Bank of Canada to evaluate economic impact of Ottawa's spending plans

The analysis, to be announced Wednesday, will be the central bank's first monetary policy report since the Liberal government tabled its federal

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In addition to the budget assessment, the Bank of Canada will also release its quarterly update and its latest announcement on its benchmark interest rate.

By: Andy Blatchford The Canadian Press, Published on Tue Apr 12 2016

OTTAWA—The Bank of Canada is scheduled to deliver an eagerly awaited assessment Wednesday: its take on just how much of a lift it expects the economy will get from the billions in federal government spending commitments.

The analysis will be released as part of the central bank's quarterly update to its economic projections. The report will also coincide with the bank's latest announcement on its benchmark interest rate.

It will be the Bank of Canada's first monetary policy report since the Liberal government tabled its March 22 budget, which contained billions of dollars worth of spending measures and tax relief.

To help fund the plan, the budget projected five-straight annual deficits totalling more than $110 billion, starting with a $29.4-billion shortfall in 2016-17.

The Finance Department estimated the Liberal budget, which includes measures to boost infrastructure investments and tax relief for middle- and low-income households, will generate economic growth of 0.5 per cent this year and one per cent in 2017-18.

The document also predicted the measures to create or maintain 143,000 jobs over the next two years.

But some experts, including the federal budget watchdog, have called those numbers a little optimistic.

A report last week by the parliamentary budget office said the measures are more likely to create or maintain 86,000 jobs over the next two years, while boosting growth by 0.5 per cent this year and 0.8 per cent in 2017-18.

The last time the Bank of Canada updated its economic forecasts was in January, when the economy appeared to be in weaker shape.

At the time, it downgraded its 2016 growth projection to 1.4 per cent from its fall forecast of 2 per cent and predicted the economy to expand by 2.4 per cent in 2017.

On that day, which also featured an interest rate announcement, governor Stephen Poloz said senior bank officials had considered making another cut to the already-low rate of 0.5 per cent to help the economy.

But Poloz said the eventual decision to stand pat came after they mulled over what he considered a key factor: the Liberal vow to inject billions into infrastructure projects.

Since January, however, conditions have apparently already started to improved for the overall Canadian economy.

Wednesday's assessment comes amid growing evidence that the economy, battered by the oil-price shock since late 2014, has been gathering strength — helped, in part, by the weakened dollar and low interest rates.

In recent weeks, indicators have shown unexpectedly robust numbers for areas such as economic growth, employment as well as retail and manufacturing sales.

As a result, many private-sector economists have increased their growth projections for 2016.

For example, the Bank of America Merrill Lynch Global Research is now predicting the Bank of Canada will raise its growth forecast for this year to two per cent and 2.8 per cent in 2017.

"Canada's economy was battered and bruised in 2015, but already it seems to be exiting its slump briskly," Bank of America economist Emanuella Enenajor wrote this week in a note to clients.

"These elevated growth rates suggest the (Bank of Canada's) appetite for any further rate cuts has substantially diminished."

Still, Robert Kavcic, senior economist with BMO Capital Markets, said this week that he doubts Poloz will want to sound too upbeat in its assessment of Canada's economic performance and its near-term prospects, "for fear of launching a much stronger loonie and nipping export momentum in the bud."

Analysts, meanwhile, are not expecting the bank to move the interest rate Wednesday.

But despite improvements in the data, other experts remain more skeptical that such a rebound in Canada is underway.

On Tuesday, the International Monetary Fund dropped its growth projections for Canada and the world, citing slowing global oil exports, low crude prices and weak demand for non-oil commodities.

The IMF is now projecting Canada's economy to grow 1.5 per cent this year and 1.9 per cent next year. In January, the IMF predicated the country's growth would be 1.7 per cent in 2016 and 2.1 per cent in 2017.