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TD Economics

Canadian Release: Poloz holds the line with a neutral statement

- As was universally expected, the Bank of Canada maintained its key policy interest rate at 0.50%. The short statement accompanying the decision struck a neutral tone.
- The statement highlighted a number of perceived positives: a global economy that "continues to gain traction" and an expected rebound in U.S. economic growth after a weak first quarter. Domestically, the adjustment to lower oil prices is seen as largely in the rear view, and recent economic data is seen as encouraging, helped by improvements in labour markets that are broadening.
- Balancing the positives are subdued wage and price growth, which are viewed as consistent with ongoing excess capacity in the economy. The uncertainties highlighted in the Bank's April Monetary Policy Report remain in place, and export growth remains modest in the face of "ongoing competitiveness pressures". Finally, macroprudential measures are expected to contribute to more sustainable debt profiles, but are not seen to have had any meaningful cooling effect to date.

Key Implications

- Canadian growth may be coming in hot, but the Bank of Canada is not. Despite signs of still robust economic growth in Canada, Governor Poloz chose to once again strike a cautious, if balanced, tone.
- The short statement accompanying today's decision covered both sides of the ledger, acknowledging the positive tone of recent Canadian data, but also highlighting areas of concern. The risks posed by the housing sector remain tangible given the lagged impacts of macroprudential policies, and crucially, price pressures, whether in terms of wages or inflation, are largely nonexistent at the moment.
- Indeed, the Bank's core mandate is to control inflation over the medium term. Healthy economic growth of late has yet to translate into meaningful price pressures with several of the Bank of Canada's preferred measures actually softening in recent months. This should not be surprising, given significant economic setbacks in recent years and the lags between economic growth and inflation. As we move into early 2018, the strong economic growth of recent quarters should begin translating into inflationary pressures, motivating the start of a gradual tightening cycle.

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