

## Interest Rate Forecast- July 2010

This month's report is an abbreviated summer vacation version. The main forecast concerns of an economic slowdown and a possible U.S. double-dip recession along with the European sovereign/banking debt crisis remain. Economic data released in July did not alter the economic growth trend or outlook. The release of the European bank stress test results aided transparency of the issue and provided some relief for markets but doubts linger about the ability of some banks to withstand more severe outcomes than in those tests.

The Bank of Canada released its updated economic outlook and pared back its growth expectations from last April citing the weaker profile for global economic growth and more modest consumption growth. Canada's housing market continues to soften and July housing sales will be down when released next month. Other consumer indicators are softer as well.

The Bank's rate increase on July 20 was the second in its rate normalization process. A repeat performance is expected on Sept. 8 and Oct. 19. Thereafter, the Bank is on hold for about six months in response to weaker economic growth in Canada and the U.S. The typical growth cycle downturn lasts at least six months. Signs of firmer growth emerge before mid-2011 and the Bank resumes raising rates in June 2011.

Many assumptions need to materialize for this forecast to play out and other outcomes are possible. The better-than-expected scenario has the economy hardly slowing and the recovery becoming self-sustaining requiring steadily higher interest rates in Canada and the first increases in U.S. central bank rates next year. In the worse-than-expected scenario, the Bank remains in a holding pattern for most of 2011 and no rate increase in the U.S. until 2012 at the earliest. Should another recession hit the U.S., rate cuts in Canada are likely.

Administered rates declined in July. GIC redeemable deposit and posted fixed term mortgage rates came off about 10 to 15 basis points early in the month. Further small declines in August are possible but not expected.

The yield curve flattens or becomes less steep in the near term before steepening in the first half of 2011. When the Bank tightens monetary conditions around mid-2011, the yield curve will upshift and flatten.

Target Overnight Rate Forecast	
Meeting Date	Rate (%)
July 20 (a)	0.75
Sept. 8	1.00
Oct. 19	1.25
Dec. 7	1.25
Jan. 2011	1.25
Mar.	1.25
Apr.	1.25
June	1.50
July	1.75
Sept.	2.00
Oct.	2.25
Dec.	2.50
Jan 2012	2.75
Mar.	2.75
Apr.	3.00
June	3.25



## Interest Rate Forecast

Item	2010 Q2a	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2
Target Overnight Rate	0.35	0.75	1.25	1.25	1.35	1.75	2.25	2.75	3.00
Prime Rate	2.35	2.75	3.25	3.25	3.35	3.75	4.25	4.75	5.00
1-mo. T-Bill	0.21	0.60	1.10	1.10	1.25	1.65	2.15	2.60	2.90
3-mo. T-Bill	0.41	0.80	1.30	1.20	1.40	1.85	2.35	2.75	3.10
6-mo. T-Bill	0.68	1.00	1.40	1.25	1.70	2.00	2.60	3.15	3.40
1-year T-Bill	1.13	1.25	1.60	1.50	1.90	2.40	2.95	3.45	3.85
2-year GoC Bond	1.79	1.75	2.00	2.05	2.35	2.75	3.25	3.60	3.90
3-year GoC Bond	2.20	1.95	2.10	2.25	2.65	2.95	3.50	3.80	4.05
5-year GoC Bond	2.81	2.55	2.65	2.70	3.10	3.40	3.90	4.20	4.50
10-year GoC Bond	3.47	3.30	3.45	3.50	3.75	4.00	4.35	4.60	4.90
Spread: 10y less 3m	3.06	2.50	2.15	2.30	2.35	2.15	2.00	1.85	1.80

Note: Quarterly average based on daily data. a = actual, all others forecast.

## Deposit Rate Forecast

Item	2010 Q2a	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2
Prime Rate	2.35	2.75	3.25	3.25	3.35	3.75	4.25	4.75	5.00
1-year GIC	0.62	0.75	1.05	1.05	1.30	1.70	2.00	2.40	2.75
3-year GIC	1.41	1.45	1.60	1.60	1.65	1.90	2.30	2.70	3.00
5-year GIC	1.97	1.90	1.90	1.95	2.15	2.30	2.75	3.15	3.55

Note: Quarterly average based on weekly data. a = actual, all others forecast. Redeemable rates.

## Lending Rate Forecast

Item	2010 Q2a	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2
Prime Rate	2.35	2.75	3.25	3.25	3.35	3.75	4.25	4.75	5.00
1-year Mortgage	3.68	3.55	3.90	3.85	4.25	4.80	5.25	5.65	6.00
3-year Mortgage	4.59	4.45	4.55	4.60	4.85	5.15	5.55	5.90	6.20
5-year Mortgage	6.03	5.90	6.00	6.05	6.25	6.45	6.75	7.05	7.35

Note: Quarterly average based on weekly data. a = actual, all others forecast. Posted fixed term rates.

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