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TD Economics

Data Release: Poloz points to a slower-growth future

- Bank of Canada Governor Stephen Poloz spoke in Quebec today, giving a speech titled "Living with lower for longer".
- As the title suggests, the focus of the speech was on the economic reality that population aging is leading to a lower pace of trend economic growth in Canada.
- This slower growth is a key driver of the current low interest rate environment. Governor Poloz pointed out that due to this effect, even when interest rates are eventually increased, the 'neutral' interest rate (simply put, the rate associated with an economy operating at its potential) will be as much as 2 percentage points lower than it was in the past.
- Slower growth also means that expectations around financial returns need to be readjusted. Poloz pointed to a lack of adjustment among businesses as a potential cause of weak business investment, suggesting that firms have not yet changed their 'hurdle rates' for evaluating projects to account for the new reality, slowing new investment.
- The Governor also provided some policy prescriptions for dealing with a slow growth world, noting that even a 0.1 percentage point boost to growth can be a significant impact when growth is trending around 1.5%. A few areas were pointed to as potentially improving growth: infrastructure investment; reducing barriers to interprovincial trade; and continued international trade liberalization.

Key Implications

- The Governor may be a TV aficionado: today's speech suggests that in addition to his well-known love of Star Trek, Poloz may also have a soft spot for MADtv – specifically, "Lowered Expectations". The key theme running through today's remarks is that Canadians need to lower their expectations to account for the 'new normal' of slower economic growth and lower interest rates.
- We are inclined to agree with the Governor. Population aging and slower productivity growth mean that the 'cruising speed' of the Canadian economy will continue to tick lower in coming years. As the governor pointed out, with slower growth comes a lower neutral interest rate and thus lower returns more broadly. Not only will this impact investment returns, it also means that the current level of the monetary policy interest rate is closer to the neutral rate than it would have been in the past, reducing its stimulative effect. This is one of the key reasons why we think the Bank of Canada is unlikely to increase interest rates until early 2019. Today's comments only reinforce this view.

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