HEAD TO HEAD

Q Where should the Bank of Canada go on interest rates?

Rumours have been swirling that the BoC will cut rates by the end of the year – but is that the best course to stimulate growth?

Michael Hewson
Chief markets analyst
CMC Markets

"The simple solution would be to cut interest rates, but how necessary is it at this point? Given the dialogue surrounding rates in the US recently, both from the Fed and the industry more broadly, it would have been surprising if the Fed didn't cut rates by at least 25 basis points, though the data doesn't suggest that cuts beyond that would be warranted.

In Canada, the economy has been progressing relatively well on its own, and unless the Fed cuts rates drastically, there is no real need for the Bank of Canada to do anything but hold rates steady for the months ahead."

Brian D'Costa
Founding partner and president
Algonquin Capital

"US inflation is sub-2%, allowing the Fed to focus on full employment. Because global trade tensions are a risk to growth, the Fed could cut rates by 50 basis points over the next six months as a kind of insurance; cuts are easier to reverse if not needed than dealing with a recession.

The Bank of Canada should approach cutting rates and fuelling a further increase in consumer debt cautiously. Inflation is 2%; the economy is growing slowly, but it will indirectly benefit from Federal Reserve rate cuts boosting US growth. The BoC can leave rates where they are as long as the currency doesn't strengthen."

Michael Dehal
Senior vice-president and portfolio manager
Dehal Investment Partners, Raymond James

"The best course of action for the Bank of Canada and US Fed in order to simulate growth would be to cut interest rates. As we have seen in the last 10 years, when both the BoC and the Fed began cutting interest rates in 2009, both economies experienced tremendous economic growth, including historic low unemployment rates and record high equity markets as companies have been able to fuel growth with low borrowing rates.

As both economies are still under their target inflation rates, interest rate cuts can avoid potential busts to the economies and sustain healthy growth."

A SERIES OF UNFORTUNATE SETBACKS

Two consecutive months of surprise job losses and a July rate cut from the US Federal Reserve have led to talk that the Bank of Canada might soon follow suit. According to Statistics Canada, the jobless rate increased by to 5.7% in July after a period of record lows earlier in the year. On the heels of the news, the loonie waned to around 75 cents to the US dollar. Doug Porter, BMO's chief economist, told Reuters that the job losses are "on the disappointing side of expectations. Of course, you can never read too much into any one month, but this is the third setback in employment in the past five months." The BoC has held its cards close to its vest since last October and is not anticipated to change that behaviour for the rest of 2019.