

# Interest rate hike unlikely until July

BY CLAIRE SIBONNEY, REUTERS FEBRUARY 26, 2010

Most of the country's primary securities dealers expect the Bank of Canada will maintain a conditional vow to keep its key interest rate at the current near-zero level until July at the earliest.

Most forecasts were left unchanged in a Reuters poll conducted ahead of Tuesday's interest-rate decision. All 12 of Canada's primary dealers participated in the poll.

All said the central bank would stand pat on rates. One dealer predicts a 25-basis-point move higher in April, while two dealers forecast the first rate hike -- also 25 basis points -- coming in June.

All dealers surveyed expect a rate increase this year. Nine of the 12 dealers forecast that rate increases won't start until July, or later, but most then expect the central bank to raise the rate at every meeting for the rest of the year.

National Bank Financial predicted the first hike in April, well before the expiration of the pledge, because of the strong employment outlook, firm inflation figures and a booming housing market.

Encouraged by rock-bottom interest rates and rising consumer confidence, home sales and prices have been on a rebound after grinding almost to a halt after the global financial crisis in late 2008.

"The housing market is responding strongly to a zero-interest-rate policy and we think the Bank of Canada will need to adjust that stance on that basis," said Paul-Andre Pinsonnault, a senior fixed-income economist at National Bank Financial.

The Bank of Canada has promised to keep interest rates unchanged until at least the end of June, as long as inflation remains in check.

Higher gasoline prices pushed the annual inflation rate to near the central bank's two-per-cent target in January. Forecasts on where the bank's key policy rate, now at 0.25 per cent, will stand at the end of the year ranged from 0.75 per cent to 1.75 per cent, with the median forecast at 1.25 per cent. The majority of dealers forecast the first increase at a minor 25 basis points, but some predicted bolder moves.

"It could be 75 basis points or 50 basis points in October easily without breaking a sweat," said Laurentian Bank of Canada economist Sebastien Lavoie.