

January 2018

## Rate Alert

The Bank of Canada will increase its policy rate 25 basis points to 1.25 per cent at its January 17, 2018 rate announcement. The prime lending rate will increase by a similar amount to 3.45 per cent. Variable prime rate personal and mortgage loans will also increase.

Posted fixed term mortgage loan rates due to the rising cost of funds will increase. Bond yields have risen between 30 to 40 basis points in the past three weeks, which is sufficient to bump up mortgage rates by about 20 to 30 basis points depending on term.

Administered deposit rates will likely increase, though by a lesser amount than lending rates.

The recent strong economic data flow for Canada and other key economies, commodity price gains, high consumer and business sentiment, signs of firmer inflation and wage increases, 2018 minimum wage increases aside, and with little slack in the economy and labour market, set the stage for a January rate increase.

The January rate will give the Bank more maneuvering room to apply stimulus should it be needed in the event of a global recession, commodity price shock, trade policy mistake, or geopolitical crisis.

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