



SREDA INSIGHTS

► U.S. Interest Rates Inch Higher – What it Means For Saskatoon Region

INTRODUCTION

Interest rates in Canada and the U.S. have been really low ever since the Global Financial Crisis in 2008. Yesterday the U.S. Central Bank (The Federal Reserve) raised rates slightly, and while this doesn't directly impact borrowers in Canada, it does have the potential to eventually influence rates in Canada and other financial variables such as the CAD/USD exchange rate.

THE DETAILS

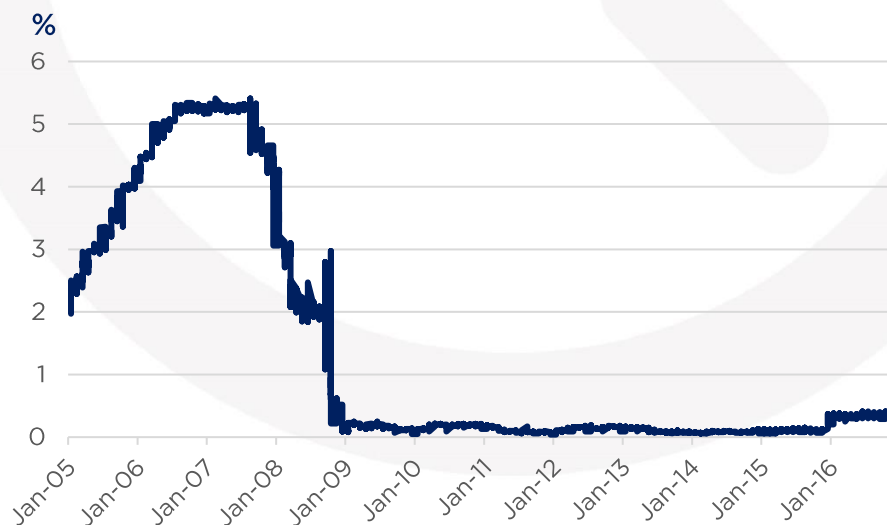
The U.S. Fed raised the Fed Funds rate by 0.25% to a range of 0.5%-0.75%. This was the first time the Fed has raised interest rates since December of last year. Looking ahead, the Fed expects to raise three times in 2017, which could leave the Fed Funds rate around 1.5%. Prior to 2008, a normal level for Fed Funds Rate was closer to 3.5%.

THE LOCAL IMPACT

Increases in U.S. interest rates impact many financial variables but two primary effects relevant to Saskatonians are 1) lower Canadian dollar and 2) potentially pushing Canadian rates higher in the future. One primary reason the Canadian dollar has fallen from 2014 levels is the market expected the U.S. Fed to raise rates faster than the Bank of Canada (BoC).

The BoC has not raised interest rates since 2010 and in fact lowered the overnight rate to 0.5% in 2015, which is where it sits currently. While at the moment it looks as though it may be some time before the BoC raises rates, rising U.S. rates may set the stage for gradually higher rates in Canada as well. Higher interest rates means higher mortgage payments and higher debt servicing costs for local borrowers. However Saskatoon residents can be comforted that even if Canadian rates were to move higher, they would still be at relatively low levels compared to the last 20+ years.

FEDERAL FUNDS EFFECTIVE RATE



Source: U.S. Federal Reserve

SREDA Insights provides commentary and analysis on key economic issues influencing Saskatoon Region businesses and industry. By providing timely, digestible and relevant economic analysis, SREDA helps local businesses adapt to changing market conditions. SREDA provides SREDA Insights to its members in conjunction with other ongoing initiatives through its Economic Forecasting & Analysis division.