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Opting for a pause and 'hoping for clarity'

By Warren Lovely & Ethan Currie

Decision Details:

- The **Bank of Canada** kept its target for the overnight rate **unchanged at 2.75%** in a decision where consensus estimates were divided.
  - This is the first 'pause' since the BoC began their easing cycle in June 2024. Before today, there were 7 consecutive rate cuts which totaled 225 basis points of rate relief.
  - At 2.75%, the policy rate is equal to the mid-point of the BoC's estimated neutral range (2.25% to 3.25%)
  - The BoC's overnight target remains 175 basis points below the Fed's upper-bound policy target (the largest rate gap since 1997)
- As was the case in March, the Bank will set the deposit rate 5 basis points below the target rate (2.70%). The Bank rate will remain 25 basis points above the overnight target (3.00%).

Rate Statement & Opening to the Press Conference:

- Driving the decision to hold the policy rate target at 2.75% was "pervasive uncertainty" and an economic / trade future that remains no clearer since March. Governing Council decided to hold policy unchanged as they "gain more information about both the path forward for U.S. tariffs and their impacts".
- While the Bank does not commit to a predetermined rate path, they continue their narrative on "proceeding carefully, with particular attention to the risks and uncertainties facing the Canadian economy". They reiterate that monetary policy is unable to completely offset the impacts of a trade war, but "what it can and must do is maintain price stability for Canadians". As such, the Bank will continue to be less forward-looking than usual, while being "prepared to act decisively if incoming information points clearly in one direction".
  - Amidst an overarching focus on price stability, the statement notes that particular attention will be paid to: how tariffs impact demand for Canadian exports; spillovers to investment, hiring, consumption; extent/speed with which tariff costs are passed on to consumers; and the evolution of inflation expectations.
- On the growth outlook, the BoC stated again that the economy ended 2024 in good shape, as cumulative interest rate relief has been successful in boosting household spending and renewing economic growth / business momentum. Instead of committing to a single central tendency in their most recent batch of forecasts (as had been tradition), the Bank opted to present two scenarios for the economy which explore different paths for U.S. trade policy. More on this in the MPR coverage below.
- As for the labour market, the statement notes the employment decline in March, which is evidence of job growth recovery being disrupted from earlier progress in 2024: Q4 due to trade tensions. The BoC also alludes to business plans to slow hiring and wage growth which continues to show signs of moderation.
- The Bank highlights that headline inflation resides higher than where it was at the time of January's MPR, despite cooler from February. They concede that the removal of the consumer carbon tax will put downward pressure on CPI starting in April (they expect a 1.5% print in this month), but the BoC is still expecting tariffs and supply chain disruptions to push up prices. They note that short-term inflation expectations have picked up, but longer-term readings remain little changed.
- The BoC also nods to financial markets that have been "roiled by serial tariff announcements" with extreme market volatility further amplifying uncertainty.

Monetary Policy Report:

Breaking from tradition, and in a clear nod to elevated uncertainty, the **Monetary Policy Report** does not include a single/central economic forecast. Rather, the BoC has opted for two 'illustrative' scenarios. The first scenario (S1), which is generally less problematic, assumes most tariffs are negotiated away. The second scenario (S2), which would tilt more towards stagflation, assumes more tariffs are added as part of a long lasting global trade war where attendant uncertainty is elevated. Refer to the MPR for a complete list of underlying assumptions. We generally applaud the Bank for their ongoing analysis of trade-related impacts, while simultaneously cautioning that this type of work is itself highly uncertain.

- Growth - The less-alarming S1 would see real GDP growth stalling (briefly) in the second quarter, but then regaining a moderating pacing. On a full-year basis, 2025 real GDP growth would be estimated at 1.6% followed by 1.4% in 2026. Not surprisingly, growth would be much more challenged in the lasting trade-war scenario (S2), with 2025 real growth down at 0.8% and a full-year contraction seen for 2026.
- Inflation - The outlook for inflation likewise hinges on the tariff path we trod. Under the first scenario (S1), excess supply and the removal of carbon tax sees headline CPI averaging 1.8% in 2025 and matching the Bank's target in 2026. Under S2, however, tariff impacts dominate, pushing headline inflation above 3% by the second quarter of 2026, easing more gradually thereafter.

Press Conference:

The Governor's opening statement can be found **here**. Below, we outline some of the highlights from the Q&A segment of the press conference.

