

## CAD Finance Minister Jim Flaherty forecast

Wednesday, 04 June 2008

Poor Canadian GDP data last week weakened the Loonie against the Pound. Finance Minister Jim Flaherty maintained his forecast for Canadian economic growth of 1.7% in 2008 but warned that the economy faces serious challenges with the slowdown in the US. We then saw Canadian GDP shrink unexpectedly by 0.3% during the first quarter of 2008 which is the first negative quarter for five years.

The contraction in Canadian GDP is a concern as another negative quarter would mean that the Canadian economy is in a recession. The BoC are in a position to try and prevent this though as inflation is still below the 2% target leaving room for further interest rate cuts to try and stimulate the economy. With further cuts expected in Canada we should see the Sterling/CAD cross sitting just below the 2 Dollar mark as high inflation in the UK is tying the Bank of England's hands in terms of further interest rate cuts.