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Bank of Canada shifts tone on rate announcement, signaling likely July hike

Canada's central bank has cleared the way for a July interest rate hike, warning that it will need to act soon to keep inflation from pushing past its 2-percent target.

The Bank of Canada kept its key interest rate target unchanged at 1.25 percent last week, citing the impact of trade uncertainty, a slowdown in housing activity and mounting "stress" in emerging markets.

Bank of Canada Governor Stephen Poloz generally does not broadcast future rate moves with explicit forward guidance. But on Wednesday, it's was what Mr. Poloz and members of the bank's governing council didn't say that shifted expectations. The statement accompanying the rate decision dropped two key phrases that have been a staple of the bank's communication for months. Gone is the reference to being "cautious" about future policy changes. Also absent is the qualifier that higher rates will be needed "over time."

Instead, the bank is offering new, more assertive language about where rates are headed now that the economy is running near full capacity.

"Developments since April further reinforce the governing council's view that higher interest rates will be warranted to keep inflation near target," the statement said. "Governing council will take a gradual approach to policy adjustments, guided by incoming data."

The odds of a July rate hike is now just shy of 80 percent, up from slightly more than 50 percent on Tuesday, according to Bloomberg's interest rate probability tracker.

"While we may need a grammarian to distinguish between 'cautious' and 'gradual,' the message was nevertheless clear: Get ready for another rate hike," Toronto-Dominion Bank economist Brian DePratto said in a research note.

National Bank of Canada similarly concluded that the statement "kicked wide open the door for a July rate hike."

Mr. Poloz has insisted in the past that his use of words such as "cautious" is not code-language for what the bank plans to do next. But Bank of Nova Scotia economist Derek Holt said the latest statement suggests the central bank has more confidence in its forecast of a strengthening economy and that it is "not making a mistake by tightening monetary policy."

The bank identified several signs of emerging economic strength, including stronger-than-expected U.S. growth, higher oil prices, more "robust" exports and "solid" labour income growth.

The bank also seemed to play down concerns about the impact that higher rates could have on an already slowing housing market. It said it expects that a recovery in housing activity and consumption would power growth through the rest of the year.

Ottawa's Spring Market Churning Along

Members of the Ottawa Real Estate Board (OREB) sold 2,279 residential properties in May 2018 compared with 2,294 in May 2017, a decrease of 0.7 percent.

"Although our overall inventory stock is down in both the residential and condo market, the number of listings coming onto the market this month is typical spring activity," states OREB's President. "The sheer number of home sales that took place in May indicates that inventory is turning over quickly– certainly a sign that Ottawa is a healthy real estate market," he noted.

The average sale price of a residential-class property sold in May in the Ottawa area was $464,401, an increase of 6.3 percent over May 2017. The average sale price for a condominium-class property was $281,247, an increase of 3.4 percent from May 2017.

"In the first five months of 2018, the value of a single-family home has increased about 8% and approximately 6.5% for condominiums" notes OREB's President. "This price acceleration is encouraging news for homeowners who have now seen an average of 3% price growth per year for the last five years."

"While our inventory stays at historically low levels, especially in some neighbourhoods, there will continue to be upward pressure on home prices. We definitely have the demand for housing in this city not only because it is still very affordable but because all the fundamentals are solid here. However, our city does need to have a longer-term housing supply strategy so that we aren't confronted with future affordability challenges," advises OREB's President.

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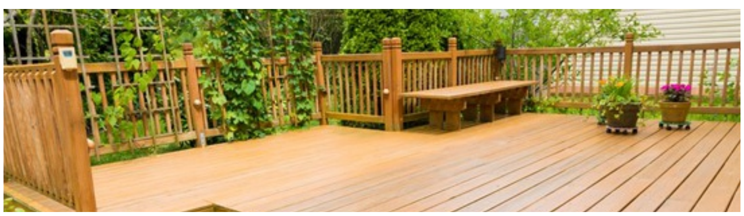
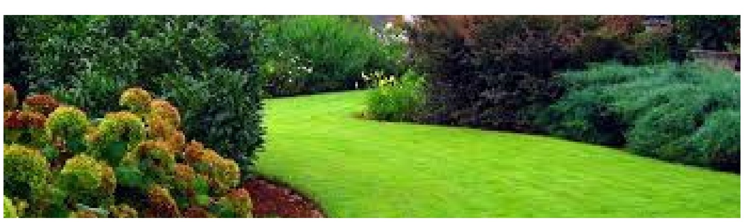
Summer projects to boost your home's resale value

With summer approaching, you may begin thinking about which outdoor home improvement projects will provide you with the best return on your investment. It's best to start by doing research to identify a project that fits your time and budget.



Build a deck or patio. There are many designs and approaches to consider. Check your municipal building requirements as a building permit may be required for decks above a certain size and height.

Install a sprinkler system. On average, homeowners use 50 per cent more water than necessary on their lawns. Automatic lawn sprinkler systems are designed with busy homeowners in mind and allow proper irrigation through timing and water distribution. Although there is an initial cost for the installation, you could save money in the long run.



Landscape your property. Whether planning a garden or building a pond, landscaping often results in a significant return on your investment. However, you should always consult a trained professional before tackling a landscaping project to ensure you have the right materials and plants that will thrive in your space.

Build or replace a fence. Defining the limits of your property is important for a variety of reasons, including privacy, security and safety. Do your research to find what's right for your needs, and if appropriate, consult with a neighbour as you may be able to complete the project together.

Re-shingle a tired roof. A strong, durable roof is an essential component of your home's overall health and functionality. A new roof is especially important if your current roof is showing signs of wear including raised shingles or water seepage. A good roof is a good investment. Do your research, find the best contractor and select the best materials within your budget.