

Interest Rate Alert

Interest Rate Alert

The Bank of Canada will raise its target rate one quarter percentage point to 1.75 per cent on Wednesday Oct. 24, 2018. Economic conditions support another rate increase, which would be the fifth quarter-point increase since the oil recession in 2015 and 2016. The economy is operating near full capacity and the Bank expects that GDP will grow somewhat faster than potential output in 2019. While core inflation is contained at around two per cent, the Bank aims to remain ahead of the inflation curve. Recently imposed tariffs, higher minimum wage rates, and higher oil prices in the context of a tighter labour market are a recipe for upward pressure on inflation. The Bank's latest *Business Outlook Survey* recorded increasing signs of cost pressures as well as substantial optimism about future sales growth.

Futures markets are pricing in a quarter-point increase as are most forecasters. The Bank would seriously disappoint markets by not making the move. T-bill rates and bond yields have largely priced in this increase.

The increase in the Bank's overnight target rate to 1.75 per cent will prompt the prime business lending rate to rise to 3.95 per cent from 3.70 per cent. Variable rate loan costs will move higher accordingly.

Beyond Wednesday, the outlook remains one of gradual rate increases in this normalization phase. Some forecasters see three quarter-point moves in 2019 based on expected inflationary pressures and reduced downside risk with the USMCA. Our next monthly *Interest Rate Forecast* will examine these and other factors more closely.

Helmut Pastrick

Chief Economist, Central 1 Credit Union

hpastrick@central1.com

www.central1.com 604.737.5026

Terms

Published by the Economics Department of Central 1 Credit Union, 1441 Creekside Drive, Vancouver, B.C. V6J 4S7 © Central 1 Credit Union, 2011.

This work may not be reproduced in whole or part, by photocopy or other means, without permission of Central 1 Credit Union.

The Interest Rate Alert may have forward-looking statements about the future economic growth. These statements are subject to risk and uncertainty. Actual results may differ due to a variety of factors, including regulatory or legislative developments, competition, technological change, global capital market activity and general economic conditions in Canada, North America or internationally. This list is not exhaustive of the factors that may affect any of the Interest Rate Alert's forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on the Interest Rate Alert's forward-looking statements.

The Interest Rate Alert and Central 1 Credit Union disclaims any and all warranties, whether express or implied, including (without limitation) any implied warranties of merchantability or fitness for a particular purpose. The Interest Rate Alert and Central 1 Credit Union will not accept any responsibility for the reader's use of the data and/or opinions presented in the Interest Rate Alert or any loss arising therefrom.

Chief Economist: **Helmut Pastrick** Deputy Chief Economist: **Bryan Yu** Senior Financial Economist: **David Hobden** Regional Economist, Ontario: **Edgard Navarrete**
Production: **Judy Wozenroft**