2019	1.75	12/30/2019	1.75
				9/30/2019	1.75	12/31/2019	1.75

Note: Yellow highlights indicate 2019 rate announcement schedule.

FIGURE 2: 2020 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 (%)
1/1/2020	1.75	3/31/2020	1.75	6/30/2020	1.75	9/30/2020	1.75
1/2/2020	1.75	4/1/2020	1.75	7/1/2020	1.75	10/1/2020	1.75
1/3/2020	1.75	4/2/2020	1.75	7/2/2020	1.75	10/2/2020	1.75
1/4/2020	1.75	4/3/2020	1.75	7/3/2020	1.75	10/3/2020	1.75
1/5/2020	1.75	4/4/2020	1.75	7/4/2020	1.75	10/4/2020	1.75
1/6/2020	1.75	4/5/2020	1.75	7/5/2020	1.75	10/5/2020	1.75
1/7/2020	1.75	4/6/2020	1.75	7/6/2020	1.75	10/6/2020	1.75
1/8/2020	1.75	4/7/2020	1.75	7/7/2020	1.75	10/7/2020	1.75
1/9/2020	1.75	4/8/2020	1.75	7/8/2020	1.75	10/8/2020	1.75
1/10/2020	1.75	4/9/2020	1.75	7/9/2020	1.75	10/9/2020	1.75
1/11/2020	1.75	4/10/2020	1.75	7/10/2020	1.75	10/10/2020	1.75
1/12/2020	1.75	4/11/2020	1.75	7/11/2020	1.75	10/11/2020	1.75
1/13/2020	1.75	4/12/2020	1.75	7/12/2020	1.75	10/12/2020	1.75
1/14/2020	1.75	4/13/2020	1.75	7/13/2020	1.75	10/13/2020	1.75
1/15/2020	1.75	4/14/2020	1.75	7/14/2020	1.75	10/14/2020	1.75
1/16/2020	1.75	4/15/2020	1.75	7/15/2020	1.75	10/15/2020	1.75
1/17/2020	1.75	4/16/2020	1.75	7/16/2020	1.75	10/16/2020	1.75
1/18/2020	1.75	4/17/2020	1.75	7/17/2020	1.75	10/17/2020	1.75
1/19/2020	1.75	4/18/2020	1.75	7/18/2020	1.75	10/18/2020	1.75
1/20/2020	1.75	4/19/2020	1.75	7/19/2020	1.75	10/19/2020	1.75
1/21/2020	1.75	4/20/2020	1.75	7/20/2020	1.75	10/20/2020	1.75
1/22/2020	1.75	4/21/2020	1.75	7/21/2020	1.75	10/21/2020	1.75
1/23/2020	1.75	4/22/2020	1.75	7/22/2020	1.75	10/22/2020	1.75
1/24/2020	1.75	4/23/2020	1.75	7/23/2020	1.75	10/23/2020	1.75
1/25/2020	1.75	4/24/2020	1.75	7/24/2020	1.75	10/24/2020	1.75
1/26/2020	1.75	4/25/2020	1.75	7/25/2020	1.75	10/25/2020	1.75
1/27/2020	1.75	4/26/2020	1.75	7/26/2020	1.75	10/26/2020	1.75
1/28/2020	1.75	4/27/2020	1.75	7/27/2020	1.75	10/27/2020	1.75
1/29/2020	1.75	4/28/2020	1.75	7/28/2020	1.75	10/28/2020	1.75
1/30/2020	1.75	4/29/2020	1.75	7/29/2020	1.75	10/29/2020	1.75
1/31/2020	1.75	4/30/2020	1.75	7/30/2020	1.75	10/30/2020	1.75
2/1/2020	1.75	5/1/2020	1.75	7/31/2020	1.75	10/31/2020	1.75
2/2/2020	1.75	5/2/2020	1.75	8/1/2020	1.75	11/1/2020	1.75
2/3/2020	1.75	5/3/2020	1.75	8/2/2020	1.75	11/2/2020	1.75
2/4/2020	1.75	5/4/2020	1.75	8/3/2020	1.75	11/3/2020	1.75
2/5/2020	1.75	5/5/2020	1.75	8/4/2020	1.75	11/4/2020	1.75
2/6/2020	1.75	5/6/2020	1.75	8/5/2020	1.75	11/5/2020	1.75
2/7/2020	1.75	5/7/2020	1.75	8/6/2020	1.75	11/6/2020	1.75
2/8/2020	1.75	5/8/2020	1.75	8/7/2020	1.75	11/7/2020	1.75
2/9/2020	1.75	5/9/2020	1.75	8/8/2020	1.75	11/8/2020	1.75
2/10/2020	1.75	5/10/2020	1.75	8/9/2020	1.75	11/9/2020	1.75
2/11/2020	1.75	5/11/2020	1.75	8/10/2020	1.75	11/10/2020	1.75
2/12/2020	1.75	5/12/2020	1.75	8/11/2020	1.75	11/11/2020	1.75
2/13/2020	1.75	5/13/2020	1.75	8/12/2020	1.75	11/12/2020	1.75
