



PRESS RELEASE



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Bank of Canada lowers overnight rate target by 1/2 percentage point to 3 per cent

OTTAWA, Ontario, April 22, 2008 — The Bank of Canada today announced that it is lowering its target for the overnight rate by one-half of a percentage point to 3 per cent. The operating band for the overnight rate is correspondingly lowered, and the Bank Rate is now 3 1/4 per cent.

Growth in the global economy has weakened, reflecting the effects of a sharp slowdown in the U.S. economy and ongoing dislocations in global financial markets. Growth in the Canadian economy has also moderated as buoyant growth in domestic demand, supported by high employment levels and improved terms of trade, has been substantially offset by the fall in net exports. While both total and core CPI inflation were running at about 1.5 per cent at the end of the first quarter, the underlying trend of inflation is judged to be about 2 per cent, consistent with an economy that was operating just above its production capacity.

The Bank is now projecting a deeper and more protracted slowdown in the U.S. economy. This has direct consequences for the Canadian economic outlook, with declining exports projected to exert a significant drag on growth in 2008. In addition, tightening credit conditions and softening sentiment are expected to moderate business investment and consumer spending. Nevertheless, domestic demand is projected to remain strong, supported by firm commodity prices, high employment levels, and the effect of cumulative easing in monetary policy.

The Bank projects that the Canadian economy will grow by 1.4 per cent this year, 2.4 per cent in 2009, and 3.3 per cent in 2010. Consistent with this growth profile, the economy moves into excess supply in the second quarter of 2008, and spare capacity continues to increase through early next year. However, a gradual recovery in the U.S. economy, a return to more normal credit conditions, and accommodative monetary policy should generate above-potential growth and bring the economy back into balance around mid-2010.

The recent price-level adjustments for automobiles and the effect of past changes in indirect taxes will keep measured inflation below target through 2008. The emergence of excess supply in the economy should keep downward pressure on inflation through 2009. Both core and total inflation are projected to move up to 2 per cent in 2010, as the economy moves back into balance. There are both upside and downside risks to the Bank's new projection for inflation; these risks appear to be balanced.

In line with this outlook, some further monetary stimulus will likely be required to achieve the inflation target over the medium term. Given the cumulative reduction in the target for the overnight rate of 150 basis points since December, the timing of any further monetary stimulus will depend on the evolution of the global economy and domestic demand, and their impact on inflation in Canada.

A full analysis of economic and financial developments, trends, and risks will be set out in the Bank's *Monetary Policy Report*, to be published on 24 April 2008.

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Information note:

The Bank's next scheduled date for announcing the overnight rate target is 10 June 2008.