

## Interest rate increases delayed again

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Forecasts for Bank of Canada interest rate increases are starting to look a lot like [Chinese Democracy](#), the 2008 album from Guns N' Roses that took 15 years to make amid countless broken deadlines. Maybe that allusion is a bit of a stretch, but the point is that the central bank hasn't raised its key interest rate since last September – and while many observers believed that the relatively strong Canadian economy would bring more hikes, the bank has been sitting on its hands ever since.

Now, Toronto-Dominion Bank is shelving its expectation for a rate later this year, and instead believes the Bank of Canada won't be raising its key rate until January 2012. Even then, it now expects a far more gentle approach to monetary policy, with the overnight rate rising to just 2 per cent next year, and to 3 per cent by 2013.

Previously, TD economists had expected the Bank of Canada to take a more aggressive approach, resuming rate increases in July and taking the overnight rate to 3 per cent by mid-2012.

Craig Alexander, chief economist at TD, noted that inflation expectations are well anchored and the Canadian dollar is high, which puts less pressure on the central bank to act. As well, the global economic backdrop is driving some frowns these days.

“There are concerns about how the sovereign debt crisis in Europe will unfold,” Mr. Alexander said in a note. “The main worries are how a debt restructuring would impact European bank balance sheets, whether a restructuring by Greece would set off a series of debt restructurings in other countries, and ultimately whether a Greek restructuring would trigger a new systemic financial crisis. Although Canada has limited direct exposure to the at-risk European debt, the Canadian and U.S. financial systems would be impacted by any significant financial instability that might occur.”

Meanwhile, the situation in the United States isn't exactly encouraging, which has forced observers to push back expectations for a rate increase from the Federal Reserve indefinitely.

“Given the enormous inventory of unsold and foreclosed homes, there are clear risks of further home price declines that could weaken consumer spending and constrain the willingness of financial institutions to make new loans,” Mr. Alexander said. “The inability of the U.S. government to develop a credible plan to tackle its fiscal deficit is leading to sovereign debt concerns, which is shocking when one considers that the global financial system uses U.S. dollars as the reserve currency.”