2/14/2020	1.75	5/14/2020	1.75	8/13/2020	1.75	11/13/2020	1.75
2/15/2020	1.75	5/15/2020	1.75	8/14/2020	1.75	11/14/2020	1.75
2/16/2020	1.75	5/16/2020	1.75	8/15/2020	1.75	11/15/2020	1.75
2/17/2020	1.75	5/17/2020	1.75	8/16/2020	1.75	11/16/2020	1.75
2/18/2020	1.75	5/18/2020	1.75	8/17/2020	1.75	11/17/2020	1.75
2/19/2020	1.75	5/19/2020	1.75	8/18/2020	1.75	11/18/2020	1.75
2/20/2020	1.75	5/20/2020	1.75	8/19/2020	1.75	11/19/2020	1.75
2/21/2020	1.75	5/21/2020	1.75	8/20/2020	1.75	11/20/2020	1.75
2/22/2020	1.75	5/22/2020	1.75	8/21/2020	1.75	11/21/2020	1.75
2/23/2020	1.75	5/23/2020	1.75	8/22/2020	1.75	11/22/2020	1.75
2/24/2020	1.75	5/24/2020	1.75	8/23/2020	1.75	11/23/2020	1.75
2/25/2020	1.75	5/25/2020	1.75	8/24/2020	1.75	11/24/2020	1.75
2/26/2020	1.75	5/26/2020	1.75	8/25/2020	1.75	11/25/2020	1.75
2/27/2020	1.75	5/27/2020	1.75	8/26/2020	1.75	11/26/2020	1.75
2/28/2020	1.75	5/28/2020	1.75	8/27/2020	1.75	11/27/2020	1.75
2/29/2020	1.75	5/29/2020	1.75	8/28/2020	1.75	11/28/2020	1.75
3/1/2020	1.75	5/30/2020	1.75	8/29/2020	1.75	11/29/2020	1.75
3/2/2020	1.75	5/31/2020	1.75	8/30/2020	1.75	11/30/2020	1.75
3/3/2020	1.75	6/1/2020	1.75	8/31/2020	1.75	12/1/2020	1.75
3/4/2020	1.75	6/2/2020	1.75	9/1/2020	1.75	12/2/2020	1.75
3/5/2020	1.75	6/3/2020	1.75	9/2/2020	1.75	12/3/2020	1.75
3/6/2020	1.75	6/4/2020	1.75	9/3/2020	1.75	12/4/2020	1.75
3/7/2020	1.75	6/5/2020	1.75	9/4/2020	1.75	12/5/2020	1.75
3/8/2020	1.75	6/6/2020	1.75	9/5/2020	1.75	12/6/2020	1.75
3/9/2020	1.75	6/7/2020	1.75	9/6/2020	1.75	12/7/2020	1.75
3/10/2020	1.75	6/8/2020	1.75	9/7/2020	1.75	12/8/2020	1.75
3/11/2020	1.75	6/9/2020	1.75	9/8/2020	1.75	12/9/2020	1.75
3/12/2020	1.75	6/10/2020	1.75	9/9/2020	1.75	12/10/2020	1.75
3/13/2020	1.75	6/11/2020	1.75	9/10/2020	1.75	12/11/2020	1.75
3/14/2020	1.75	6/12/2020	1.75	9/11/2020	1.75	12/12/2020	1.75
3/15/2020	1.75	6/13/2020	1.75	9/12/2020	1.75	12/13/2020	1.75
3/16/2020	1.75	6/14/2020	1.75	9/13/2020	1.75	12/14/2020	1.75
3/17/2020	1.75	6/15/2020	1.75	9/14/2020	1.75	12/15/2020	1.75
3/18/2020	1.75	6/16/2020	1.75	9/15/2020	1.75	12/16/2020	1.75
3/19/2020	1.75	6/17/2020	1.75	9/16/2020	1.75	12/17/2020	1.75
3/20/2020	1.75	6/18/2020	1.75	9/17/2020	1.75	12/18/2020	1.75
3/21/2020	1.75	6/19/2020	1.75	9/18/2020	1.75	12/19/2020	1.75
3/22/2020	1.75	6/20/2020	1.75	9/19/2020	1.75	12/20/2020	1.75
3/23/2020	1.75	6/21/2020	1.75	9/20/2020	1.75	12/21/2020	1.75
3/24/2020	1.75	6/22/2020	1.75	9/21/2020	1.75	12/22/2020	1.75
3/25/2020	1.75	6/23/2020	1.75	9/22/2020	1.75	12/23/2020	1.75
3/26/2020	1.75	6/24/2020	1.75	9/23/2020	1.75	12/24/2020	1.75
3/27/2020	1.75	6/25/2020	1.75	9/24/2020	1.75	12/25/2020	1.75
3/28/2020	1.75	6/26/2020	1.75	9/25/2020	1.75	12/26/2020	1.75
3/29/2020	1.75	6/27/2020	1.75	9/26/2020	1.75	12/27/2020	1.75
3/30/2020	1.75	6/28/2020	1.75	9/27/2020	1.75	12/28/2020	1.75
		6/29/2020	1.75	9/28/2020	1.75	12/29/2020	1.75
				9/29/2020	1.75	12/30/2020	1.75

