

Canadians can expect to enjoy relatively cheap borrowing

Canadians can expect to enjoy relatively cheap borrowing costs for some time to come — perhaps years — even after the economy returns to full capacity and the Bank of Canada starts hiking interest rates, bank governor Stephen Poloz said.

The central banker told a luncheon in Saskatoon that the economy has room to grow before it can be considered to be firing on all cylinders, but even when it does — likely sometime in early 2016 — Canadians shouldn't expect a sudden increase in interest rates to fight inflation.

Because of the aging workforce and particularly because rates have been at super-low levels for years, modest increases will likely be sufficient to achieve the bank's goal of keeping inflation in check.

The clear statement represents a slight shift of tone for the central bank, which has for years warned households to be mindful of overextending themselves in the housing market because one day interest rates will need to start rising.

Poloz reiterated his belief that the risks of a housing bubble were subsiding, saying that "we have what looks like a soft landing emerging in housing."

Some economists speculate the new normal in the bank's overnight rate will settle in at the 2.25 to 2.5 per cent range, more than a full point or more below pre-recession levels.

The super-low borrowing costs are generally acknowledged to have aided the economy through the 2008-09 crisis and soft recovery — stimulating borrowing and spending among Canadians and businesses — but not without costs, including an overheated housing market and record high levels of household debt. As well, it has been a difficult six years for savers who have realized low yields on investments, and it has made it tough for defined benefit pension plans to cover their liabilities.

In the past, Poloz has hinted that he might have been prepared to cut rates further in an effort to stimulate economic growth if not for fear of encouraging even more borrowing, particularly in the housing market.