

# Economic Commentary

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## Bank of Canada to Hold Rates Steady Again

The Bank of Canada is holding its third regularly scheduled meeting of the year tomorrow. It is widely expected that the Bank will hold the key benchmark overnight rate steady at 2.5%. This is going to be the fourth meeting that the central bank will have chosen to hold on rate increases. The consensus expectation amongst economists and analysts is that the Bank will maintain its holding pattern until sometime in the summer, before it resumes its inevitable adjustment toward a more neutral setting. The two dates that the market is looking at as earliest dates of the next possible interest rate hike are the meeting of July 12<sup>th</sup> or the meeting of September 7<sup>th</sup>.

As explained in previous Commentaries, the reason the central bank is taking its time with adjusting the stance of monetary policy is first, the need to give domestic companies more time to adjust to the appreciation of the higher Canadian dollar and two, because of well contained inflation (February headline and core inflation rates of 2.1% and 1.8% respectively), which is expected to remain subdued due to the deflationary impact of the higher exchange value of our currency. In recent months a third reason has been added to the two reasons mentioned above, that of the sluggish performance of the Canadian economy. From the second half of last year Canada's growth rate has decelerated from a range well above 3% to a range of around 2.5%, a rate below the economy's long-run rate of capacity growth. As long as the economy is growing more slowly than capacity, the risk of inflation is further reduced.

On Thursday, April 14<sup>th</sup>, the central bank will publish its semi-annual Monetary Policy Report which outlines the current trends in the economy and suggests the future course of monetary policy. Analysts are expecting the release of this publication for further clues as to the Bank's view of the economy and the next possible rate hike.

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