Here's the Bank of Canada decision today and First National's opinion of where the economy and housing market are going next.....

HIGHLIGHTS:

Housing market activity has moderated but is expected to remain elevated, and will be fueled by strong employment growth.

It's a great time to borrow mortgage funds ! With the benchmark rate unchanged (for now), employment at pre-pandemic levels, Canada's borders re-opening now might be the best time on record to finance a residential or commercial property purchase.

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Here's the full report from First National Financial, one of our valued Broker Lenders:

The Bank of Canada made its seventh interest rate decision of the year and for the seventh time, left its overnight benchmark unchanged at 0.25%. This low rate has been the order of the day since March 2020. As a result, the Bank Rate stays at 0.5%. It also ended its massive, pandemic-induced quantitative easing program in place since March 2020.

The Bank also made some new comments on the state of the economy at home and abroad as summarized below:

Global economy

- The Bank projects global GDP will grow by 6.5% in 2021 – a strong pace but less than projected in the July Monetary Policy Report – and by 4.25% in 2022 and about 3.5% in 2023.
- The global economic recovery is progressing although vaccine availability and distribution worldwide remain uneven and COVID variants pose risks to health and economic activity.
- Due to strong global demand for goods, pandemic-related disruptions to production and transportation are constraining growth.

- Inflation rates have increased in many countries, boosted by these supply bottlenecks and by higher energy prices.
- While bond yields have risen in recent weeks, financial conditions remain accommodative and continue to support economic activity.

Canadian housing & economic performance

- Robust economic growth has resumed, following a pause in the second quarter.
- The Bank now forecasts Canada's economy will grow by 5% this year before moderating to 4.25% in 2022 and 3.75% in 2023.
- Demand is expected to be supported by strong consumption and business investment and a rebound in exports as the US economy continues to recover.
- Housing activity has moderated, but is expected to remain elevated.
- Shortages of manufacturing inputs, transportation bottlenecks and difficulties in matching jobs to workers are limiting the economy's productive capacity.
- This output gap is likely to be narrower than the Bank had forecast in July, although the impact and persistence of these supply factors are hard to quantify.
- Strong employment gains in recent months were concentrated in hard-to-distance sectors and among workers most affected by lockdowns and this has significantly reduced the "very uneven" impact of the pandemic on workers.

Canadian inflation

- A recent increase in CPI inflation was anticipated in July, but the main forces pushing up prices – higher energy prices and pandemic-related supply bottlenecks – "now appear to be stronger and more persistent" than the Bank expected.
- BoC now expects CPI inflation to be elevated into 2022 and ease back to around the Bank's 2% target by late 2022.
- The Bank is "closely watching" inflation expectations and labour costs to ensure that the temporary forces pushing up prices do not become embedded in ongoing inflation.

Outlook

The Bank's Governing Council believes that in view of ongoing excess capacity, the economy continues to require considerable monetary policy support. That support will continue to come from the Bank's ongoing commitment to holding its policy interest rate at what it defines as the "effective lower bound" until economic slack is absorbed so that its 2% inflation target is "sustainably achieved." In the Bank's projection, this happens sometime in the middle quarters of 2022, which is perhaps a little earlier than the central bank originally forecast.

Accordingly, and in light of the progress made in the economic recovery, the Bank's Governing Council decided to "end quantitative easing" and keep its overall holdings of Government of Canada bonds roughly constant. This is not entirely surprising since the Bank has signaled its intention to taper its special bond-buying activity for some time. The end of QE also broadly aligns with the approach undertaken by central bankers in the United States.

The Bank noted that it will continue to provide the "appropriate degree of monetary policy stimulus to support the recovery and achieve the inflation target."

A great time to borrow

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The BoC's next scheduled policy announcement is December 8, 2021. Please watch for First National's next Executive Summary the same day.

Best Regards,

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