Bank of Canada bimonthly meeting: status quo maintained

The overnight rate and the Bank Rate remain unchanged at 2.00% and 2.25%, respectively. The Prime Rate is therefore stable at 3.75%.

1) The Bank of Canada’s forecasts regarding economic growth and inflation have changed little since the publication of the Monetary Policy Report in April.
2) However, the Bank considers that the economy is more rapidly approaching its production potential, which could now be attained before mid-2005.
3) Inflation excluding the eight most volatile elements could return to its 2% target before the end of 2005, but in the short term, total inflation projections were revised upward to reflect higher-than-expected oil prices.

Excerpts from the BoC Press Release:

[…] The Bank’s outlook for economic growth and core inflation in Canada is little changed from the April Monetary Policy Report. The Canadian economy is judged to be operating slightly closer to full production capacity than had been anticipated in April and is now expected to be at its production potential by mid-2005. Core inflation is still projected to move back up to the 2 per cent inflation target by the end of 2005. However, the short-term projection for total CPI inflation has been raised to reflect higher-than-expected world oil prices.

Against this background, the Bank decided to leave the target for the overnight rate unchanged. The details and analysis of the Bank’s outlook and the related issues for monetary policy will be discussed in the Monetary Policy Report Update, to be released on 22 July 2004. […]

Conclusion: It’s no surprise that the Bank of Canada didn’t touch its leading rates this morning. In a short press release, our central bank repeated essentially the same message that it has been issuing since the publication of the Monetary Policy Report in April. However, the Bank of Canada specifies that it will be publishing an update of this semi-annual report on this coming Thursday. It will include a detailed analysis of the Bank’s economic forecasts and the resulting issues for monetary policy. But we mustn’t expect new major elements. The Bank of Canada’s message will be fundamentally the same.

We keep the same economic and financial scenarios: economic growth of 3.0% in 2004 and between 3.5% and 4.0% in 2005, as well as arrival at full production potential into the next year. In other words, Canadian leading interest rates should increase soon to make our monetary policy less accommodating. Naturally, the speed and extent at which the Fed will continue to reposition its monetary policy and the level of the Canadian dollar are key factors in monetary retightening in Canada. Since the Fed will act very gradually, or even cautiously, the refocusing of Canadian monetary policy will also occur very progressively. A first increase in Canadian leading rates is expected in the fall.