

Bank of Canada holds steady on rates

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OTTAWA - The Bank of Canada held its key interest rate steady at three per cent on Wednesday as continuing signs of economic weakness overshadowed the threat of inflation.

While most analysts had expected the central bank to keep rates steady, a downwardly revised projection for economic growth in Canada reinforces the view that the bank's next move will be to cut interest rates further.

"The three global developments highlighted in the July Monetary Policy Report Update continue to have a major influence on the Canadian economy," the central bank said in a statement. "Two of them - the course of the U.S. economy and the ongoing turbulence in global financial markets - have evolved broadly in line with the bank's expectations. However, there is an increased risk of a more pronounced interplay between weakness in the U.S. economy and tightness in credit conditions that could affect the U.S. outlook for 2009.

"With respect to the third highlighted development, the sharp increases in commodity prices, the risk identified in July that these prices could be weaker than assumed has materialized. This has been largely due to the impact of slower global growth on the demand for energy."

On Tuesday, the Organization for Economic Co-operation and Development forecast the Canadian economy will grow just 0.8 per cent this year, down from the 1.2 per cent projected last spring. That's also less than the downwardly revised 1.1 per cent growth projected only last month by the Finance Department.

Meanwhile, Canada's annual inflation rate rose to 3.4 per cent in July, well above the Bank of Canada's target of two per cent.

"The bank will continue to monitor carefully economic and financial developments in the Canadian and global economies, together with the



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Most analysts had predicted the central bank would leave the key rate at 3 per cent.

evolution of risks, and set monetary policy consistent with achieving the two per cent inflation target over the medium term," the bank said in its statement Wednesday.

The next major barometer of the economy will come Friday, when Statistics Canada releases employment numbers for August.

Expectations for the August employment report being released Friday range from a marginal further loss of about 5,000 jobs, following the 55,000 jobs lost in July, to a modest gain of 10,000 positions.

"On balance, the (rate) decision should be regarded as slightly less dovish than the market had expected. But what matters is what the bank does from here," said Charmaine Buskas, senior economics strategist at TD Securities, adding "it looks like they intend to leave rates on hold in the future, though there is a slight possibility of a cut if some of the downside risks evolve further."

The Canadian dollar was trading around 94.10 cents US shortly after the rate decision was announced. It closed Tuesday at 93.58 cents US.

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