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CANADA

Bank of Canada Official Says No Rate Cut Needed Now

But global trade conflicts remain biggest risk to central bank's forecast

The Bank of Canada on Wednesday kept its benchmark interest rate unchanged at 1.75%. **PHOTO:** DAVID KAWAI/BLOOMBERG NEWS

By Kim Mackrael

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OTTAWA—Canada doesn't require an immediate interest-rate cut, a senior Bank of Canada official said Thursday, despite headwinds the economy is facing from an escalation in global trade conflicts, which could drag on longer than originally anticipated.

Deputy Governor Lawrence Schembri made the remarks one day after the Bank of Canada opted to leave its benchmark interest rate unchanged at 1.75% and signaled it would keep its options open for its next move. Mr. Schembri's speech reinforced that narrative.

In a press conference that followed his speech, Mr. Schembri said the central bank would consider an interest-rate cut if it saw excess supply building in the Canadian economy, which would put downward pressure on inflation. "But at this juncture, we feel relatively confident about where the interest rate is," he said.

He said the current policy rate of 1.75% continues to support the Canadian economy. The Bank of Canada will conduct monetary policy appropriate to its circumstances, he said, and officials will pay particular attention to global developments and their impacts on Canada's outlook.

Mr. Schembri said that global trade conflicts remain the central bank's primary concern and the biggest risk to its forecast. He also said there is a growing likelihood that those tensions will last for longer than officials had previously anticipated. "As the trade conflict drags on, it's harder to see that there's going to be an immediate resolution," he said.

Despite those concerns, Mr. Schembri said the Canadian economy is performing well, with the unemployment rate near historic lows and inflation coming in on target. "This solid starting point means the economy has a welcome degree of resilience to possible negative economic developments," he said.

Mr. Schembri said central-bank officials discussed the Canadian economy's strong second-quarter performance ahead of this week's interest-rate decision. While the economy has clearly moved past its earlier soft patch, he said, officials expressed concern during their discussions about soft consumption and a decline in business investment.

CIBC World Markets economist Avery Shenfeld said the speech presented a balanced assessment of the strengths and weaknesses in the domestic economy. There was nothing in Mr. Schembri's remarks to stand in the way of an interest-rate cut during the fourth quarter, Mr. Shenfeld said, "but also no hint that October has better odds than December."

Mr. Schembri said officials in Canada would be mindful of the implications of monetary-policy decisions for Canadian financial vulnerabilities. The central bank acknowledged Wednesday that a recent decline in mortgage rates could add to already high household-debt levels in Canada, which have long been a concern for policy makers. But the bank added that tougher mortgage-lending rules should help reduce those concerns.

Write to Kim Mackrael at kim.mackrael@wsj.com