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**AMBER KANWAR, BNN:**

This week the Bank of Canada will make its next rate decision on Wednesday 10 a.m. Eastern time. The bank is expected not to increase interest rates now for a second meeting in a row. For some perspective on what could be informing that consensus, let's bring in Allison Boxer, Senior Vice President and Economist at PIMCO and Carlos Capistran, Economist at Bank of America Securities. Allison, I'd love to start with you on the desk. Are you in line with consensus that the bank is unlikely to increase interest rates?

**ALLISON BOXER, PIMCO:**

Well, thanks, Amber. It's great to be here. And yes, we agree with the consensus expectations. After the CPI print came in a bit softer than expected last week, we think that gives the Bank of Canada room to continue to pause.

**KANWAR:**

Are there other factors beyond CPI and of course knowing that inflation is their reason to be, but are there other soft factors that are informing you that it’s time to pause?

**BOXER:**

Yes. So we think Canada's economy right now is in what we're calling the “Stealth Session" and really what we mean by this is underneath the surface, it looks like economic growth has really slowed more material. Really the Stealth Session comes in with the fact that we think that immigration growth and strong population growth is masking some of that. So I think the Bank of Canada is really at the current time, facing a bit of a balancing act between this more material slowing and economic activity versus inflation as you noted, still remaining relatively sticky.

**KANWAR:**

We're looking at wage growth, which has been, Allison, probably the most stubborn part of all of this. We're talking about another strike at another port. And these strikes are all kind of about the same thing, right? They all want wage increases because inflation expectations are that embedded.

**BOXER:**

Yeah, I think the strikes that we're seeing in Canada and in the U.S. as well are really a symptom of the fact that we've seen much more price inflation over the last couple of years than we've seen wage inflation, and with labor markets still strong in both economies, you're sort of seeing workers in hindsight ask for that cost of living adjustment. And so I think the challenge for the Bank of Canada and for the Fed as well, is to sort of deal with the fact that if wage inflation remains sticky, ultimately the risks are that that spills over to broader inflation as well.

**KANWAR:**

Can we spend a beat on the bond market because the Bank also has to consider, and both banks, the Bank of Canada and the Federal Reserve, has to consider how much and how quickly we have rallied. Do you think that- or sorry, sold off; do you think that this will filter into the thinking and not wanting to break things, Allison? I'll start with you on that point.

**BOXER:**

Yeah. I think for the Bank of Canada this week, it's really more about sort of this trade off between growth and inflation, but certainly I think both banks do take broader financial conditions into consideration when they're making policy decisions because they know that with a lag, what's happening in financial markets does ultimately affect real activity as well.

**KANWAR:**

Carlos, what do you think about the sell-off that we've seen? We've briefly touched 5 percent and that proved to be a reason to step in, not a reason to sell-off in the bond market.

**KANWAR:**

Does that align with your view, Allison?

**BOXER:**

Yeah, I sort of mentioned, we think Canada is at least already in this Stealth Session. And really, if you look at growth or consumption on a per capita basis, you're already seeing contraction.

**KANWAR:**

One of the indicators that people love to look at is yield curve inversion, particularly in the U.S. But something that has happened in the sell-off is the inversion, particularly if you look at 10s minus 2s, 10-year minus 2-year, the magnitude of it is starting to narrow. What does that tell us? What are the implications of that, Allison?

**BOXER:**

Yeah, as you mentioned, the yield curve has tended to be the best predictor of recessions in the U.S. I think the steepening that we're seeing, at least in the U.S. yield curve, though, I think is a combination of different factors. I think it is partly based on the fact that we've seen a lot of resilience in U.S. growth. But I think there's broader factors that are driving the term premium as well. So I think there's, you know, maybe mixed messages in terms of what that actually means for recessions.

**KANWAR:**

So, not a clear signal.

**BOXER:**

No, no. I don't think so.

**KANWAR:**

I'm curious how both of you announced, and maybe I'll start with you, factoring in the housing market risk, because certainly considering how interest rate sensitive Canada is, how indebted Canadians are, you have not seen everything fall apart. And part of that is because Canadians have been able to hang on, and there's some concern that is, you know, they run out of room to extend their amortizations, or their refinements come up in 24, 25, that's when real problems start to percolate. How are you thinking about that, Allison?

**BOXER:**

Yeah, so I think in terms of the rate-hiking cycle and the sort of the near-term outlook for the Canadian consumer and the Canadian economy, this is super important. The fact that you see, you know, a much larger percent of mortgages come up every year in Canada than you would in the U.S. for example. But I also think this is a longer term issue. This is not just a question for, you know, how much more does the economy slow over the next year, but you mentioned, you know, amortization and those sorts of things. And I think this is also a long-term risk for the economy. You think about the fact that, in many cases, people are extending their mortgage significantly today to buy themselves more breathing room. You know, I think this is a question that the Bank of Canada is not just grappling with over the next couple of months, but is really sort of a secular challenge for the economy as well.

**KANWAR:**

 All right. We have to leave it there. Thank you so much for your perspective, Allison Boxer, joining us from PIMCO and Carlos Capistran of Bank of America.