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The bull has become the bear

By Taylor Schleich

On the surface, last week's BoC decision was largely uneventful. The policy rate held firm, guidance was left substantively unchanged and bond yields barely budged. We saw the decision as more definitively dovish though. Not because of any one 'smoking gun', but because of a handful of smaller signals which, taken together, pointed in that direction:

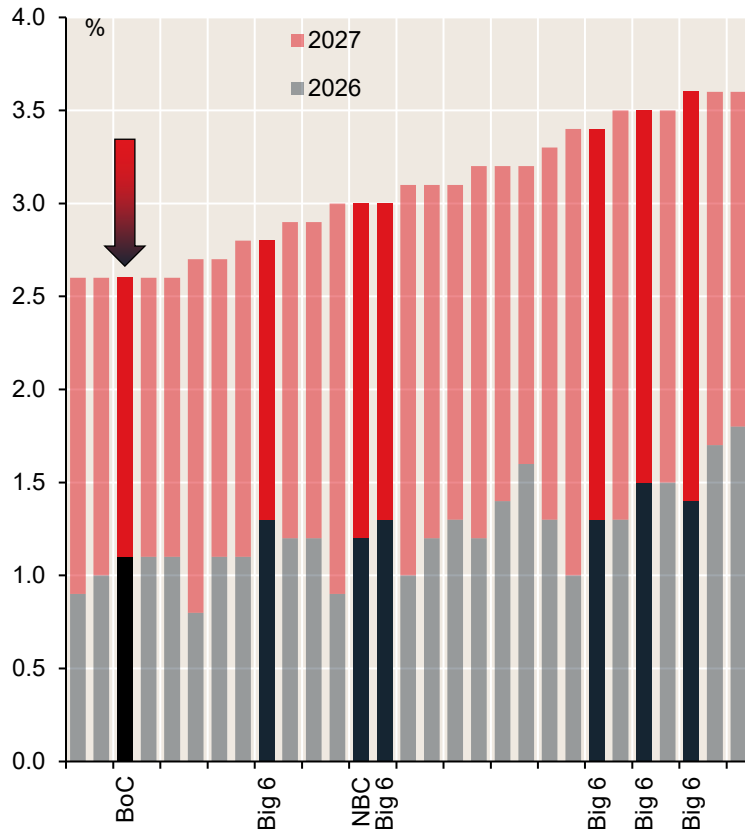
- First, expectations for CPI inflation were trimmed modestly, but non-trivially. CPI inflation in Q4:2026 was shaved from 2.2% to 1.9%, suggesting price stability will be achieved sooner.
- Second, the BoC turned their core/underlying inflation focus back to CPI-Trim and -Median, right after those measures started to cool off. Assessments of inflation breadth, which haven't improved as much lately, were less prominent in the Monetary Policy Report vs. October.
- Third, the Bank left its output gap estimate unchanged even though Q3 growth was above potential and revisions to past data added materially to the level of GDP. The BoC said 'nearly all' of the revision was attributed to higher potential output, though they do acknowledge that slack *may* be less than they officially assess.

- Finally, and as we illustrate below, the BoC is (relatively) downbeat on GDP growth. Compared to the 28 private sector forecasters who submit to Bloomberg, the BoC is just about the weakest out there for 2026 and 2027. And for what it's worth, there's not a single *Canadian* forecaster who sees slower GDP growth. (To be fair, Friday's GDP data suggest for now the BoC may be on the right side of consensus)
- We should stress that differences in growth outlooks are modest. We won't debate a tenth or two of GDP. Still, the BoC's *relative* stance is telling. For most of the last five years, the BoC was among the most optimistic forecasters of Canada's economy, regularly topping consensus expectations. But lately, that's no longer been the case.

Our main takeaways from last week's decision? The Bank's cautious tone means the bar to hike late this year is higher than we thought. Yet, its relatively downbeat GDP outlook and well-contained inflation forecast makes *cutting* harder to justify too. Governing Council say they'll remain sidelined if conditions evolve broadly as they project, which implies they'll need to see weaker growth than *anyone* expects and inflation running *below* target before they would entertain additional easing.

