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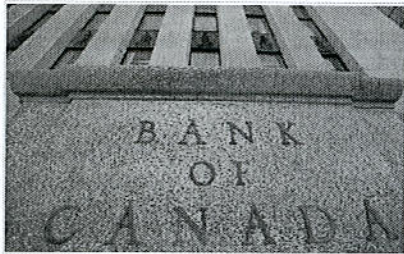
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BoC lowers target for overnight rate

Home News

by Justin da Rosa | 21 Jan 2015



For the first time in over four years, the Bank of Canada has changed its target for the overnight rate, which may come as a surprise to agents and even their mortgage partners.

“The Bank of Canada today announced that it is lowering its target for the overnight rate by one-quarter of one percentage point to 3/4 per cent. The Bank Rate is correspondingly 1 per cent and the deposit rate is 1/2 per cent,” the BoC wrote in an official release. “This decision is in response to the recent sharp drop in oil prices, which will be negative for growth and underlying inflation in Canada.”

The rate change likely drive clients to variable rate mortgages over fixed.

And while the drop is due, in large part, to a plummeting energy sector, the central bank remains optimistic about other industries. But for how long?

“The oil price shock is occurring against a backdrop of solid and more broadly-based growth in Canada in recent quarters,” the bank writes. “Outside the energy sector, we are beginning to see the anticipated sequence of increased foreign demand, stronger exports, improved business confidence and investment, and employment growth.

“However, there is considerable uncertainty about the speed with which this sequence will evolve and how it will be affected by the drop in oil prices. Business investment in the energy-producing sector will decline,” it continues. “Canada’s weaker terms of trade will have an adverse impact on incomes and wealth, reducing domestic demand growth.”

The news follows a number of predictions near the end of 2014 that the Bank of Canada would eventually hike the rate in the coming years, which is now looking less likely.

In September, TD Bank predicted the short term rate will hit 2 per cent by the end of 2016.

COMMENTS

by Bruce Dougall | 1/21/2015 11:37:36 AM

This is not a surprise to me. I have been saying for years now that interest rates will not go up. Why? Because Canada and particularly the

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