

Consumer sentiment soars as Canadians shrug off rate increases

By Greg Quinn

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A rising currency and a red-hot labour market has sent Canadian consumer confidence to the highest in three years.

The Bloomberg Nanos Canadian Confidence Index – a gauge based on telephone polling – climbed to 60.5 in the week ended Aug. 4, the highest since July 2014 and close to a record.

The improving sentiment suggests Canadians are shrugging off the impact of higher borrowing costs after the Bank of Canada raised interest rates last month, focusing instead on an accelerating economy that has driven the jobless rate to the lowest since 2008 and the purchasing power benefits that come with a higher dollar. That bodes well for a continuation of the household spending that has been fueling the nation's expansion.

“While the normalization of interest rates is likely to have a negative impact on household balance sheets, a stronger Canadian dollar could be perceived as another sign of a healthier economy,” said Robert Lawrie, a Bloomberg economist based in New York.

Bank of Canada Governor Stephen Poloz hiked rates for the first time in seven years on July 12 and signaled more may be coming. That helped Canada's dollar break through the 80 U.S. cent mark last month for the first time in two years.

Consumer confidence has tended recently to move in the same direction as the central bank's rate decisions. In the few weeks after the January 2015 cut, for example, the Nanos index dropped steadily before rebounding. It declined again after the July 2015 reduction to a two-year low.

Every week, Nanos Research asks Canadians for their views on personal finances, job security, the outlook for the economy and

where real estate prices are headed. The responses are compiled into the Bloomberg Nanos Canadian Confidence Index.

Personal Finances

The polling showed sentiment gains were broad-based, and have completely offset housing-sector worries. The share of people who believe the economy will strengthen is the highest in seven years at 32.3 per cent, according to the polling. The figure climbed from 28.1 per cent in the prior edition and from 22.1 per cent a month ago.

The polling figures showed only 8.7 per cent of people are insecure about their jobs, which the lowest on record. Canadians also feel better about personal finances, with 20.2 per cent saying their balance sheets are stronger than a year ago. That's the highest reading for this measure since September 2016.

Housing was the only weak point in the data. Sentiment about home prices dropped to the lowest since January.

Confidence also climbed across different regions. Quebec's index hit a record high 61.9, a reflection of the French-speaking province's job market, which is among the nation's strongest.

The Prairie region including Alberta improved in line with a gain in oil prices that has kick-started a rebound in drilling and investment after a two-year crash. The confidence index for the Prairies reached the highest since March.

Canada is in the midst of one of its strongest growth spurts since the 2008-2009 recession, with the expansion accelerating to an above-3 per cent pace over the past four quarters. That's

the fastest among G-7 countries and double what the central bank considers is Canada's capacity to grow without fueling inflation.

The pick-up in growth includes an increase in jobs of 387,600 over the past year, the biggest 12-month gain since 2007.

"Whatever happens over the remainder of the year, 2017 will go down as a very good year for

the Canadian economy," Toronto-Dominion Bank senior economist James Marple wrote Friday in a research note.

The Bloomberg Nanos Canadian Confidence Index is based on telephone polling with a four-week rolling average of 1,000 respondents, and is considered accurate within 3.1 percentage points, 19 times out of 20.