

Dear Clients,

The Bank of Canada appears to be trying calm concerns about the timing of coming interest rate increases and the state of inflation.

Last week, BoC Deputy Governor Lawrence Schembri said there is no firm timeline for raising rates. He said the Bank continues to wait for the excess slack to come out of the economy so that the central bank's 2% inflation target is sustainably achieved. It expects that will happen sometime in the "middle quarters" of next year.

"There's a lot of uncertainty about the timing of the closing of the output gap, so one should be careful not assuming it's necessarily going to be the second quarter. It's a range of six months -- that's our best estimate," he said.

The "output gap" or "slack" refers to the difference between the economy's productive *capacity* – that is, the amount of goods and services that could be produced if all labour and capital were fully and efficiently employed – and the *actual* level of economic output.

Schembri says that it is becoming more difficult to predict when the gap is closing because the traditional relationship between labour market conditions and inflation has become harder to measure.

Inflation would usually come back to target when economic slack is absorbed and the economy returns to maximum employment. But the labour market has been changed by the pandemic, making traditional measures of slack less useful, according to Schembri.

Inflation continues to run hot and the BoC continues to point to temporary factors, like energy costs and supply chain bottlenecks. The Bank expects inflation to cool as employment and productivity improve.

If you are looking for a property in the next 4 months it would be wise to get a rate hold just to be safe. We have seen fixed rates increase almost a full percent in the past 6 weeks.

Please let me know if you have any questions. I am always happy to help.