- Regarding the decision to hold policy → Macklem mentioned that, while a lot has *happened* since March, we haven't learned much (with certainty) regarding the path of U.S. policy or the impacts of the trade war. He alluded to the Summary of Deliberations for the March meeting, which, similar to this meeting, had suggested that policymakers discussed cases for both a rate cut and a 'no move'. Rogers stated that there was a "clear consensus" to hold policy this time around, as Governing Council did not feel the outlook has been made any less murky in the last five weeks.
- On the balance of risks and 'acting decisively' → When pressed on the language of the policy statement, Macklem suggested that we should not "over rotate", suggesting the word 'decisively' does not necessarily suggest the probability of an intermeeting, or larger (i.e., 50bp) cut. "It's not a code word for anything", but rather a way for the Bank to convey their thinking. On a related note, Macklem continued to stress that monetary policy cannot directly offset the impacts of a trade war. A strong economic handoff from 2024, and policy residing in the middle of their neutral rate band allows the Bank to be flexible / adaptable as the trade war evolves.
- Financial market conditions → Similar to the broader economy, Rogers mentioned that Canadian financial conditions entered the year on solid footing. While there has been "violent" turbulence in markets recently, the Senior Deputy Governor suggested that there was no broad signs of disfunction. Rather, markets were able to digest uncertainty, and conditions have moderated since, concerns thus being relatively contained.
- On the scenarios presented in the MPR → Macklem was quick to point out that providing a false sense of precision in economic forecasts would be a disservice to Canadians. As such, the MPR presented two "illustrative scenarios" which were meant to convey how the economy might react to varying paths for U.S. trade policy. The Governor mentioned that scenario 2, which suggests a more significant dose of damage to the Canadian economy, was pretty well in line with where we stood on 'Liberation Day'. But with some reprieves announced, we currently reside 'somewhere in the middle' of the two scenarios.
- Regarding the economic data on hand → While forward guidance remains lacking as the Bank 'navigates uncertainty' (with all fairness to them), Macklem did suggest that they expect to see additional distortions in CPI data – particularly with the removal of the consumer carbon tax, which is expected to bring headline CPI down to 1.5% in April. The weakening of 'hard data' was also mentioned, particularly in regard to the labour and housing markets. On housing, Rogers highlighted the outsized impacts being seen in Ontario (and more specifically, in Toronto), as these economies typically have greater exposure to tariff-related turbulence.

BoC presents 2 'illustrative scenarios' in recent MPR

BoC MPR – difference in outlook between scenarios, January report

		2024	2025	2026	2027
GDP (avg annual growth)	Scenario 1	1.5	1.6	1.4	1.7
	Scenario 2	1.5	0.8	-0.2	1.6
	January MPR	1.3	1.8	1.8	
Final domestic demand (percentage points)	Scenario 1	2.0	2.3	1.6	1.5
	Scenario 2	2.0	1.8	1.0	1.7
	January MPR	1.6	2.4	1.7	
Exports (percentage points)	Scenario 1	0.2	0.1	0.5	1.1
	Scenario 2	0.2	-1.0	-2.4	0.6
	January MPR	0.3	0.6	0.8	
Imports (percentage points)	Scenario 1	-0.2	-0.1	-0.8	-0.9
	Scenario 2	-0.2	0.5	1.2	-0.7
	January MPR	-0.2	-0.7	-0.8	
CPI inflation (percentage change)	Scenario 1	2.4	1.8	2.0	2.1
	Scenario 2	2.4	2.0	2.7	2.0
	January MPR	2.4	2.3	2.1	

Source: NBF, Bank of Canada

Bottom Line:

Today's decision to hold was not an obvious one – market pricing was mixed, and certain 'hard data' and wilting sentiment could have made a compelling argument for an eight consecutive rate cut. Estimates from private sector strategists were also split down the middle – 15 calling for a pause and 14 forecasting a 25bp cut. That said, the Bank concedes that the picture is not any less murky for the economic outlook, and, consistent with previous rhetoric, opted for a 'wait-and-see' approach until the direction of trade war impact (i.e., balance of risks) is clear. The BoC rightly notes that markets have been "roiled" by tariff noise. Signs of slowing and uneasiness have presented themselves, both in Canada and abroad, and domestic inflation data has (and will be) distorted.

