# BoC sees ‘substantial rebound’ later this year; keeps rates steady

By Barrie McKenna
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The Bank of Canada is still anticipating a “substantial rebound” in the second half of this year as the economy gets a lift from federal spending, rebuilding from the Alberta wildfires and recovering oil production.

The central bank opted once again Wednesday to keep its key overnight interest rate at 0.5 per cent, where it has sat for the past 14 months.

“The overall balance of risks remains within the zone for which the current stance of monetary policy is appropriate,” the bank said in a statement.

On the plus side, the bank pointed to recovering oil production and the increase in the Canada Child Benefit, brought in by the federal government.

But the economy continues to disappoint Bank of Canada Governor Stephen Poloz and his central bank colleagues. The bank acknowledged that the global growth is not picking up as fast as it had expected in July, when it released it released its last set of forecasts. The main culprit was a contraction in U.S. business and residential investment in the second quarter.

The bank also expressed concern about all-important Canadian exports, which bounced back in July, but are still struggling to regain earlier losses. “The ground lost over previous months raises the possibility that the profile for economic activity will be somewhat lower than anticipated in July,” according to the statement.

Canada’s economy actually shrank in the second quarter, by 1.6 per cent, mainly due to the effect of the wildfires on oil production in and around Fort McMurray, Alta.

In spite of the bank’s optimism, some economists are already scaling back their expectations for next year and beyond. In a report released Wednesday, CIBC chief economist Avery Shenfeld said Canada’s economy won’t hit two per cent growth until 2019 at the earliest. CIBC is now forecasting growth of 1.8 per cent next year, down from 2.1 per cent, and 1.9 per cent in 2018.

“Anemic capital spending plans, even outside the energy sector, suggest that the draw of a cheaper Canadian dollar isn’t yet enough to offset sluggish global growth and the resulting lack of pressure to add fresh capacity,” Mr. Shenfeld said.

CIBC doesn’t expect the central bank to raise the overnight rate until mid-2018.

In its statement, the Bank of Canada also gave a nod to an apparent cooling in the once red-hot Vancouver housing market. Sales have plummeted in recent months – an apparent response to a new 15 per cent tax on foreign buyers and a dearth of buyers able to afford the city’s inflated prices.

But the bank continues to fret about the dangers of high household debt levels.

“While there are preliminary signs of a possible moderation in the Vancouver housing market, financial vulnerabilities associated with household imbalances remain elevated and continue to rise,” the bank said.