

## Busy economic week to offer clues on Bank of Canada rate-hike timing

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It's no longer if, but when.

The possibility of an interest-rate cut has become the probability of a rate hike after bullish comments from the Bank of Canada's top two leaders.

This week, markets will have another opportunity to parse words from the Bank of Canada Governor Stephen Poloz and his deputies, as well as examine whether the economic recovery is strong enough to withstand higher interest rates.

A payrolls jobs report, monthly economic output and business outlook are scheduled to be released – some of the last data points to be revealed before the central bank's interest rate announcement on July 12.

Although the recent drop in oil prices and last week's poor inflation data cooled speculation of an imminent rate hike, it is still on the table.

"It does suggest that July is too soon for the Bank of Canada to raise interest rates," CIBC's Nick Exarhos said in a research note. "We're maintaining our forecast for an October move."

Immediately after May's inflation rate of 1.3 per cent came out Friday morning, the odds of a July interest-rate hike dropped to around 30 per cent from above 50 per cent, according to Bloomberg. The probability of a rate hike was 67 per cent in October and 74 per cent in December, again according to Bloomberg.

Interest rates have remained at 0.5 per cent since 2015, the year Mr. Poloz cut rates twice in an effort to help stimulate an economy reeling from the collapse in oil prices.

Now the economy is showing repeated signs of strength.

Employers have been on a hiring spree for months, adding 317,000 new jobs over the year earlier. However, wage growth is weak. The three biggest provinces of Ontario, British Columbia and Quebec have showed signs of robust labour markets. The jobless rate in Ontario neared a 20-year low and in Quebec a record low.

On Thursday, Statistics Canada's payroll jobs report for April will be examined for labour market strength and wage growth. Although the Payroll Employment, Earnings and Hours survey comes out two months after the other jobs report, the Labour Force Survey, it is considered a more accurate reading because it relies on payroll data instead of phone interviews.

Economic output has also been strong. The economy grew at an annualized rate of 3.7 per cent in the first quarter of the year – the healthiest showing among the Group of Seven industrialized countries.

On Friday, markets will get to see gross domestic product for April, the first month of the second quarter.

On the same day, the Bank of Canada releases its Business Outlook Survey, which will provide a window into business confidence. The previous survey conducted between February and March showed businesses were more optimistic about future sales, exports, investing and hiring.

But the most important signals may come from the central bank itself.

Mr. Poloz and his senior deputy governor Carolyn Wilkins reversed market expectations in mid-June when they appeared to make the

case for raising rates for the first time in nearly seven years.

Mr. Poloz said economic data suggested that the two interest-rate cuts “have largely done their work.” Ms. Wilkins said there were some signs economic growth was spreading across regions and sectors.

This week, Mr. Poloz and two other Bank of Canada officials are scheduled to speak at various events. On Monday, deputy governor Lawrence Schembri addresses economists in Toronto at a private event.

“At a minimum, if he communicates a material point regarding the Bank of Canada’s bias, then street chatter may light up and with that the risk of miscommunication,” Bank of Nova Scotia analysts said in a research note.

A spokesperson for the Bank of Canada said Mr. Schembri would be at the event to “learn from others, not to deliver a new message.”

On Wednesday, Bank of Canada deputy governor Lynn Patterson speaks in Calgary

and Mr. Poloz participates in a policy discussion with his predecessor Mark Carney, now the Governor of the Bank of England, and other central bankers at a monetary-policy conference in Portugal.

Mr. Poloz “has been very vocal, warning people: ‘I don’t need to give you forward guidance if I think that these moves are justified.’ My view is that he has already given significant forward guidance with his recent speech,” said Stéfane Marion, chief economist with National Bank of Canada.

Mr. Marion, who forecasts a rate hike in October, believes that boosting rates will remove some of the so-called moral hazard among lenders and borrowers, who have acted on the belief that Mr. Poloz could cut rates again.

“If mortgage lenders see, ‘My God! They are actually following through with a hike,’ then you remove some moral hazard,” he said.