Bank of Canada announces second interest rate cut in six months

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20 July 2015

Canada's central bank, the Bank of Canada, announced a 0.25 cut in its prime lending rate last Tuesday, reducing it to 0.5 percent.

The move means that over the past six months, the bank has halved the rate at which it lends money to Canada's major financial institutions. It has done so in response to a deterioration of Canada's economy and mounting global economic turbulence.

The 0.25 percent cut is even more significant when placed in the context of the low interest rate-policy that the Bank of Canada, like other central banks, has pursued for the past seven years in an attempt to revive economic growth in the aftermath of the 2008 world financial melt-down.

The Bank all but acknowledged that Canada slipped into a recession in the second quarter of the year. The economy contracted at an annualized rate of 0.6 percent in the first quarter. Recent figures showed that in April the downturn continued and the Bank is now predicting that when figures for the just completed 2nd quarter are tabulated they will show the economy contracted at an annualized rate of 0.5 between April and June.

Bank Governor Stephen Poloz opened his remarks to his Tuesday press conference by pointing to the underlying problems confronting the Canadian economy. "Global economic developments" said Poloz, "have been quite disappointing, and these have led to a significant downgrade of our estimate of Canadian economic growth for 2015."

Poloz identified three factors impacting negatively on the economy: the collapse in oil prices since last summer, which has severely undermined activity in the energy sector; the mounting economic and stock market turmoil in China, where vast investments have been wiped out in a matter of weeks; and anemic economic growth in the United States, resulting in lower than expected exports for Canada.

This left out the impact on international markets of the Greek debt crisis. Although Greek Prime Minister Alexis Tsipras capitulated to German-led European Union demands to turn Greece into a virtual colony of European financial institutions, commentators still fear that the crisis in Europe could have much broader consequences for the global economy and financial system.

Despite the careful wording employed by Poloz in his remarks, he could not conceal the serious risks faced in the period immediately ahead: "Financial stability risks remain elevated. Of particular note are the vulnerabilities associated with household debt and rising housing prices."

"We must acknowledge," added Poloz, "that today's action," that is the lowering of interest rates, "could exacerbate these vulnerabilities."

Poloz was even more explicit in June about the seriousness of the situation. In comments delivered at a panel discussion at the Swiss-based Bank for International Settlements (BIS), he said that criticism of the Bank's January rate cut because of its potential to further stimulate an over-heated housing market and thereby further increase household debt was misplaced: "If the doctor says you need surgery to avoid death, the side effects usually don't deter you, you just go ahead and manage them somehow. Other issues must be subordinate and I think of them as side effects."

According to Statistics Canada, household debt amounted to 163.3 percent of disposable income in the first quarter, close to the record of 163.6 percent set in the fourth quarter of 2014. Since then, the economy has continued its decline.

As well as the result of low interest rates, increased debt levels are an expression of a sustained assault on the wages and living standards of the working class carried out by big business and its political hirelings. The persistent drive over recent years by the federal Conservative government to balance the budget has led to billions being removed from public services and social programs on which large numbers of people depend. In Ontario, the provincial Liberal government has attacked public sector workers with the full support of the trade unions, imposing its net zero wage increase policy, while in Quebec, the Couillard Liberal government is taking the axe to public spending and slashing the wages, benefits and pensions of public sector workers.

In Alberta, the oil price plunge produced a $7 billion budget deficit, which the newly-elected New Democratic

Party government will seek to cut in a budget due in the fall.

The plunge in the economy is throwing a spanner in the works of the Conservatives' plan to conduct a campaign in the upcoming federal election based on their economic and fiscal record. In April, Finance Minister Joe Oliver tabled a budget in Parliament which claimed that Canada would achieve a $1.4 billion surplus in the 2015-16 fiscal year, the first balanced budget since 2008.

But since then, economic forecasts have repeatedly been downgraded to the point where the surplus is now very much in question. Even Oliver, who based his April budget on a growth rate in 2015 of 2 percent, could only state vaguely at a recent press conference with reference to the International Monetary Fund's latest statistics, "The IMF confirmed what I and numerous independent analysts have been saying—the Canadian economy will grow this year."

On July 9 the IMF reduced its global growth outlook from 3.5 to 3.3 percent and slashed Canada's growth forecast for 2015 from 2.2 to 1.5 percent. US growth expectations were also cut, undermining the hopes of Poloz and others that a strong rebound south of the border will help push the Canadian economy forward.

When making its rate cut this week, the Bank of Canada reduced its own growth forecast to 1.1 percent. If this turns out to be the actual rate of growth, the consequences for the federal budget would be considerable. A study of the April budget suggested that government revenue would fall by $4.1 billion. To maintain its balanced budget commitment, the Conservatives would therefore have to find an additional $2 billion in savings.

The slowing economy is also taking its toll on the balance of trade. In May, exports were down while imports rose from the previous month, producing the second-highest trade deficit on record of $3.3 billion. The breakdown showed a decline in exports of 0.6 percent, with imports up 0.2 percent from the previous month. Significantly, the record was set just two months earlier in March, when the deficit reached $3.9 billion.

The sharpest decline came in commodities, such as copper and iron ore. China's economic slowdown in particular has led to a drop in the demand for these resources, leaving Canadian exports to China down by over $300 million in May.

The declining demand for natural resources is putting paid to Harper's claim, made in 2006, that Canada was an "emerging energy superpower" which would enjoy economic growth through the export of oil, gas and minerals.

Jobs have not been spared. The economy lost 6,400 jobs in June, as part-time employment was down by 71,000 positions, compared to an increase in full-time posts of 64,000. The official jobless rate is 6.9 percent but Statistics Canada concedes when "discouraged workers," i.e. those who having given up looking for work, and part-time workers who want full-time jobs are counted, the real jobless rate is closer to 10 percent.

Discussions in ruling circles are growing about the need for deeper attacks on the working class to achieve greater competitiveness, boost profits and promote economic growth. While noting that external developments such as the Chinese slowdown and reduced commodity prices were major factors having a negative impact on Canada, a *Maclean's* article published the same day as Poloz's interest rate cut bemoaned the "deep structural reasons" preventing higher exports in Canada's manufacturing sector, in spite of the cheaper dollar.

This is a euphemism for the wages and labour costs associated with doing business in the country.

In revealing comments made to CBC's "The House," former parliamentary budget officer Kevin Page emphasized that whatever government emerges from the October 19 federal elections, the program of austerity pursued by the Conservatives would have to be intensified. While praising the fiscal record of Harper's government, he raised the concern that "This is a government that has been very secretive about its austerity programs."

"I think a future government," continued Page, "is going to have to look at 'do we have the resources to make sure we're still getting cheques going out to seniors, we're taking care of meat inspectors, we're taking care of the Coast Guard, of veterans'."

The trade-union supported NDP, which currently is leading in the opinion polls, is committed to a balanced budget and keeping in place the massive personal-income, capital gains and corporate tax cuts made by federal Liberal and Conservative governments over the past two decades. According to recent media reports the NDP is currently hunting for one or more "star" candidates with solid big business credentials who can be sold to Canada's corporate elite as possible NDP's finance ministers in waiting.