

For Immediate Release

Contact:

Brian Matthey

613-384-4000 ext 222

VERICO-The Mortgage Professionals

Bank of Canada Opens the Door a Crack But Enters Cautiously

Bank of Canada raises it's rate only by .25%

June 1, 2010

Bank of Canada increases overnight rate target to 1/2 per cent and re-establishes normal functioning of the overnight market

The Bank of Canada today announced that it is raising its target for the overnight rate by one-quarter of one percentage point to 1/2 per cent. The Bank Rate is correspondingly raised to 3/4 per cent and the deposit rate is kept at 1/4 per cent, thus re-establishing the normal operating band of 50 basis points for the overnight rate.

The global economic recovery is proceeding but is increasingly uneven across countries, with strong momentum in emerging market economies, some consolidation of the recovery in the United States, Japan and other industrialized economies, and the possibility of renewed weakness in Europe. The required rebalancing of global growth has not yet materialized.

In most advanced economies, the recovery remains heavily dependent on monetary and fiscal stimulus. In general, broad forces of household, bank, and sovereign deleveraging will add to the variability, and temper the pace, of global growth. Recent tensions in Europe are likely to result in higher borrowing costs and more rapid tightening of fiscal policy in some countries - an important downside risk identified in the April *Monetary Policy Report* (MPR). Thus far, the spillover into Canada from events in Europe has been limited to a modest fall in commodity prices and some tightening of financial conditions.

Activity in Canada is unfolding largely as expected. The economy grew by a robust 6.1 per cent in the first quarter, led by housing and consumer spending. Employment growth has resumed. Going forward, household spending is expected to decelerate to a pace more consistent with income growth. The anticipated pickup in business investment will be important for a more balanced recovery.

CPI inflation has been in line with the Bank's April projections. The outlook for inflation reflects the combined influences of strong domestic demand, slowing wage growth, and overall excess supply.

In this context, the Bank has decided to raise the target for the overnight rate to 1/2 per cent and to [re-establish the normal functioning of the overnight market](#).

This decision still leaves considerable monetary stimulus in place, consistent

with achieving the 2 per cent inflation target in light of the significant excess supply in Canada, the strength of domestic spending, and the uneven global recovery.

Given the considerable uncertainty surrounding the outlook, any further reduction of monetary stimulus would have to be weighed carefully against domestic and global economic developments.

Information note:

The next scheduled date for announcing the overnight rate target is 20 July 2010. 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 22 July 2010.

This is how the Chief Economist from CIBC sees it!

Bank of Canada very cautious

Bank of Canada raised rates prematurely in 1991, 1995 and 2003-past mistakes lesson learned

Strong dollar means more pain for Canadian manufacturers and a raise in rates will push Canadian dollar higher so slow and cautionary is the order of the day

Government stimulus programs are out the window in 2011 so economies have to stand on their own two feet without stimulus-it's a wait and see

New HST will impact growth

Developments in Europe could be a significant risk to global economic recovery

Rates will remain low by historic standards

See prime increasing by up to 1% by end of year ,then a pause

In 2011 another 1-1.25% so by end of 2011, forecasting prime at around 4.25%-4.50%

Discounts on prime unlikely to get back to prime less .90% but now have reached prime less .60% and are better than when discounts were prime less .90% as the base rate is much lower

Long term rates unlikely to increase significantly

Lenders are pricing a higher spread over bond than in the past based on risk pricing and profit pricing (the 5 Big banks just announced over 5 billion in profit)-gives them more room to discount when they need to

This is How We See It

Very Cautionary-bodes well for variable rate mortgage both in the short term and the long term

Spread over bond yesterday was 1.86% so lenders are padding their bottom lines and want people to take a fixed rate because that's where the profit for them is.

There is still room for long term rates to move down

**Bank of Canada Historic Rates
1991 to 2010**

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ave Year
1991	12.25	11.25	11.25	10.75	9.75	9.75	9.75	9.75	9.50	8.75	8.50	8.00	9.94
1992	7.50	7.50	8.25	7.75	7.50	7.00	6.75	6.50	6.25	7.75	9.75	7.25	7.48
1993	6.75	6.50	6.00	6.00	6.00	6.00	5.75	5.75	5.75	5.75	5.50	5.50	5.94
1994	5.50	5.50	6.25	6.75	6.75	8.00	7.50	7.25	7.00	7.00	7.00	8.00	6.88
1995	9.25	9.50	9.75	9.75	9.25	8.75	8.25	8.00	8.00	8.00	7.75	7.50	8.65
1996	7.25	7.00	6.75	6.50	6.50	6.50	6.25	5.75	5.75	5.00	4.75	4.75	6.06
1997	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	5.25	5.50	6.00	4.96
1998	6.00	6.50	6.50	6.50	6.50	6.50	6.50	6.50	7.25	7.00	6.75	6.75	6.60
1999	6.75	6.75	6.75	6.50	6.25	6.25	6.25	6.25	6.25	6.25	6.50	6.50	6.44
2000	6.50	6.75	7.00	7.00	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.27
2001	7.25	7.25	6.75	6.50	6.25	6.25	6.00	5.75	5.25	4.50	4.00	4.00	5.81
2002	3.75	3.75	3.75	4.00	4.00	4.25	4.50	4.50	4.50	4.50	4.50	4.50	4.21
2003	4.50	4.50	4.75	5.00	5.00	5.00	4.75	4.75	4.50	4.50	4.50	4.50	4.69
2004	4.25	4.25	4.00	3.75	3.75	3.75	3.75	3.75	4.00	4.25	4.25	4.25	4.00
2005	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.50	4.75	4.75	5.00	4.42
2006	5.25	5.25	5.50	5.75	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	5.81
2007	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.25	6.25	6.25	6.25	6.25	6.10
2008	5.75	5.75	5.25	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.00	3.50	4.79
2009	3.00	3.00	2.50	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.40
2010	2.25	2.25	2.25	2.25	2.25	2.50							

Summary:

1991 to 1993 high to low **-6.75%**
 1993 to 1995 low to high **+4.25%**
 1995 to 1997 high to low **-5.00%**
 1997 to 2000 low to high **+2.75%**
 2000 to 2002 high to low **-3.75%**
 2002 to 2003 low to high **+1.25%**
 2003 to 2004 high to low **-1.25%**
 2004 to 2007 low to high **+2.50%**
 2007 to 2009 high to low **-4.00%**
 2009 to 2010-flat

The Bank of Canada changed in rate set policy in November 2000 to set 8 times during the year that they would establish monetary policy to guide inflation within a band of 1-3%. This was done to prevent the hyper inflation experienced during the 1980 early 1990's.