Prior to the decision, our baseline expectation for the BoC rate path suggested an April 'pause', followed by 75bps of additional easing over the balance of 2025, to bring the overnight target to 2% by year-end (see our **Fixed Income Monitor** for more detail). Today's decision to hold policy should not be interpreted as the conclusion to the BoC's easing cycle, in our view, and we still feel that the Bank is likely to deliver more rate relief in 2025. A gloomy global economic outlook, combined with USMCA-related tariff carveouts might make the picture clearer in Canada, as growth deterioration will likely outweigh inflation concerns. Incoming data and additional headlines from the U.S. administration will need to be closely scrutinized, and there could be a path to a June cut should additional evidence of economic strain present itself in convincing fashion.

The Bank's next decision will take place on June 4th, and will not include a MPR. The Summary of Deliberations for today's decision will be released on April 30th at 1:30 PM ET.

Interest Rate Statement:

Bank of Canada holds policy rate at 2.75%

The Bank of Canada today maintained its target for the overnight rate at 2.75%, with the Bank Rate at 3% and the deposit rate at 2.70%.

The major shift in direction of US trade policy and the unpredictability of tariffs have increased uncertainty, diminished prospects for economic growth, and raised inflation expectations. Pervasive uncertainty makes it unusually challenging to project GDP growth and inflation in Canada and globally. Instead, the April Monetary Policy Report (MPR) presents two scenarios that explore different paths for US trade policy. In the first scenario, uncertainty is high but tariffs are limited in scope. Canadian growth weakens temporarily and inflation remains around the 2% target. In the second scenario, a protracted trade war causes Canada's economy to fall into recession this year and inflation rises temporarily above 3% next year. Many other trade policy scenarios are possible. There is also an unusual degree of uncertainty about the economic outcomes within any scenario, since the magnitude and speed of the shift in US trade policy are unprecedented.

Global economic growth was solid in late 2024 and inflation has been easing towards central bank targets. However, tariffs and uncertainty have weakened the outlook. In the United States, the economy is showing signs of slowing amid rising policy uncertainty and rapidly deteriorating sentiment, while inflation expectations have risen. In the euro area, growth has been modest in early 2025, with continued weakness in the manufacturing sector. China's economy was strong at the end of 2024 but more recent data shows it slowing modestly.

Financial markets have been roiled by serial tariff announcements, postponements and continued threats of escalation. This extreme market volatility is adding to uncertainty. Oil prices have declined substantially since January, mainly reflecting weaker prospects for global growth. Canada's exchange rate has recently appreciated as a result of broad US dollar weakness.

In Canada, the economy is slowing as tariff announcements and uncertainty pull down consumer and business confidence. Consumption, residential investment and business spending all look to have weakened in the first quarter. Trade tensions are also disrupting recovery in the labour market. Employment declined in March and businesses are reporting plans to slow their hiring. Wage growth continues to show signs of moderation.

Inflation was 2.3% in March, lower than in February but still higher than 1.8% at the time of the January MPR. The higher inflation in the last couple of months reflects some rebound in goods price inflation and the end of the temporary suspension of the GST/HST. Starting in April, CPI inflation will be pulled down for one year by the removal of the consumer carbon tax. Lower global oil prices will also dampen inflation in the near term. However, we expect tariffs and supply chain disruptions to push up some prices. How much upward pressure this puts on inflation will depend on the evolution of tariffs and how quickly businesses pass on higher costs to consumers. Short-term inflation expectations have moved up, as businesses and consumers anticipate higher costs from trade conflict and supply disruptions. Longer term inflation expectations are little changed.

Governing Council will continue to assess the timing and strength of both the downward pressures on inflation from a weaker economy and the upward pressures on inflation from higher costs. Our focus will be on ensuring that Canadians continue to have confidence in price stability through this period of global upheaval. This means we will support economic growth while ensuring that inflation remains well controlled.

Governing Council will proceed carefully, with particular attention to the risks and uncertainties facing the Canadian economy. These include: the extent to which higher tariffs reduce demand for Canadian exports; how much this spills over into business investment, employment and household spending; how much and how quickly cost increases are passed on to consumer prices; and how inflation expectations evolve.

Monetary policy cannot resolve trade uncertainty or offset the impacts of a trade war. What it can and must do is maintain price stability for Canadians.

Information note

The next scheduled date for announcing the overnight rate target is June 4, 2025. The Bank will publish its next MPR on July 30, 2025.

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