The Bank of Canada leaves its key lending rates unchanged

- The overnight rate stays at 3.25%.
- The bank rate remains at 3.50%.

1) Recent data show a swifter drop than expected in total inflation and the core inflation.
2) Certain factors (persistently sluggish economic activity in the United States and elsewhere in the world, as well as the economic fallout of SARS), lead us to believe that the Canadian economy will display a certain degree of weakness over the short term.
3) The US dollar sustained a major depreciation against the Canadian dollar and a few other currencies.

Conclusion: As expected, the Bank of Canada opted for the status quo once again, after two consecutive hikes in its key interest rates. On the one hand, the steep decline in energy prices sparked a rapid drop in total inflation. The latter now stands at 3.0%, or the upper limit of the target figures for the Bank of Canada, after peaking at 4.6% a mere two months ago. On the other hand, the US economy is slow in resuming its momentum, which is curbing global demand in Canada. Further, even if the degree of the impact is uncertain, the SARS epidemic might well hamper economic growth, at least, over the short term. We might also point out that, despite today’s decision of status quo regarding key interest rates, monetary conditions have firmed up considerably these last few weeks thanks to the rally of the Canadian dollar. Therefore, it is all these factors that encouraged the Bank of Canada to opt for a lull in interest rate hikes. According to our most recent forecasts, this lull could last for several months, until our economy comes a little closer to its full production potential. The next announcement to be made by the Bank of Canada is scheduled for July 15, and we do not foresee any change in the Bank’s monetary policy at that time.