Data Release: Governor Poloz's speech highlights positive signs from Canada's economy, but outlook remains unchanged

- Bank of Canada Governor Stephen Poloz's speech in Charlottetown today was entitled "The Way Home: Reading the Economic Signs", and his remarks did just that. He highlighted some positive recent developments in Canada's economy, but reiterated the Bank's overall assessment from April's Monetary Policy Report that the economy is forecast to return to full capacity or "home" as Poloz likes to call it, around the end of 2016.
- Poloz cited a smattering of positive indicators to support his case, including some recent improvements in the labour market, such as a decline in long-term unemployment, growth in prime age (25-54) labour force participation, increased employment vacancies, and rising manufacturing employment in the SEPH data. However, despite these improvements, the Bank continues to judge that slack remains in the labour market, and the full impact of the oil price shock is not yet reflected in the employment data. He also highlighted an increase in firm creation as a positive sign for the business environment.
- He also outlined how the Bank's January rate cut will enable households to lower their interest costs when they renew their mortgages. And that those savings are on top of the roughly $500 the household is expected to save in gasoline costs.
- Poloz did remind the audience that the outlook is very uncertain, and mentioned that the Canadian dollar has risen recently alongside oil prices, and that the Bank will carefully consider these and other developments and how the economy is likely to react in the months ahead.
- Finally, Poloz noted that inflation is a noisy indicator, and that underlying inflation is currently running at 1.6-1.8%, while the Bank's traditional core inflation measure was 2.4% in March. Next year the bank will renew its inflation targeting agreement with the government, and as part of that exercise the Bank is looking at is whether it should continue to use its current measure of core inflation as the main guide to underlying inflation.

Key Implications

- Today's speech was the last opportunity to hear from the Bank of Canada before its interest rate announcement next Wednesday (May 27th). Since the Bank's latest forecast was released in April's Monetary Policy Report, the yield on the 5-Year Government of Canada bond has risen about 30 basis points, and the Canadian dollar has strengthened slightly. That means financial conditions are more restrictive, leaning against the expected acceleration in Canada's economy in the second half of the year.
- Poloz mentioned the appreciation in the Canadian dollar alongside higher oil prices, but reiterated the Bank's current forecast that the economy is expected to return to full capacity by the end of 2016. The Governor did not address the rise in bond yields, which will affect borrowing costs for many households and businesses.
- All told, today's speech provided a bit more colour on how the Bank sees the economy progressing, but there was little new in the Bank's outlook for economic growth ahead of what we expect will be a stand-pat rate decision next week.

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