



## Bank of Canada keeps target for the overnight rate at 4 1/4 per cent

FOR IMMEDIATE RELEASE

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The Bank of Canada today announced that it is maintaining its target for the overnight rate at 4 1/4 per cent. The operating band for the overnight rate is unchanged, and the Bank Rate remains at 4 1/2 per cent.

Since the July *Monetary Policy Report Update (MPRU)*, the global economy has continued its solid expansion. While there has been some moderation in U.S. economic growth, in the rest of the world growth has strengthened further. Commodity prices have remained firm through this period. In Canada, the level of economic activity in the second quarter of 2006 was somewhat below the Bank's expectations, primarily because of weaker exports. Total and core CPI inflation in July came in slightly higher than the Bank expected, owing largely to price strength in the housing and services sectors. Nevertheless, all things considered, the underlying trends in the Canadian economy appear to be in line with the broad thrust of the Bank's July projection in terms of output and inflation.

Looking forward, the Bank continues to expect the Canadian economy to operate at about its production potential, with total CPI inflation returning to the 2 per cent inflation target in the second half of 2007. In line with this outlook, the current level of the target for the overnight rate is judged at this time to be consistent with achieving the inflation target over the medium term.

The key risks to the outlook over the next few quarters remain those set out in the July *MPRU*: the upside risks to Canadian output and inflation relate primarily to the momentum in household spending and housing prices, while the main downside risk is that U.S. household demand could slow more rapidly than expected, thus reducing demand for Canadian exports. While both these risks appear to be a little greater than they were in July, the Bank continues to judge that, overall, risks are roughly balanced. The Bank will pay close attention to the evolution of risks, together with economic and financial developments in the Canadian and global economies. A full analysis of economic developments, trends, and risks will be provided in the *Monetary Policy Report*, to be published on 19 October 2006.

*Information note:*

The Bank of Canada's next scheduled date for announcing the overnight rate target is 17 October 2006.

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