Note: Yellow highlights indicate 2020 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 2019 - June 2019 are actual data.

**FIGURE 3: Various Overnight Rate Forecasts**

<u>Monthly</u> <sup>†*</sup>		<u>Quarterly</u> <sup>*</sup>		<u>Yearly</u> <sup>*</sup>	
Month	Overnight Rate (%)	Quarter	Overnight Rate (%)	Year	Overnight Rate (%)
Jan-19	1.75	2019 Q1	1.75	2019	1.75
<i>Feb-19</i>	1.75	2019 Q2	1.75	2020	1.75
Mar-19	1.75	2019 Q3	1.75		
Apr-19	1.75	2019 Q4	1.75		
May-19	1.75	2020 Q1	1.75		
<i>Jun-19</i>	1.75	2020 Q2	1.75		
Jul-19	1.75	2020 Q3	1.75		
<i>Aug-19</i>	1.75	2020 Q4	1.75		
Sep-19	1.75				
Oct-19	1.75				
<i>Nov-19</i>	1.75				
Dec-19	1.75				
Jan-20	1.75				
<i>Feb-20</i>	1.75				
Mar-20	1.75				
Apr-20	1.75				
<i>May-20</i>	1.75				
Jun-20	1.75				
Jul-20	1.75				
<i>Aug-20</i>	1.75				
Sep-20	1.75				
Oct-20	1.75				
<i>Nov-20</i>	1.75				
Dec-20	1.75				

† 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-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	0.75	2.95	2.20
Aug-17	0.75	2.95	2.20
Sep-17	1.00	3.20	2.20
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	1.25	3.45	2.20
Feb-18	1.25	3.45	2.20
Mar-18	1.25	3.45	2.20
Apr-18	1.25	3.45	2.20
May-18	1.25	3.45	2.20
Jun-18	1.25	3.45	2.20
Jul-18	1.50	3.70	2.20
Aug-18	1.50	3.70	2.20
Sep-18	1.50	3.70	2.20
Oct-18	1.75	3.95	2.20
Nov-18	1.75	3.95	2.20
Dec-18	1.75	3.95	2.20
Jan-19	1.75	3.95	2.20
Feb-19	1.75	3.95	2.20
Mar-19	1.75	3.95	2.20
Apr-19	1.75	3.95	2.20
May-19	1.75	3.95	2.20
Jun-19	1.75	3.95	2.20

*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%. Since July 2015, there has been a consistent 220 basis point differential between the prime rate and the overnight rate. It is expected that the current differential of 220 basis points to remain for the duration of this forecast period.

Adding the 220-basis point differential to the overnight rate forecasts from July 2019 to December 2020 results in the prime rate forecasts shown in Figure 4.

**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-19	3.95	2019 Q1	3.95	2019	3.95
Feb-19	3.95	2019 Q2	3.95	2020	3.95
Mar-19	3.95	2019 Q3	3.95		
Apr-19	3.95	2019 Q4	3.95		
May-19	3.95	2020 Q1	3.95		
Jun-19	3.95	2020 Q2	3.95		
Jul-19	3.95	2020 Q3	3.95		
Aug-19	3.95	2020 Q4	3.95		
Sep-19	3.95				
Oct-19	3.95				
Nov-19	3.95				
Dec-19	3.95				
Jan-20	3.95				
Feb-20	3.95				
Mar-20	3.95				
Apr-20	3.95				
May-20	3.95				
Jun-20	3.95				
Jul-20	3.95				
Aug-20	3.95				
Sep-20	3.95				
Oct-20	3.95				
Nov-20	3.95				
Dec-20	3.95				

\*Note: January 2019 to June 2019 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.