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## TD Economics

### Data Release: Bank of Canada takes a more hawkish turn

- Bank of Canada Senior Deputy Governor Carolyn Wilkins spoke at the University of Manitoba today. Her speech focused on the diversity, and thus strength of both the Canadian economy generally, and recent economic growth specifically. While there were caveats strewn throughout, the speech read largely hawkish, suggesting that the Bank of Canada is beginning to consider removing some of the monetary policy stimulus currently in the system.
- Wilkins referred to the Canadian economy as "move[ing] past the adjustment to lower oil prices", pointing to healthy first quarter growth figures (see our [commentary](#)). It was duly noted that the current level of commodity prices and ongoing U.S. policy uncertainty may constrain investment to a more muted pace going forward.
- Regionally, new economic models developed at the Bank of Canada to provide more timely estimates of provincial growth suggest that economic growth is beginning to broaden out across provinces as well.
- Across industries, the Bank is encouraged by the breadth of growth and changing sources of growth. Wilkins noted that computer system design and related services is now as large an industry as motor vehicles and aerospace.
- The labour market was also seen as encouraging and "largely consistent with the evolution of economic activity".
- Softness in price measures, including core inflation and wages was noted, and seen as suggesting "ongoing spare capacity", and consistent with the lagged effects of past economic slack. At the same time, Wilkins provided a reminder that monetary policy acts with a lag – that is, the Bank of Canada is not setting monetary policy for the economy we experience today, but to shape the economy we will experience tomorrow. She likened the decision-making framework to driving a car, suggesting that if you saw a red light down the road you'd probably let up on the gas ahead of time, rather than slamming the brakes at the last second.

### Key Implications

- This speech definitely falls in the 'hawkish' column, continuing the recent trend in Bank of Canada communications that has taken place alongside strengthening economic data. Consistent with our [research](#), the Bank appears to be encouraged with the breadth of economic growth that has emerged in Canada in recent quarters. The broadening of growth suggests an economy that is increasingly finding its legs and shaking off past setbacks.
- Two specific remarks stand out as particularly hawkish. First, the car metaphor and its reminder to readers that monetary policy is a forward looking exercise clearly suggests that the Bank wants markets to remember that interest changes can be in more than one direction. Second, clearly a message was intended in the choice of language when stating that "Governing Council will be assessing whether all of the considerable monetary policy stimulus presently in place is still required", as well as the adjective "significant", used later to describe the current monetary stimulus.
- This speech may be sending a clear signal, but don't expect the Bank of Canada to hit the hike button just yet. A significant haze of uncertainty continues to hang over the economy, and although it is likely that inflation is at or near a nadir, this has yet to be borne out in the data. Rather than signaling imminent action, today's remarks are more likely to be aimed at preparing markets for eventual monetary tightening. As economic data remains robust and inflation begins to come back, we would expect a gradual monetary tightening cycle to begin, but think this is most likely to take place in early 2018.

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