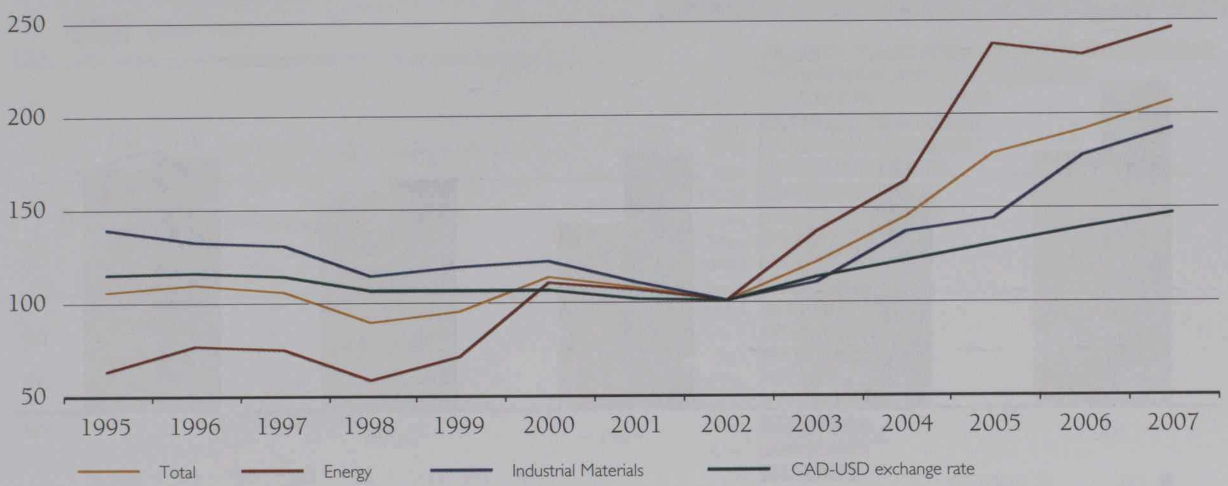
FIGURE 3-7
Commodity Price and Exchange Rate Indexes (2002=100)



Source: The Bank of Canada

Interest rates

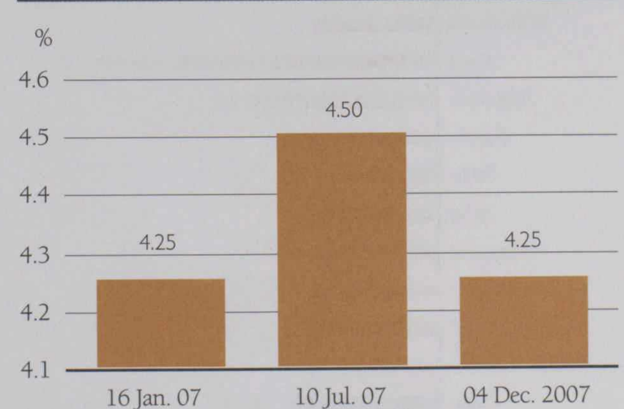
Short-term interest rates rose in July 2007 and fell towards the end of the year. As shown in Figure 3-8, the Bank of Canada raised its key policy interest rate by 25 basis points in July 2007, bringing it to 4.50 percent. The fall out of the sub-prime crisis in the U.S. and risk of economic slowdown have led the Bank of Canada to cut the key policy interest rate aggressively since then, although less so than the U.S. Federal Reserve. As of April 22, 2008, the Bank's key policy rate stood at 3.00 percent.

Prices

In 2007, Canadian consumers paid an average of 2.2 percent more than they did in 2006 for the goods and services included in the Consumer Price Index (CPI) basket. The main contributors to this overall increase were increases to homeowners' home and mortgage insurance (up 6.7 percent), mortgage interest costs (up 6.0 percent), homeowners' replacement costs (up 5.9 percent)[1], and other owned accommodation expenses (up 5.8 percent). Other upward contributors were owned accommodation (up 4.9 percent), gasoline (up 4.5 percent), tobacco products and smokers' supplies (up 4.4 percent), and passenger vehicle maintenance and repair services (up 4.3 percent). On the other hand, declines in passenger vehicles, both purchased (down 1.5 percent) and leased (down 1.3 percent), helped to limit the overall advance in the CPI.

The Core CPI, which excludes volatile items such as energy and food, rose slightly less than the total

FIGURE 3-8
The Bank of Canada Key Policy Rate



Source: Bank of Canada

1 The replacement cost is the cost of replacing worn-out structural components of housing, but it is estimated from the price of new homes (excluding land). The increase can be accounted for by the ongoing demand for new houses, fuelled by rising employment and a buoyant economy in the western provinces.