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TD Economics

Data Release: Wilkins reiterates the state of play at the Bank of Canada

- Bank of Canada Senior Deputy Governor Carolyn Wilkins spoke in Trois-Revières today on "Economic Trends and Monetary Policy". This marks the last major speech from the Bank before the interest rate decision on October 19th (Wilkins will appear on a panel at an event tomorrow).

- Wilkins re-iterated many of the themes that have emerged in recent Bank of Canada communication: the slow growth backdrop that now typifies the Canadian economy; the adjustment of energy investment to sub-$50 oil prices, and the recent struggles of Canadian exports to gain traction as the composition of U.S. growth has become less favourable.

- It was not all negative. Wilkins placed the export weakness in the broader context of the upward trend that has been seen since the financial crisis. The Bank of Canada also expects business investment to bottom-out this year, removing a key drag to growth, and flagged both services exports (such as tourism) and the upcoming impacts of federal fiscal stimulus.

Key Implications

- While there was nothing explicitly new in today's speech, that fact itself provides some information as to the Bank of Canada's thinking. Importantly, despite the recent improvement in some economic indicators (notably exports), the Senior Deputy Governor pointed back to the September policy statement, which noted that "the risks to our inflation outlook have tilted somewhat to the downside".

- This suggests that the Bank of Canada is maintaining a more cautious view of Canadian export performance (and by extension the overall economic adjustment process). Indeed, today's speech seems to be one that could be pointed to down the road as an "I told you so" should the Bank hold or decide to cut rates.

- The risks to the inflation outlook are undoubtedly skewed to the downside. And, housing policy announcements earlier this week may provide further scope for the Bank of Canada to ease rates by providing some offset to any housing market impacts. On balance, however, we remain of the view that the Bank of Canada is likely to hold rates on October 19th. Inflation has softened, but remains within the 1% to 3% control band. Moreover, soft exports have been the result of weak demand south of the border – while a cut may soften the exchange rate, it would do nothing to address the root cause of the recent underperformance.

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