The Status Quo for Canadian Monetary Policy
The Bank of Canada Nuances Its Language at Last

The overnight rate and the discount rate remain unchanged at 2.50% and 2.75% respectively. Therefore, the Caisse centrale Desjardins’ prime rate will stay at 4.25%.

1) Developments in the Canadian economy are, overall, consistent with the Bank of Canada's forecasts.
2) Also, the outlook for worldwide economic growth has become slightly darker.
3) If the Canadian dollar were to stay at the current level and all other economic and financial factors remained unchanged, overall world demand from Canada would be lessened.
4) But the underlying trends still suggest solid expansion for the world economy.

Conclusion: The Bank of Canada has finally seemed to reconcile itself to the idea that advances in the Canadian economy are not as strong as we presumed scarcely a few months ago. As we saw from the results of the Canadian national accounts for the third quarter, the rapid rise in value of the Canadian dollar is spreading wide scale damage through the foreign trade sector and, consequently, hurting real GDP growth. That said, due to the current upsurge of the loonie in the fourth quarter, Canadian exports will continue for some time to feel its shrinking effects on employment and growth, especially in the sectors related to foreign trade. What’s more, recently published data paint a much less glowing picture of the planet’s big economies—particularly in Europe. As well, numerous difficulties persist in the United States. It would be surprising if US domestic demand were to accelerate to such a level where it could counteract the negative effects of the loonie’s appreciation on our foreign trade sector. So, today’s status quo should mark the start of a break from the tightening of Canadian monetary conditions that might continue until the spring of 2005. Besides this, the US federal funds target rate will likely be raised during this time, which will help to reduce even further the spread between Canadian and American interest rates. In fact, we might even find ourselves in the short term with negative spreads over the entire rate curve. Last, this environment that is less favourable to our currency should lead to something of a pullback in the loonie, which will give Canadian exporters and manufacturers more time to adjust to the weakness of the US currency.