BoC’s Poloz says Canada’s growth to slow down in second half of 2017

By Josh Wingrove
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Canadian growth will moderate in the second half of the year, as the Bank of Canada remains in “intense data-dependent mode” in its consideration of whether to raise interest rates again at a time inflation is sluggish, Governor Stephen Poloz said.

Poloz, speaking to reporters Saturday in Washington, said there’s a sense of “comfort” that the global economy continues to improve while adding that Canada, which is leading the Group of Seven in growth, has not seen all citizens benefit equally.

“It still hasn’t reached everybody,” Poloz said. “We’re still an economy with, you know, with our head in the oven and our feet in the freezer.”

For those people who haven’t benefited, it “doesn’t resonate with them if you say everything’s on track. And it’s almost always that way with Canada and it’s almost always that way with the world.”

Poloz has twice raised rates this year, and plans to proceed “cautiously” while assessing the impact of the moves. The bank’s next rate decision is scheduled for Oct. 25, with markets reflecting about a one-third chance of another increase, data compiled by Bloomberg show.

‘Data-Dependent’

Poloz characterized this year’s rate increases as having offset two cuts made to buffer the economy when global oil prices were falling sharply. The adjustment to the oil-price shock is now “behind us” in Canada, he said, when asked about rates.

The policy maker spoke on the sidelines of International Monetary Fund meetings in Washington while a fourth round of talks toward an overhauled North American Free Trade Agreement continued at a nearby hotel.

It’s difficult to analyze the impact on the Canadian economy if the U.S. were to leave Nafta, as President Donald Trump has regularly threatened, Poloz said. The impacts could vary substantially by sector, he said, while rippling through the whole economy.

“We’ve got to wait and see what shock we’re presented with,” he said. “Trade is a really important driver for our economy.” The negotiations, along with this year’s interest-rate hikes, remain “sources of angst” for some Canadians, Poloz said.

An “element of speculation” in the popular Toronto and Vancouver housing markets looks like it’s dissipated, Poloz said, though he said demand remains strong in both cities and that supply is probably not growing fast enough to keep up.

Supply, Demand

“What we do know is the laws of demand and supply have not been repealed,” he said. “The ingredients remain in place, so you have to continue to watch that financial stability risk, as we will.”

Canada’s strong economy and associated employment and wage growth have mitigated the financial stability risk of a hot housing market by giving people more money to pay their bills, he said.

The nation has seen an uptick in investment and hiring intentions, he said, which is “positive for productivity.” He downplayed concerns about sluggish inflation.

Growth is allowing many Canadians to find work in their fields, opening up other positions, and boosting productivity, he said, adding that wages don't always "move much" during this stage of the economic cycle. Those developments, over time, will "push out" what Poloz called the intersection between full capacity and his target for 2 percent inflation.

This is a "sweet spot of the cycle where you're actually creating new capacity which is permanent," he said.

Inflation MIA?

"It's one of the things that I'm often puzzled about, is how many folks are writing about how inflation's been missing in action and all that. Well, that's exactly what happens at this stage of the cycle. It's pushed out further. And that's a good thing."

Growth has been driven in part by the fiscal policy of Prime Minister Justin Trudeau's government, which is running budget deficits to finance, in part, expanded child benefit payments aimed at low-income families.

The so-called Canada Child Benefit has had a "pretty significant" impact on the Canadian economy, Poloz said, adding it could be one of the reasons Canada has seen rising labor-force participation. "What it did is put a floor under some folks," Poloz said, adding it may have allowed formerly stay-at-home parents to afford childcare or a second car and therefore more easily reenter the workforce.