

Bank of Canada raises interest rates further

OTTAWA, Ontario, July 22, 2010 — The Bank of Canada increased the target for its trend-setting overnight lending rate on July 20, 2010, raising it by a quarter of a percentage point to 0.75 per cent. The increase follows on the heels of an equal interest rate increase in June 2010, when it was raised for the first time since 2007. The Bank rate now stands at one per cent.

In its most recent interest rate announcement, the Bank marked down its outlook for economic growth globally, emphasizing the uneven economic recovery in the U.S., and weakening prospects for European economic growth.

In the Bank's view, Canada's domestic economy is evolving largely as expected in recent months, but trimmed its forecast for economic growth this year and next by 0.2 per cent to 3.5 per cent in 2010 and 2.9 per cent in 2011. While the Bank raised its forecast for Canadian economic to 2.2 per cent in 2012, it nonetheless left the easing trend for growth intact.

The Bank indicated, "[this] revision reflects a slightly weaker profile for global economic growth and more modest consumption growth in Canada. The Bank anticipates that business investment and net exports will make a relatively larger contribution to growth.

Where the domestic recovery had previously been led by housing and consumer spending it is now guided more by government stimulus."

The Bank also reaffirmed its view that housing activity and household expenditures were pulled forward into the first half of 2010, which is expected to cause them to soften in the second half. It also recognized that business investment has been weaker than it previously expected, "held back by global uncertainties." The Bank anticipates "that business investment and net exports will make a relatively larger contribution to growth" over its forecast horizon.

As of July 20th, the advertised five-year conventional mortgage rate of 5.79 per cent was down 0.06 per cent from one year earlier, and 0.2 per cent below where it stood when Bank made its previous interest rate announcement on June 1, 2010. However, it is 0.3 percentage points higher than it was at the beginning of the year.

The Bank has signaled to financial markets that it is leaving its options wide open as to whether it will raise interest rates further when it makes its next rate announcement on September 8th.

"As it did with its previous announcement in June, the Bank messaged financial markets that further interest rate increases are not pre-ordained," said CREA Chief Economist Gregory Klump. "The strength of recent economic indicators have prompted the Bank to raise interest rates, but the Bank has signaled that it may keep rates on hold should the economic recovery begin to show signs of losing steam."

The Bank will make its next scheduled rate announcement on September 8th.