BoC among the most downbeat GDP forecasters...

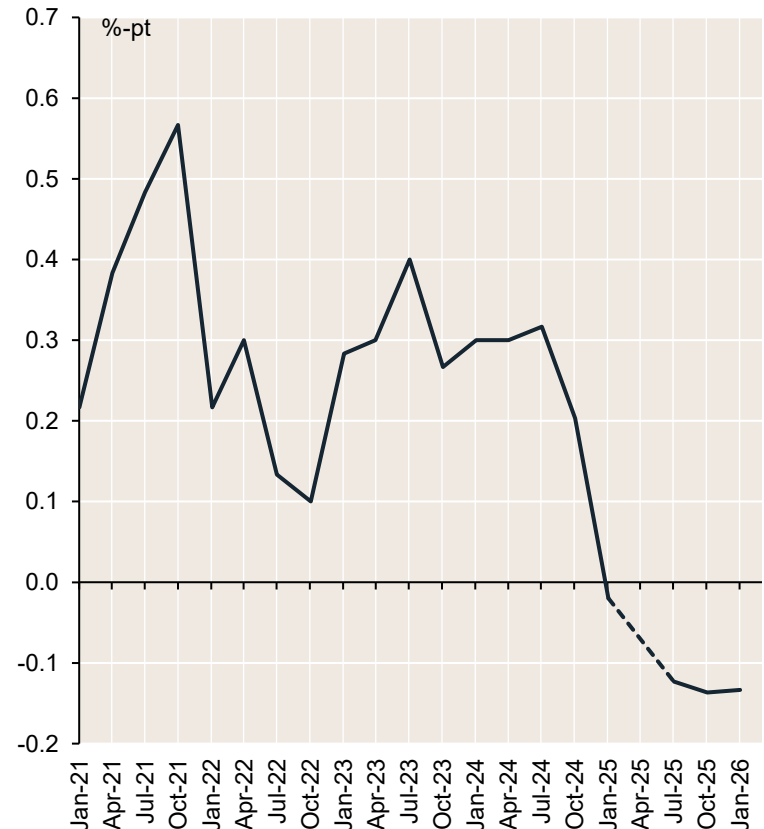
Canadian 2026 & 2027 GDP growth projections: Private sector & BoC



Source: NBC, BBG, BoC | Note: Projections retrieved on 3-Feb and submitted to Bloomberg between 15-Jan and 2-Feb. The BoC published its MPR on 28-Jan. 'Big 6' refers to other Big 6 Canadian banks.

... which is rare for the usually-upbeat central bank

Difference in average annual GDP growth projection: BoC less consensus



Source: NBC, BBG, BoC | Note: The BoC didn't present a central or baseline projection in April 2025. In all observations, three years of the growth outlook are compared. For Jan-26, we calculate the growth difference across '25, '26 and '27.



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NBC.EconomicsStrategy@nbc.ca

To contact us:
514-879-2529

Stéfane Marion
Chief Economist and Strategist
stefane.marion@nbc.ca

Matthieu Arseneau
Deputy Chief Economist
matthieu.arseneau@nbc.ca

Jocelyn Paquet
Senior Economist
jocelyn.paquet@nbc.ca

Kyle Dahms
Senior Economist
kyle.dahms@nbc.ca

Alexandra Ducharme
Senior Economist
alexandra.ducharme@nbc.ca

Daren King, CFA
Senior Economist
daren.king@nbc.ca

Warren Lovely
Chief Rates and Public Sector Strategist
warren.lovely@nbc.ca

Taylor Schleich
Rates Strategist
taylor.schleich@nbc.ca

Ethan Currie
Strategist
ethan.currie@nbc.ca

Angelo Katsoras
Geopolitical Analyst
angelo.katsoras@nbc.ca

Nathalie Girard
Senior Coordinator
n.girard@nbc.ca

Giuseppe Saltarelli
Desktop Publisher
giuseppe.saltarelli@nbc.ca

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