Quarterly Commentary

Global Real Estate

The Bank of Canada kept its benchmark interest rate steady at 1-3/4% at its September 4th meeting, as was widely expected, and the rate remains at its highest since December 2008. The central bank is almost ready to join the other major central banks in cutting interest rates, but not yet. The consensus agreed by Governor Stephen Poloz and his deputies was to leave the benchmark rate unchanged until at least the end of October.

In a speech to the Halifax Chamber of Commerce on the day after deciding to hold interest rates steady, Deputy Governor Lawrence Schembri discussed the key points the Governing Council considered in their decision. He explained that the Canadian economy continued to show strength despite the weakening global backdrop. The Canadian data since July has been stronger than the bank had anticipated as wages picked up and the housing market rebounded. Overall consumer spending though has been softening and business investment is weakening so the economy is expected to slow over the second half of the year. The U.S. / China trade war was the main risk to the central bank's outlook in July and it has gotten worse since then, taking a toll on global economic growth.

The decision implies that policy makers think there is enough stimulus in the system to counter the effects of the trade wars for a little while longer. "Canada's economy is operating close to potential," the Bank of Canada said in its recent policy statement. "However, escalating trade conflicts and related uncertainty are taking a toll on the global and Canadian economies. In this context, the current degree of monetary stimulus remains appropriate." That existing stimulus separates Canada from some of the countries where central banks have been cutting rates.

On the economic front, Canada defied recent downward projections to grow at an annualized rate of 3.7% in the second quarter. However July unexpectedly stalled which raised concerns for the vulnerability of the nation's economy if there is a global slowdown. With slowing consumer spending still robust, and declining energy and commodity prices, it would be imprudent to predict that the Canadian economy could continue this pace in upcoming quarters. Better news is that concerns over a possible crash in the housing market have now begun to dissipate. The government's new mortgage rules enacted months ago have created a more balanced environment for homebuyers. There still appears to be some capacity for the economy to deliver decent growth in the near future, especially after the upcoming federal elections if the current or new administration respects their expansionary fiscal agenda.

In the U.S., the Federal Reserve cut its benchmark interest rate in September. The rate reduction was the second since December 2008 when the Fed dropped its benchmark effectively to zero before initiating a series of nine raises that ended in December 2015. While the domestic economy has performed relatively well, the Fed cut rates amid concern that softness abroad threatens the decade-long U.S. expansion as President Trump's trade war with China is hurting foreign demand. The Fed's moves are part of a trend around the world as 16 central banks lowered interest rates in the third quarter. Some analysts expect that another two dozen more central banks could slash rates in the fourth quarter.

The European Central Bank has begun to take aggressive steps to stimulate the economy and head off any potential downturn. Since 2014, they have imposed negative interest rates on deposits to encourage commercial banks to lend more. In a bid to increase lending, the bank increased this de facto penalty to -0.5% from -0.4% to free up the hoarded cash. As well they have re-started the quantitative easing program to buy government and corporate bonds, a move that pumps newly created money into the economy. This package of measures is also aimed at raising inflation which has been slipping further below targets.

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