



PRESS RELEASE



Canadian Mortgage News - National Archive 2007

Bank of Canada keeps target for the overnight rate at 4 1/2 per cent

OTTAWA, Ontario, September 05, 2007 — The Bank of Canada today announced that it is maintaining its target for the overnight rate at 4 1/2 per cent. The operating band for the overnight rate is unchanged, and the Bank Rate remains at 4 3/4 per cent.

Near-term prospects for economic growth outside North America appear to be slightly stronger than anticipated in the July *Monetary Policy Report Update (MPRU)*, while near-term economic prospects for the United States are weaker than expected. It now seems likely that the adjustment in the U.S. residential housing sector will be more pronounced and protracted, exacerbated by recent developments in financial markets. On balance, this implies weaker demand for Canadian exports than had been expected at the time of the July *MPRU*.

In Canada, total and core CPI inflation in July, at 2.2 per cent and 2.3 per cent respectively, continued to be above the inflation target but generally in line with the Bank's expectations. The Canadian dollar has also largely traded in the range assumed in the July *MPRU*. At the same time, the pace of economic growth in the first half of this year was above the Bank's expectations. It now appears that the Canadian economy is operating further above its production potential than was estimated in July. Domestic demand remains robust, buoyed by a continuing strong labour market and higher-than-expected increases in home sales and prices. However, recent developments in financial markets have led to some tightening of credit conditions for Canadian borrowers, which should temper growth in domestic demand.

Against this background, the Bank judges that the current level of the target for the overnight rate is appropriate. However, there are significant upside and downside risks to the outlook for inflation. On the upside, there is a possibility that household demand in Canada could be stronger than anticipated, while on the downside the ongoing adjustment in the U.S. housing sector could be more severe and spill over to the U.S. economy more broadly. In addition, there is uncertainty about the extent and duration of the tightening of credit conditions in Canada and, hence, about the tempering effect this will have on growth in domestic demand.

The Bank will continue to closely monitor evolving economic and financial developments. A full update of the Bank's outlook for growth and inflation, including risks to the projection, will be set out in the *Monetary Policy Report*, to be published on 18 October 2007.

Information note:

The Bank of Canada's next scheduled date for announcing the overnight rate target is 16 October 2007.