A few differences between friends

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Great minds think alike, so we were not surprised to see the Bank of Canada move its forecast closer in line with our own mediocre outlook for Canadian growth. We're a decimal place faster on the 2016 outlook, two ticks lower on 2017, and thereby end up roughly in the same place five quarters from now. The sluggish recovery certainly justifies the Bank's conclusion that while they can live with their existing policy stance for now, more stimulus will be needed should the economy miss this new, downgraded outlook.

But on two important counts, we respectfully disagree with Governor Poloz. First, more stimulus needn't be another rate cut, and probably shouldn't be. True, one of the dangerous side effects of lower rates, the temptation for households to get too deeply into debt, has been made less scary by the latest tightening of mortgage insurance rules.

Still, there are segments of the lending market not touched by those policies, including mortgages for those with 20% or more equity and privately-sourced uninsured mortgages. And there is the risk that low interest rates will bid up other asset prices, including commercial real estate, to levels that risk a sharp correction down the road.

With rates already so low, further fiscal stimulus might be a preferred option. Again, like a rate cut, it's not yet clear that the economy will need that additional boost. The upturn in infrastructure spending has yet to hit the economy, and our trading partner in the US could see a post-election infrastructure bump of its own. Should we need to pull the trigger on a fiscal boost, rather than yet more infrastructure, measures to enhance private sector capital spending, including temporary investment tax credits, might offer a more balanced lift to growth.

We also diverge with the Bank on one of the more pessimistic conclusions buried in the MPR. It asserted that, in terms of the lift to exports from the earlier C$ depreciation, "most of the impact on the growth rate has likely already occurred."

We beg to differ. Statistical models linking exports to currency moves, including our own, do indeed find that, historically, the growth benefit dwindles after two years.

But this time should be different, with a much longer lag. The reason: this C$ tumble came in the wake of a Great Recession that left massive excess capacity in the goods sector, and a run with an overvalued loonie that saw Canada bear more than its share of permanent plant shutdowns. Reigniting exports will first require Canada to win back new plants or expansions, and that's also a longer than normal road given slow global growth that has depressed the need for such capacity additions.

As a result, the growth lift from a more competitive exchange rate might come much later in the decade. Of course, that means monetary policy has to keep the C$ from any material comeback. A Bank of Canada rate cut would help in that regard, but US rate hikes should be sufficient to do the job.