MORTGAGEBROKERS OTTAWA

Interest rate remains unchanged

By JULIAN BELTRAME, THE CANADIAN PRESS March 2, 2010

OTTAWA — Canadians are all but certain to enjoy historically low interest rates for at least another four months after the Bank of Canada passed up on its opportunity to signal a policy change Tuesday.

The central bank acknowledged Tuesday during its scheduled policy rate announcement that the economy is improving — better than even it had projected — but asserted it still needs the help of low interest rates to spur activity.

And it has again warned that the high Canadian dollar constitutes a major drag to future economic growth. The bank kept the trend-setting rate at 0.25% for at least another month and a half, when it next pronounces on rates, and in all likelihood until July.

That is the message Canadians are likely to hear in Thursday's federal budget as well, when Finance Minister Jim Flaherty is expected to say that Ottawa will carry on with the second year of its stimulus spending plans.

The bank said that although the economy has improved from last year's deep slump, much of that has come from actions by governments and central bankers to prime the economic pump.

"The underlying factors supporting Canada's recovery are largely unchanged — policy stimulus, increased confidence, improved financial conditions, global growth and higher terms of trade," the bank said.

"At the same time, the persistent strength of the Canadian dollar and the low absolute level of U.S. demand continue to act as significant drags on economic activity."

Conditions have also improved in the global outlook, the bank said, but in the advanced economies mainly as a result of "exceptional" monetary and fiscal stimulus.

There have been some changes since the bank last pronounced on interest rates in January, and most have been for the good.

On Monday, Statistics Canada reported that the economy had bounced back strongly in the last three months of 2009 with a 5% growth rate. That was a bigger jump than the central bank had expected and resulted in the Canadian dollar gaining a full point to 96.01 cents US at the close Monday.

The bank said the main engine of growth remains vigorous domestic spending, but added better results for the battered export sector to its list of factors.

Markets may have expected Bank of Canada governor Mark Carney to signal Tuesday he was preparing to tighten the monetary reins as a result, and the bank did suggest in its announcement that core inflation has been "slightly firmer than projected."

But it noted that some of the higher inflationary pressures were due to transitory factors, adding that its outlook on prices had not materially changed since January.

"Conditional on the current outlook for inflation, the target overnight rate (0.25%) can be expected to remain at its current level until the end of the second quarter of 2010 in order to achieve the inflation target," it said.