Could the Bank of Canada Raise Interest Rates in February?

Description

The Bank of Canada has left us with a cliffhanger: by not raising interest rates at their last meeting in January, it also chose not to disclose when it would.

That's left many Canadians on their edge of their seats. Stock investors care, because every news event around interest rates could add more volatility to a market that's as frothy as a cappuccino. Homebuyers care, because higher rates means mortgages will be slightly more costly. And homeowners care, because higher rates could cool demand, which, in turn, could poke a hole in a massively overinflated housing market.

So, we're on the edge of our seats. The question: could the Bank of Canada surprise us and raise rates in February? Though it's highly unlikely, let's look at what why interest rates could go up before the Bank of Canada has its next meeting (March 4).

The case for raising rates now

Perhaps the most convincing argument for raising rates in February is the state of the economy: it's good — great, in fact. A slew of data has shown employment numbers are back to pre-pandemic levels, and our GDP is climbing on an upward path.

Recall that back in October 2021, Bank of Canada governor Tiff Macklem said that he wouldn't tighten policies until the economy had fully recovered — something he believed would happen in the "middle quarters" of 2022. Well, it's February, and, so far, it appears as if the economy has more momentum than Mr. Macklem expected.

Then there's inflation. It's *not* good. It's ugly, in fact. In December, inflation rose to a new 30-year high of 4.8%. Higher food prices led to the cost of living going up by a rate we haven't seen since 1991. And don't even get me started on gas.

Inflation rates and interest rates typically have an inverse relationship. When one goes up, the other goes down. The sooner the Bank of Canada hikes the rate, the sooner — in theory — we can battle back high inflation.

Will interest rates rise before February ends?

In spite of the economy’s recovery and inflation, I’m skeptical the Bank of Canada will raise interest rates in February.

For one, Mr. Macklem himself seemed to express this opinion when he said the pace at which they raise rates will ultimately depend on how fast consumers spend excess savings built during the pandemic. The faster Canadians burn through these savings, the hotter the economy will become, and the more dire the need to raise rates to cool things off.

But Canadians aren’t eager to blow through their savings. And who could blame them? All this talk of high inflation and frothy markets isn’t exactly motivating us to go out and buy a new **Peloton**. For once, the majority of Canadians are kicking consumerism to the curb and leaving their money in a safe place.

That’s not to say Canadians aren’t spending pandemic savings. It’s just to say we’re not spending at a fast pace. And that could delay when the Bank of Canada raises rates.

As far as inflation goes, the Bank of Canada doesn’t seem worried. As Mr. Macklem said, inflation rates could decline rapidly as supply chains normalize and the pandemic eases up. There’s a lot to dispute there (cough, cough, Omicron), but whether or not he’s right, he is the governor of Canada’s central bank. And if he’s not panicking to pull the interest rate lever today, it’s likely he’s not going to pull it tomorrow — or any day in February, for that matter.

I have to agree with most: I believe we will see the first interest rate hike on March 4, when the Bank of Canada has its next scheduled interest rate announcement. Until then, the “rising path” forward for interest rates will remain relatively flat.

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