

Bank of Canada Maintains Overnight Rate

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

Global economic and financial developments have been broadly in line with the Bank's expectations. Following a deep, synchronous recession, recent indicators point to the start of recovery in major economies, supported by aggressive policy stimulus and the stabilization of global financial markets. In Canada, economic growth, the output gap, and inflation in the first half of 2009 have evolved largely as the Bank has expected.

Stimulative monetary and fiscal policies, improved financial conditions, firmer commodity prices, and a rebound in business and consumer confidence are supporting domestic demand growth in Canada. Combined with recent information on inventory adjustments and automotive production, this suggests that GDP growth in the second half of 2009 could be stronger than the Bank projected in July. Total CPI inflation is still expected to trough in the current quarter before returning to the 2 per cent target in the second quarter of 2011 as aggregate supply and demand return to balance.

The Bank reiterated today their conditional commitment to hold the overnight rate target at 1/4 until the end of the second quarter of 2010 in order to achieve the inflation target. This bodes well for interest rates remaining low over this period.

Persistent strength in the Canadian dollar remains a risk to growth and to the return of inflation to target. In its conduct of monetary policy at low interest rates, the Bank retains considerable flexibility, consistent with the framework outlined in the April MPR.

The next Bank of Canada announcement is scheduled for October 22nd, 2009.

Kind Regards,

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