Poloz signals delay in rate rise as economy struggles

By Barrie McKenna
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Bank of Canada Governor Stephen Poloz is signalling that a move to raise interest rates will likely be delayed again as the Canadian economy struggles to gain traction.

Mr. Poloz acknowledged Tuesday that the central bank's current projection that the economy will get back to full capacity near the end of 2017 may be too optimistic.

"It is quite evident that our economy is still facing strong headwinds, and we need stimulative monetary policy to counteract them and move us closer to full capacity," Mr. Poloz said in remarks prepared for a speech to a group of economists in Quebec City.

Many economists don't expect the central bank to begin pushing up its key interest rate until mid-2018. The rate has been set at 0.5 per cent since July, 2015.

The bank is slated to release its next quarterly forecast Oct. 19, at which time it will revise its official estimate of when the economy will return to full capacity – a key precondition for raising rates.

Mr. Poloz said the antidote to a slow-growth future is more infrastructure spending and open borders – both within Canada and internationally – through deals such as the Trans Pacific Partnership (TPP) and the Canada-Europe free-trade agreement.

"In a low-growth world, these three initiatives taken together could have a significant impact on economic growth, year after year," he said.

"These are opportunities we simply cannot afford to miss."

Based on what he called a "reasonable estimate," Mr. Poloz said the combination of freer trade and more infrastructure spending could boost Canada's gross domestic product by 3 to 5 per cent a year over the next decade. That's the equivalent of $100-billion a year in extra income for Canadians.

Both the TPP and the free-trade deal with Europe are bogged down in the ratification process and could take years to come to fruition. The agreement with Europe, for example, must be ratified by the 28 European Union member states. Ratification of the 12-country TPP is facing similar delays, most notably in the United States, where the two main U.S. presidential candidates – Democrat Hillary Clinton and Republican Donald Trump – say they are opposed to the deal.

"We all need to encourage [trade liberalization], both within Canada and internationally, since the world seems to be entering a phase of doubt about the benefits of international trade," Mr. Poloz said. "We know from history that sliding into protectionism would be highly counterproductive."

He also said that governments in Canada need to make sure that tax and immigration policies aren't holding back business growth, particularly for "new and young firms."

Mr. Poloz also warned that individual Canadians and businesses need to gird themselves for interest rates that are likely to stay "lower-for-longer."

"We cannot just sit back and wait for these slow-moving forces to reverse," he argued. "People and companies, investors and savers, all need to understand these forces and make adjustments."

He urged individuals to put away more savings for retirement, work longer and change the mix of their investments. Similarly, companies must lower their expectations about future investments. Companies must recognize that investment returns won't get back to where they were before the 2008-09 financial crisis any time soon, Mr. Poloz said.