

BANK OF CANADA

The target for the overnight rate stays at 1.00% The BoC remains neutral about the next key rate change

ACCORDING TO THE BANK OF CANADA (BoC)

- The target for the overnight rate remains at 1.00%.
- The global economy is performing largely as expected. The recovery in Europe appears to be faltering as the situation in Ukraine weighs on confidence. In the United States, a solid recovery seems to be back on track, with business investment now making a significant contribution to growth.
- In Canada, stronger growth in the second quarter has brought GDP to almost exactly the level the BoC had projected in July's *Monetary Policy Report (MPR)*. Canadian exports surged in the second quarter after a weak winter, supported notably by stronger U.S. investment spending and the past depreciation of the Canadian dollar. Meanwhile, activity in the housing market has been stronger than anticipated.
- The BoC still expects excess capacity in the economy to be absorbed during the next two years.
- Inflation is close to the 2% target and is evolving as the BoC anticipated in its July *MPR*.
- Overall, the risks to the outlook for inflation remain roughly balanced, while the risks associated with household imbalances have not diminished. The balance of these risks is still within the zone for which the current stance of monetary policy is appropriate [...].
- The BoC remains neutral with respect to the next change to the policy rate: its timing and direction will depend on how new information influences the outlook and assessment of risks.

COMMENTS

The BoC stands its ground, keeping the target for the overnight rate at 1.00%, and also reiterating that it was neutral about the future direction of key interest rates.

Yet recent economic developments have been rather positive. The rebound in exports, partially due to last winter's weakness, made a big contribution to economic growth in the second quarter, so that real GDP growth for the period beat expectations.

That said, many uncertainties remain. Will Canadian exports manage to continue their rise over the coming quarters? Will businesses increase their non-residential investments considerably? The latest results there remain disappointing. Will the difficulties now seen in Europe and Asia fade? Will the U.S. economy be able to continue its current thrust? All of these risk factors are clearly pushing monetary authorities to be cautious.

It must be said that the BoC can afford to be patient. Canada's economy still has a lot of excess capacities. What's more, inflation's progress has eased in recent months, after a temporary episode of accelerated growth. The total consumer price index has been posting an annualized change of 1.6% for three months now, compared to its 7.0% increase over the three months before.

Implications: As the BoC's Governor often states, the conduct of monetary policy is a matter of balancing the various risks that weigh on the Canadian economy. In all likelihood, the uncertainties surrounding the economic outlooks will continue to offset the risks associated with imbalances in the household sector for the next few quarters. The target for the overnight rate should therefore remain at 1.00% for another year or so.

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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	s.q.	2.50
9	Bank of England	s.q.	0.50	3	European Central Bank	s.q.	0.15
15	Bank of Brazil	+50 b.p.	10.50	3	Bank of Sweden	-50 b.p.	0.25
21-22	Bank of Japan	---	---	10	Bank of England	s.q.	0.50
22	Bank of Canada	s.q.	1.00	11	Bank of Mexico	s.q.	3.00
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	s.q.	11.00
31	Bank of Mexico	s.q.	3.50	16	Bank of Canada	s.q.	1.00
FEBRUARY			AUGUST				
3	Reserve Bank of Australia	s.q.	2.50	5	Reserve Bank of Australia	s.q.	2.50
6	European Central Bank	s.q.	0.25	7	European Central Bank	s.q.	0.15
6	Bank of England	s.q.	0.50	7	Bank of England	s.q.	0.50
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	s.q.	2.50
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	s.q.	0.25	6-7	Bank of Japan		
6	Bank of England	s.q.	0.50	9	Bank of England		
10-11	Bank of Japan	---	---	22	Bank of Canada		
12	Reserve Bank of New Zealand	+25 b.p.	2.75	23	Bank of Norway		
19	Federal Reserve	s.q.	0.25	28	Bank of Sweden		
20	Swiss National Bank	s.q.	0.00	29	Reserve Bank of New Zealand		
21	Bank of Mexico	s.q.	3.50	29	Bank of Brazil		
27	Bank of Norway	s.q.	1.50	29	Federal Reserve		
31	Reserve Bank of Australia	s.q.	2.50	31	Bank of Japan		
APRIL			NOVEMBER				
2	Bank of Brazil	+25 b.p.	11.00	3	Reserve Bank of Australia		
3	European Central Bank	s.q.	0.25	6	European Central Bank		
7-8	Bank of Japan	---	---	6	Bank of England		
9	Bank of Sweden	s.q.	0.75	18-19	Bank of Japan		
10	Bank of England	s.q.	0.50	DECEMBER			
16	Bank of Canada	s.q.	1.00	1	Reserve Bank of Australia		
23	Reserve Bank of New Zealand	+25 b.p.	3.00	3	Bank of Brazil		
25	Bank of Mexico	s.q.	3.50	3	Bank of Canada		
30	Bank of Japan	---	---	4	European Central Bank		
30	Federal Reserve	s.q.	0.25	4	Bank of England		
MAY			NOVEMBER				
6	Reserve Bank of Australia	s.q.	2.50	5	Bank of Mexico		
8	European Central Bank	s.q.	0.25	10	Reserve Bank of New Zealand		
8	Bank of England	s.q.	0.50	11	Bank of Norway		
8	Bank of Norway	s.q.	1.50	11	Swiss National Bank		
20-21	Bank of Japan	---	---	16	Bank of Sweden		
28	Bank of Brazil	s.q.	11.00	17	Federal Reserve		
JUNE			NOVEMBER				
3	Reserve Bank of Australia	s.q.	2.50	18-19	Bank of Japan		
4	Bank of Canada	s.q.	1.00	DECEMBER			
5	European Central Bank	-10 b.p.	0.15	1	Reserve Bank of Australia		
5	Bank of England	s.q.	0.50	3	Bank of Brazil		
6	Bank of Mexico	-50 b.p.	3.00	3	Bank of Canada		
11	Reserve Bank of New Zealand	+25 b.p.	3.25	4	European Central Bank		
12-13	Bank of Japan	---	---	4	Bank of England		
18	Federal Reserve	s.q.	0.25	5	Bank of Mexico		
19	Bank of Norway	s.q.	1.50	10	Reserve Bank of New Zealand		
19	Swiss National Bank	s.q.	0.00	11	Bank of Norway		
				11	Swiss National Bank		
				16	Bank of Sweden		
				17	Federal Reserve		
				18-19	Bank of Japan		

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.