ACCORDING TO THE BANK OF CANADA (BoC)

- The target for the overnight rate is maintained at 1.00%.
- The global economic recovery is proceeding at a somewhat faster pace than anticipated. Private domestic demand in the United States has picked up and will be reinforced by recently announced monetary and fiscal stimulus.
- The recovery in Canada is proceeding broadly as anticipated, with a period of more modest growth and the beginning of the expected rebalancing of demand.
- The Bank projects that the economy will expand by 2.4% in 2011 and 2.8% in 2012—a slightly firmer profile than had been anticipated in the October Monetary Policy Report.
- Underlying pressures affecting prices remain subdued. Core inflation is expected to gradually edge up to 2% by the end of 2012.
- Today’s status quo leaves considerable monetary stimulus in place, consistent with achieving the 2% inflation target in an environment of significant excess supply in Canada.
- Any further reduction in monetary policy stimulus would need to be carefully considered.

COMMENTS

Overall, the Bank of Canada is showing a little more optimism, particularly concerning the economic outlook abroad. That said, numerous uncertainties remain, such as the challenges created by the financial situation in some sovereign nations and the evolution of raw material prices.

In Canada, the economy is developing essentially in line with expectations. Despite several positive factors, including solid job creation, a fairly quick rise in worker earnings and relatively high consumer confidence, Canada’s economic growth is fragile. The gradual repairing of household balance sheets will curb consumer spending growth and residential investment in the coming quarters. Moreover, the contribution from government spending is expected to decline as the stimulus plans end. Despite a ray of hope from accelerating global demand (especially in raw materials), the international merchandise trade situation remains very shaky due to the strong loonie. In short, the bulk of economic growth in the coming quarters will have to be based on businesses’ non-residential investment. However, this component is very sensitive to financial conditions, to the point that the Bank of Canada will have to be vigilant in how it manages its key rates in the coming months.

Implications: Despite more encouraging results, Canada’s economic outlook is still dogged by several uncertainties. Under these circumstances, the monetary authorities will probably deem it more prudent to delay the return to Canadian key interest rate increases until July. However, key rates could start to go up earlier—this spring—if the global economic recovery and Canadian demand prove to be more robust than anticipated.

Benoît P. Durocher
Senior Economist

Sources: Bank of Canada and Desjardins, Economic Studies

Raw material prices climb

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<thead>
<tr>
<th>Year</th>
<th>Total raw materials price index (in US$)</th>
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EXEMPLARY FROM THE BANK OF CANADA PRESS RELEASE

"[...] The global economic recovery is proceeding at a somewhat faster pace than the Bank had anticipated, although risks remain elevated. Private domestic demand in the United States has picked up and will be reinforced by recently announced monetary and fiscal stimulus. European growth has also been slightly stronger than anticipated. Ongoing challenges associated with sovereign and bank balance sheets will limit the pace of the European recovery and are a significant source of uncertainty to the global outlook. In response to overheating, some emerging markets have begun to implement more restrictive policy measures. Their effectiveness will influence the path of commodity prices, which have increased significantly since the October Monetary Policy Report (MPR), largely reflecting stronger global growth.

The recovery in Canada is proceeding broadly as anticipated, with a period of more modest growth and the beginning of the expected rebalancing of demand. The contribution of government spending is expected to wind down this year, consistent with announced fiscal plans. Stretched household balance sheets are expected to restrain the pace of consumption growth and residential investment. In contrast, business investment will likely continue to rebound strongly, owing to stimulative financial conditions and competitive imperatives. Net exports are projected to contribute more to growth going forward, supported by stronger U.S. activity and global demand for commodities. However, the cumulative effects of the persistent strength in the Canadian dollar and Canada’s poor relative productivity performance are restraining this recovery in net exports and contributing to a widening of Canada’s current account deficit to a 20-year high. [...]"