

March 5, 2014

BANK OF CANADA

The target for the overnight rate stays at 1.00% Monetary authorities haven't changed their stance

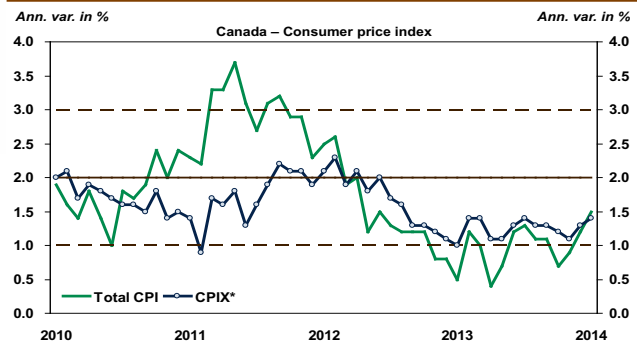
ACCORDING TO THE BANK OF CANADA (BoC)

- The target for the overnight rate stays at 1.00%.
- The global economy is evolving largely as anticipated, with growth expected to strengthen in 2014 and 2015. The United States is still expected to lead the acceleration in advanced economies, although recent data have been softer, largely owing to weather effects.
- In Canada, economic growth in the fourth quarter of 2013 was slightly stronger than the BoC anticipated, and upward revisions earlier in the year further raised the level of GDP. The BoC still expects underlying growth of around 2.50% in 2014, with the current quarter likely to be softer.
- Exports have been a little stronger than previously thought but continue to underperform, and overall business investment has yet to pick up
- Both total CPI and core inflation in Canada are still expected to follow roughly the path outlined in the January *Monetary Policy Report*, although recent readings were slightly higher than expected. Excess supply in the economy and competition in the retail sector will likely keep inflation well below the 2% target this year.
- With inflation expected to be well below target for some time, the downside risks to inflation remain important.
- The timing and direction of the next change to the policy rate will depend on how new information influences this balance of risks.

COMMENTS

Not surprisingly, the BoC has once again opted for the status quo on its key interest rates. The statement released today bore the same message as contained in the *Monetary Policy Report* released in January. Even though the annual inflation rate rose in December 2013 and January 2014, monetary authorities continue to believe that it will remain rather weak in the coming quarters due to significant disinflationary pressure that continues to bear down, an observation fully in line with the opinion we released in the *Economic Viewpoint* published earlier this week.

Inflation has edged up in the last few months



* Bank of Canada's core index.
Sources: Statistics Canada and Desjardins, Economic Studies

Economic growth saw rather positive revised results in 2013, with quarterly gains above potential. We can therefore expect the output gap to close even more. Caution is still in order, as economic growth could disappoint in the first half of 2014 with the upheaval stemming from weather conditions and persistently weak international trade and business investment.

Implications: Downside risks for inflation and economic growth continue to be significant across the country. This will push monetary authorities to maintain the status quo for several more quarters. It would be surprising to see the conditions needed for an increase in key rates materialize before mid-2015.

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NOTE TO READERS: The letters **k**, **M** and **B** are used in texts and tables to refer to thousands, millions and billions respectively.

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Schedule 2014 of Central Bank meetings

	<u>Decision</u>	<u>Rate</u>		<u>Decision</u>	<u>Rate</u>	
JANUARY			JULY			
9	European Central Bank	s.q.	0.25	1	Reserve Bank of Australia	
9	Bank of England	s.q.	0.50	3	European Central Bank	
15	Bank of Brazil	+50 b.p.	10.50	3	Bank of Sweden	
21-22	Bank of Japan	---	---	10	Bank of England	
22	Bank of Canada	s.q.	1.00	11	Bank of Mexico	
29	Reserve Bank of New Zealand	s.q.	2.50	14-15	Bank of Japan	
29	Federal Reserve	s.q.	0.25	16	Bank of Brazil	
31	Bank of Mexico	s.q.	3.50	16	Bank of Canada	
FEBRUARY			AUGUST			
3	Reserve Bank of Australia	s.q.	2.50	5	Reserve Bank of Australia	
6	European Central Bank	s.q.	0.25	7	European Central Bank	
6	Bank of England	s.q.	0.50	7	Bank of England	
13	Bank of Sweden	s.q.	0.75	7-8	Bank of Japan	
17-18	Bank of Japan	---	---	SEPTEMBER		
26	Bank of Brazil	+25 b.p.	10.75	2	Reserve Bank of Australia	
MARCH			OCTOBER			
3	Reserve Bank of Australia	s.q.	2.50	2	European Central Bank	
5	Bank of Canada	s.q.	1.00	6	Reserve Bank of Australia	
6	European Central Bank			6-7	Bank of Japan	
6	Bank of England			9	Bank of England	
10-11	Bank of Japan			22	Bank of Canada	
12	Reserve Bank of New Zealand			23	Bank of Norway	
19	Federal Reserve			28	Bank of Sweden	
20	Swiss National Bank			29	Reserve Bank of New Zealand	
21	Bank of Mexico			29	Bank of Brazil	
27	Bank of Norway			29	Federal Reserve	
31	Reserve Bank of Australia			31	Bank of Japan	
APRIL			NOVEMBER			
2	Bank of Brazil			3	Reserve Bank of Australia	
3	European Central Bank			6	European Central Bank	
7-8	Bank of Japan			6	Bank of England	
9	Bank of Sweden			18-19	Bank of Japan	
10	Bank of England			DECEMBER		
16	Bank of Canada			1	Reserve Bank of Australia	
23	Reserve Bank of New Zealand			3	Bank of Brazil	
25	Bank of Mexico			3	Bank of Canada	
30	Bank of Japan			4	European Central Bank	
30	Federal Reserve			4	Bank of England	
MAY			NOVEMBER			
6	Reserve Bank of Australia			5	Bank of Mexico	
8	European Central Bank			10	Reserve Bank of New Zealand	
8	Bank of England			11	Bank of Norway	
8	Bank of Norway			11	Swiss National Bank	
20-21	Bank of Japan			16	Bank of Sweden	
28	Bank of Brazil			17	Federal Reserve	
JUNE			NOVEMBER			
3	Reserve Bank of Australia			18-19	Bank of Japan	
4	Bank of Canada			DECEMBER		
5	European Central Bank			1	Reserve Bank of Australia	
5	Bank of England			3	Bank of Brazil	
6	Bank of Mexico			3	Bank of Canada	
11	Reserve Bank of New Zealand			4	European Central Bank	
12-13	Bank of Japan			4	Bank of England	
18	Federal Reserve			5	Bank of Mexico	
19	Bank of Norway			10	Reserve Bank of New Zealand	
19	Swiss National Bank			11	Bank of Norway	

NOTE: Certain banks may decide to change rates in-between the scheduled meetings. The abbreviations s.q. and b.p. correspond to status quo and basis points respectively.