

Economic Commentary

October 10, 2003

Bank of Canada Meets Wednesday Morning October 15th: Most Likely to Stand Pat on Rates

The Bank of Canada is holding its next rate setting meeting October 15th. There is considerable uncertainty as to whether it will keep rates unchanged as it suggested in its press release following September 3rd's meeting or whether it will cut rates a third time in response to a slowed economy and the threat of the rising Canadian dollar. The Canadian dollar made a new 9-year high this week and is up 18% since the beginning of the year, a real concern to the export-oriented tradable goods sector of the economy. If you read the newspapers, it is made to seem that this is the biggest threat to Canada's economy and that the central bank should slash rates as soon as possible to compensate for the economic fallout this can cause.

In my view, interest rates in Canada are already low enough, especially after the last two rate cuts. The underlying strength of the economy is stronger than it appears on the surface, and this year's slowdown has a lot to do with all the freak "biblical" accidents that have befallen our economy. The goods sector of the economy accounts for less than a third of the economy, which means that two thirds of the economy is not directly impacted. Lower interest rates cannot undo the harm that a rising dollar will do to the export competitiveness of our manufacturers. As a country, we cannot rely on a permanent policy of a low dollar, and even if we tried, the value of our dollar is determined as much by conditions outside our economy as they are by policy factors inside. Lets not forget that our economy also benefits from a stronger Canadian dollar because it keeps inflation down, it keeps interest rates down and the price of all imports and especially machinery and equipment down and this is good for our economy. I believe that the call for lower interest rates at this point is misplaced.

This morning Statistics Canada released the latest employment figures, which showed that 46,300 new jobs were created last month, an unambiguously strong report on the economy. This news pushed the Canadian dollar to a new high of 75.73 cents this morning and suggests that the currency markets do not expect a cut in rates.

Therefore, my expectation is that the Bank will stand pat on rates next week and await further evidence on what is happening to the economy before it decides on a change. The next policy rate-setting meeting is scheduled for December 2nd.

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