

BANK OF CANADA

The target for the overnight rate stays at 1.00%

The Bank of Canada notes some improvement in economic conditions

ACCORDING TO THE BANK OF CANADA (BoC)

- The target for the overnight rate stays at 1%.
- Inflation has risen by more than expected. The increase in inflation over the past year is largely due to the temporary effects of a lower Canadian dollar and some sector-specific factors, notably telecommunications and meat prices.
- The U.S. economy has clearly strengthened, particularly business investment, which has benefitted Canada's exports. Growth in the rest of the world, in contrast, continues to disappoint.
- Canada's economy is showing signs of a broadening recovery. Stronger exports are beginning to be reflected in increased business investment and employment. This suggests that the hoped-for sequence of rebuilding that will lead to balanced and self-sustaining growth may finally have begun. However, the lower profile for oil and certain other commodity prices will weigh on the Canadian economy.
- The net effect of these recent developments, together with upward revisions to historical data, is that the output gap appears to be smaller than the BoC had projected in the October *Monetary Policy Report (MPR)*. However, the labour market continues to indicate significant slack in the economy.
- Weaker oil prices pose an important downside risk to the inflation profile. This is tempered by a stronger U.S. economy, Canadian dollar depreciation, and recent federal fiscal measures.
- Household imbalances, meanwhile, present a significant risk to financial stability.
- Overall, the balance of risks remains within the zone for which the current stance of monetary policy is appropriate.

COMMENTS

Overall, Canadian monetary authorities are taking a more hawkish position in today's statement. The BoC notes that the country's economic conditions are more favourable thanks to increased support from exports and even from non-residential investment, which has recently shown some encouraging signs. In addition, Statistics Canada's

upward revision to economic growth of recent years and the first quarters of 2014 draw a more positive picture of the Canadian economy.

Accordingly, the BoC confirmed this morning that the output gap seems to be smaller than initially projected. In fact, our preliminary estimates even indicate that this gap could almost disappear at this point, especially since third-quarter economic growth turned out to be sharply higher than expected.

In light of these more favourable developments, the BoC is putting more emphasis on the problem of household debt. Although the debt level has not changed much in recent months, it is nonetheless clear that the sustained growth in consumer expenses, combined with the upward trend in the real estate market in certain regions, are raising worries.

That said, certain downside risks persist, which will give the BoC reason to be cautious. Economic conditions remain uncertain in Europe. Commodity prices are falling, which could impact not only Canadian real GDP growth, but also lead to downward pressure on inflation.

Implications: Despite more encouraging signs, the presence of certain downside risks will lead the BoC to wait another few months before ordering an increase in its key interest rates.

Benoit P. Durocher
Senior Economist

François Dupuis
Vice-President and Chief Economist

Mathieu D'Anjou
Senior Economist

Benoit P. Durocher
Senior Economist

Jimmy Jean
Senior Economist

Hendrix Vachon
Senior Economist

514-281-2336 or 1 866 866-7000, ext. 2336
E-mail: desjardins.economics@desjardins.com

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	s.q.	0.05
5	Bank of Canada	s.q.	1.00	6	Reserve Bank of Australia	s.q.	2.50
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	s.q.	0.50
10-11	Bank of Japan	---	---	22	Bank of Canada	s.q.	1.00
12	Reserve Bank of New Zealand	+25 b.p.	2.75	23	Bank of Norway	s.q.	1.50
19	Federal Reserve	s.q.	0.25	28	Bank of Sweden	-25 b.p.	0.00
20	Swiss National Bank	s.q.	0.00	29	Reserve Bank of New Zealand	s.q.	3.50
21	Bank of Mexico	s.q.	3.50	29	Bank of Brazil	+25 b.p.	11.25
27	Bank of Norway	s.q.	1.50	29	Federal Reserve	s.q.	0.25
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	s.q.	2.50
3	European Central Bank	s.q.	0.25	6	European Central Bank	s.q.	0.05
7-8	Bank of Japan	---	---	6	Bank of England	s.q.	0.50
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	s.q.	2.50
23	Reserve Bank of New Zealand	+25 b.p.	3.00	3	Bank of Canada	s.q.	1.00
25	Bank of Mexico	s.q.	3.50	3	Bank of Brazil	s.q.	0.50
30	Bank of Japan	---	---	4	European Central Bank	s.q.	0.15
30	Federal Reserve	s.q.	0.25	4	Bank of England	s.q.	0.50
MAY			NOVEMBER				
6	Reserve Bank of Australia	s.q.	2.50	5	Bank of Mexico	s.q.	3.00
8	European Central Bank	s.q.	0.25	10	Reserve Bank of New Zealand	s.q.	2.50
8	Bank of England	s.q.	0.50	11	Bank of Norway	s.q.	1.50
8	Bank of Norway	s.q.	1.50	11	Swiss National Bank	s.q.	0.00
20-21	Bank of Japan	---	---	16	Bank of Sweden	s.q.	0.75
28	Bank of Brazil	s.q.	11.00	17	Federal Reserve	s.q.	0.25
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	s.q.	2.50
5	Bank of England	s.q.	0.50	3	Bank of Canada	s.q.	1.00
6	Bank of Mexico	-50 b.p.	3.00	3	Bank of Brazil	s.q.	0.50
11	Reserve Bank of New Zealand	+25 b.p.	3.25	4	European Central Bank	s.q.	0.15
12-13	Bank of Japan	---	---	4	Bank of England	s.q.	0.50
18	Federal Reserve	s.q.	0.25	5	Bank of Mexico	s.q.	3.00
19	Bank of Norway	s.q.	1.50	10	Reserve Bank of New Zealand	s.q.	2.50
19	Swiss National Bank	s.q.	0.00	11	Bank of Norway	s.q.	1.50
				11	Swiss National Bank	s.q.	0.00
				16	Bank of Sweden	s.q.	0.75
				17	Federal Reserve	s.q.	0.25
				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.