

April 22, 2008



BANK OF CANADA

The BoC keeps going with another 50 basis point cut

ACCORDING TO THE BANK OF CANADA (BoC)

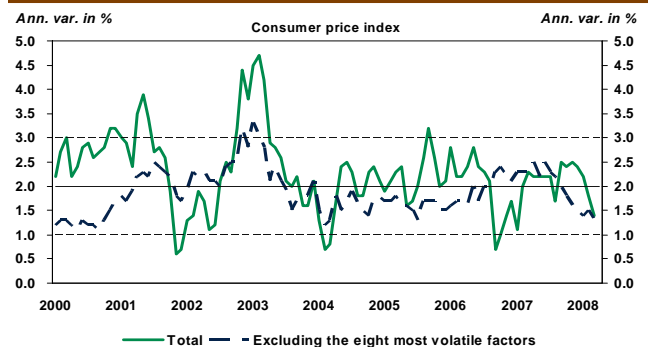
- The target for the overnight rate comes down 50 basis points, from 3.50% to 3.00%.
- The BoC is now projecting a deeper and more protracted slowdown in the U.S. economy. This has direct consequences for the Canadian economic outlook, with declining exports projected to exert a significant drag on growth in 2008.
- The Canadian economy will grow by 1.4% this year, 2.4% in 2009, and 3.3% in 2010.
- The recent price-level adjustments for automobiles and the effect of past changes in indirect taxes will keep measured inflation below target through 2008. The emergence of excess supply in the economy should keep downward pressure on inflation through 2009. There are both upside and downside risks to the new projection for inflation. These risks appear to be balanced.
- Some further monetary stimulus will likely be required. Given the cumulative reduction in the target for the overnight rate of 150 basis points since December, the timing of any further monetary stimulus will depend on the evolution of the global economy and domestic demand, and their impact on inflation in Canada.

COMMENTS

The 50 basis point cut ordered this morning is no surprise. For one thing, the economic statistics released since the BoC's latest *Monetary Policy Report* show that the bank was a little too optimistic in its economic forecasts. Although domestic demand is doing well, the Canadian economy's overall growth outlook has dimmed more than anticipated. Canada is still showing signs of decoupling from the United States, especially in the area of employment, wages and consumption. However, the ongoing financial problems, tightening credit conditions and the combined impact on Canada's foreign trade of a strong dollar and the U.S. slowdown mean that economic activity will be lacklustre in the coming quarters.

For another, the low inflation gives the BoC all of the leeway it needs. Although skyrocketing oil and grain prices are making the headlines worldwide, this seems to be having a limited impact on overall consumer prices in Canada. The effects of the goods and services tax (GST) cut, combined with the competitive pressures associated with the strong loonie, have brought on substantial deceleration by total inflation, to 1.4% in March. In the short term, the increase in gas prices will continue to be felt in the total index, but the economic slowdown should support the development of excess supply by the end of the year, which will keep inflation in the lower end of the BoC's target range.

Inflation is in the bottom of the BoC's target range



Sources: Statistics Canada and Desjardins, Economic Studies

Implications: With fewer rate cuts expected in the United States, the need for further aggressive monetary policy easing in Canada is behind us. The BoC clearly says that the timing of any further rate cut will depend on the evolution of the global and Canadian economies. In our opinion, the situation still favours an additional 25 basis point cut at the June 10 meeting.

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**EXCERPT FROM THE BANK OF CANADA PRESS RELEASE
APRIL 22, 2008**


[...] Growth in the global economy has weakened, reflecting the effects of a sharp slowdown in the U.S. economy and ongoing dislocations in global financial markets. Growth in the Canadian economy has also moderated as buoyant growth in domestic demand, supported by high employment levels and improved terms of trade, has been substantially offset by the fall in net exports. [...]

The Bank is now projecting a deeper and more protracted slowdown in the U.S. economy. This has direct consequences for the Canadian economic outlook, with declining exports projected to exert a significant drag on growth in 2008. [...]

The Bank projects that the Canadian economy will grow by 1.4 per cent this year, 2.4 per cent in 2009, and 3.3 per cent in 2010. Consistent with this growth profile, the economy moves into excess supply in the second quarter of 2008, and spare capacity continues to increase through early next year. [...]

The recent price-level adjustments for automobiles and the effect of past changes in indirect taxes will keep measured inflation below target through 2008. The emergence of excess supply in the economy should keep downward pressure on inflation through 2009. [...] There are both upside and downside risks to the Bank's new projection for inflation; these risks appear to be balanced.

In line with this outlook, some further monetary stimulus will likely be required to achieve the inflation target over the medium term. Given the cumulative reduction in the target for the overnight rate of 150 basis points since December, the timing of any further monetary stimulus will depend on the evolution of the global economy and domestic demand, and their impact on inflation in Canada. [...]

**Table 1
Schedule and key rates**

Date	Central Bank	Decision	Rate
January 2008			
30	Bank of Brazil	s.q.	11.25
30	U.S. Federal Reserve	-50 b.p.	3.00
February 2007			
4	Reserve Bank of Australia	+25 b.p.	7.00
7	European Central Bank	s.q.	4.00
7	Bank of England	-25 b.p.	5.25
13	Bank of Sweden	+25 b.p.	4.25
14	Bank of Japan	s.q.	0.50
15	Bank of Mexico	s.q.	7.50
March 2007			
3	Reserve Bank of Australia	+25 b.p.	7.25
4	Bank of Canada	-50 b.p.	3.50
5	Reserve Bank of New Zealand	s.q.	8.25
5	Bank of Brazil	s.q.	11.25
6	European Central Bank	s.q.	4.00
6	Bank of England	s.q.	5.25
6	Bank of Japan	s.q.	0.50
13	Bank of Norway	s.q.	5.25
13	Swiss National Bank	s.q.	2.75
14	Bank of Mexico	s.q.	7.50
18	U.S. Federal Reserve	-75 b.p.	2.25
10	Reserve Bank of Australia	s.q.	7.25
April 2008			
8	Bank of Japan	s.q.	0.50
10	European Central Bank	s.q.	4.00
10	Bank of England	-25 b.p.	5.00
16	Bank of Brazil	+50 b.p.	11.75
18	Bank of Mexico	s.q.	7.50
22	Bank of Canada	-50 b.p.	3.00

s.q.: status quo; b.p. : basis points
Source: Desjardins, Economic Studies

**Table 2
Coming soon**

Date	Central Bank
April 2008	
23	Bank of Norway
23	Reserve Bank of New Zealand
23	Bank of Sweden
29	Bank of Japan
30	U.S. Federal Reserve
May 2008	
6	Reserve Bank of Australia
8	European Central Bank
8	Bank of England
16	Bank of Mexico
19	Bank of Japan
28	Bank of Norway
June 2008	
3	Reserve Bank of Australia
4	Reserve Bank of New Zealand
4	Bank of Brazil
5	European Central Bank
5	Bank of England
10	Bank of Canada
12	Bank of Japan
19	Swiss National Bank
20	Bank of Mexico
25	Bank of Norway
25	U.S. Federal Reserve
July 2008	
1	Reserve Bank of Australia
3	European Central Bank
3	Bank of Sweden
10	Bank of England
14	Bank of Japan

Source: Desjardins, Economic Studies