



BANK OF CANADA
BANQUE DU CANADA

Bank of Canada maintains overnight rate target at 1 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 1 per cent. The Bank Rate is correspondingly 1 1/4 per cent and the deposit rate is 3/4 per cent.

The global economic outlook has deteriorated in recent weeks as several downside risks to the projection in the Bank's July *Monetary Policy Report* (MPR) have been realized. The European sovereign debt crisis has intensified, a broad range of data has signalled slower global growth, and financial market volatility has increased sharply. Recent benchmark revisions show that the U.S. recession was deeper and its recovery has been shallower than previously reported. In combination with recent economic data, this implies that U.S. growth will be weaker than previously anticipated. The Bank expects that American household spending will be even more subdued in the face of high personal debt burdens, large declines in wealth and tough labour market conditions. Fiscal stimulus in the United States will also soon turn into material fiscal drag. Acute fiscal and financial strains in Europe have triggered a generalized retrenchment from risk-taking and could prompt more severe dislocations in global financial markets. Resolution of these strains will require additional significant initiatives by European authorities. Growth in emerging-market economies has been robust, although its rate and composition will be affected by weakness in major advanced economies. While commodity prices have declined owing to diminished global growth prospects, they remain relatively high.

Largely due to temporary factors, Canadian economic growth stalled in the second quarter. The Bank continues to expect that growth will resume in the second half of this year, led by business investment and household expenditures, although lower wealth and incomes will likely moderate the pace of investment and consumption growth. The supply and price of credit to businesses and households remain very stimulative. However, financial conditions in Canada have tightened somewhat and could tighten further in the event that global financial conditions continue to deteriorate. Net exports are now expected to remain a major source of weakness, reflecting more modest global demand and ongoing competitiveness challenges, in particular the persistent strength of the Canadian dollar.

Slower global economic momentum will dampen domestic resource utilization and inflationary pressures. The Bank expects total CPI inflation to continue to moderate as temporary factors, such as significantly higher food and energy prices, unwind. Core inflation is expected to remain well-contained as labour compensation growth stays modest, productivity recovers, and inflation expectations remain well-anchored.

Reflecting all of these factors, the Bank has decided to maintain the target for the overnight rate at 1 per cent. In light of slowing global economic momentum and heightened financial uncertainty, the need to withdraw monetary policy stimulus has diminished. The Bank will continue to monitor carefully economic and financial developments in the Canadian and global economies, together with the evolution of risks, and set monetary policy consistent with achieving the 2 per cent inflation target over the medium term.

Information note:

The next scheduled date for announcing the overnight rate target is 25 October 2011.

A full update of the Bank's outlook for the economy and inflation, including risks to the projection, will be published in the MPR on 26 October 2011.

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