



March 5, 2014

Bank of Canada Interest Rate Announcement

The Bank of Canada announced this morning that it is maintaining its target for the overnight rate at 1 per cent. In its accompanying statement, the Bank noted that the economy is preceding largely on the path the Bank projected in its January Monetary Policy Report. While inflation and growth were slightly higher than expected in the fourth quarter of 2013, the Bank expects slack in the economy to keep inflation below the Bank's 2 per cent target this year. The Bank does not view the risks associated with elevated household imbalances as materially changed and judges the current stance of monetary policy, with the overnight rate at 1 per cent, as appropriate.

Speculation of an impending rate cut by the Bank of Canada has receded in recent weeks following a modest acceleration of inflation and stronger than expected economic growth. The uptick in inflation and growth is in part due to a sharply lower Canadian dollar and, while not explicitly targeting a lower value of the loonie, policymakers at the Bank have welcomed the decline in the dollar. A depreciation in the currency tends to be inflationary and impacts consumer prices in fairly short order while traditional monetary policy, through adjusting the overnight interest rate, impacts inflation only with a significant lag of 12 to 18 months. With the lower loonie helping to pull inflation higher, we expect the Bank will likely maintain its target rate at 1 percent until 2015 when economic conditions may require a gradual increase in the overnight rate.

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