



# PREVIEW: BoC rate decision due Wednesday July 12th at 15:00BST/10:00EDT

**TIMETABLE:** Rate decision and MPR at 15:00BST/10:00EDT on July 12th; press conference with Governor Macklem and Senior Deputy Governor Rogers at 16:00BST/11:00EDT.

**RATES:** After a five month 'pause', the consensus looks for the Bank of Canada to lift interest rates by 25bps for the second straight meeting in July, taking its key rate to 5.00%, according to a poll by Reuters.

**INFLATION:** Recent inflation data showed a significant decline in price pressures, with the annual rate diving to 3.4% Y/Y from 4.4%, though some analysts suggested that it might be a result of base effects. The BoC itself does not see inflation returning to its 2% target until early 2025. "The slowdown may not be enough to remove another BoC rate hike from the table given stickier core rates of inflation, while a decent GDP report coupled with a tight job market suggests the economy remains sturdy," BMO Capital Markets said.

**GROWTH:** Scotiabank says that another reason why the BoC will lift rates is due to the resilient economy. "Despite consensus forecasts for a technical recession in Q1 and Q2, GDP grew by 3.1% in Q1 and is tracking close to 2% growth in Q2 according to our bottom up and nowcast approaches." But analysts are still split on the prospects of a recession; according to the Reuters poll, analysts believe that after the July hike, the central bank will likely keep rates unchanged well into 2024.

**LABOUR MARKET:** Analysts at RBC note that data is pointing to more persistent momentum in consumer spending as well as labour demand, and the question is when are we going to be able to see a material slowdown in labour market conditions as well as the economic outlook; "in our heads, it is really a question of when, not so much whether it is going to happen," RBC adds.

## ANALYST FORECAST EXPECTATIONS:

The BoC will update its growth projections at the July meeting. Below, we list the consensus analyst view vs the BoC's previous forecasts made in April.

### CPI:

- 2023 CPI: consensus expects 3.7% (vs BoC prev. forecast of 3.5%)
- 2024 CPI: consensus expects 2.3% (vs BoC prev. forecast of 2.3%)
- 2025 CPI: consensus expects 2.0% (vs BoC prev. forecast of 2.1%)

### GDP:

- 2023 GDP GROWTH: consensus expects 1.3% (vs BoC prev. forecast of 1.4%)
- 2024 GDP GROWTH: consensus expects 1.0% (vs BoC prev. forecast of 1.3%)
- 2025 GDP GROWTH: consensus expects 1.8% (vs BoC prev. forecast of 2.5%)

### Neutral Rate/Output Gap:

- Previously, the BoC estimated that the midpoint of the neutral range was within 2-3%.
- And previously, the BoC estimated that the output gap was between 0.25-1.25%.

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