

## Preview: Bank of Canada Rate Decision & MPR due Wednesday 16th April at 14:45BST/09:45EDT

- BoC to release rate decision, MPR and text from Governor Macklem at 14:45BST/09:45EDT
- Expectations are split but the majority of analysts look for rates to be left on hold at 2.75%, MPR forecasts likely to be adjusted to reflect tariff impact
- Press conference at 15:30BST/10:30EDT

**SUMMARY:** Expectations for the BoC rate decision are split, but analysts are leaning towards the Central Bank leaving rates on hold at 2.75% - the centre of the neutral rate estimate. However, 11 out of 29 analysts surveyed expect the BoC to cut rates. There are valid arguments in either the hold or cut camp, with the BoC previously dropping forward guidance to take a meeting-by-meeting approach. It would make sense for the BoC to hold rates at the neutral level while there is still a lot of uncertainty ahead due to trade tensions with the US, so it may be wise for the BoC to stand pat and wait to see how the economy is impacted. Meanwhile, although inflation is within the BoC's target range, it has been creeping up this year, but the latest March report provided some solace. On the flip side, however, the BoC could cut rates to get ahead of the curve with uncertainty ahead clearly hitting both consumer and business expectations as outlined in the Q1 '25 surveys, with recession fears rising while recent labour market reports have been weak. The BoC will also release an updated Monetary Policy Report, which will likely see forecasts adjusted to reflect recent tariff announcements from US President Trump, which could see upside to inflation forecasts while growth forecasts will likely be cut as recession fears mount.

**EXPECTATIONS:** Analyst expectations for the BoC rate decision are split. 18 out of 29 surveyed by Reuters expect the BoC to leave rates on hold, while the other 11 look for a 25bps cut to 2.50%. However, looking ahead, easing is expected to resume. 15/29 predicted two more rate cuts by the end of Q3, while there was no clear majority among economists where rates would be by year-end. The arguments for holding at the April meeting are that with rates already at neutral, accompanied by chopping and changing trade policies from US President Trump, it is argued the BoC would be best to keep rates on hold to assess the situation - similar to what the Fed is doing. However, it can be argued that because Canada is subject to 25% tariffs on non-USMCA compliant goods, 10% tariffs on energy and potash, 25% on vehicles and 25% tariffs on steel and aluminium, while lumber tariffs are set to be hiked to 34% from 14.4%, uncertainty is still high in Canada and recession fears are rising (14/15 economists surveyed said Canadian recession risk is high, with one economist saying the risk is low). Therefore it may be best for the BoC to get ahead of the curve. Money markets are currently pricing in 11bps of easing at the April meeting, with the first 25bps rate cut not fully priced until July. Looking ahead, 48bps of easing is priced - implying a 100% probability of one rate cut this year, and a 92% probability of a second.

**TARIFF SUMMARY:** Since Liberation Day, markets have been extremely volatile in response to tariff measures from US President Trump. Initially, he imposed reciprocal tariffs on its trading partners, which varied among each nation, but since the US President has dialled down his tone. He announced a 90-day pause on reciprocal tariffs with nations now subject to a flat 10% rate. However, Trump has upped the ante on China, announcing additional tariffs of 125%, with the total now at 145% - China then retaliated with an additional 125% tariff on the US. The aggressive China tariff approach still is keeping recession fears high - Trump has since announced tariffs on smartphones are exempt from the additional tariffs, but still subject to the 20% fentanyl tariffs the US has in place on China imports. Canada, meanwhile, is subject to 25% tariffs on non-USMCA compliant goods, 10% tariffs on energy and potash, 25% on vehicles and 25% tariffs on steel and aluminium, while lumber tariffs are set to be hiked to 34% from 14.4%. Note, that Canada and Mexico were not subject to Trump's reciprocal tariffs.

**RECENT SURVEYS:** The latest Q1 '25 Business Outlook Survey saw that "Business sentiment has deteriorated, and uncertainty is widespread due to the trade conflict with the United States". It noted firms are developing plans to mitigate the effects of tariffs on their operations but see many challenges ahead. "Fewer businesses than last quarter expect sales growth to improve over the coming year. Firms reported having sufficient capacity to meet expected demand." Meanwhile, "many businesses are delaying important decisions, such as those related to investment and hiring, until they have a clearer outlook. Hiring intentions are weak". Firms no longer expect growth in their input prices to slow and two-thirds of businesses believe that their costs would be pushed higher if widespread tariffs are implemented. As a consequence, many firms would increase their selling prices. Near-term inflation expectations are higher than last quarter, with firms believing the inflationary impacts from tariffs will outweigh reduced pressures from weak demand. The Consumer Survey found sentiment is damaged due to the trade conflict, while confidence in the labour market weakened significantly and consumers have become more pessimistic about their financial health. The survey further adds, "Although consumption plans had been improving over the past several quarters, consumers now intend to spend more cautiously given the uncertainty around the trade conflict. They expect the trade conflict to lead to a higher cost of living, and this has pushed up their inflation expectations". Consumers also plan to spend more cautiously, while consumers expect trade conflict to lead to a higher cost of living, which saw short-term inflation expectations rise.

**RECENT DATA:** The March inflation report in Canada was softer than expectations and the BoC eyed core measures of inflation (average of median, trim and common) fell to 2.66% from 2.77%, remaining within the BoC's 1-3% target range, but towards the top end. Looking ahead, since Trump's tariff announcements the US Dollar has tumbled with USD/CAD falling from c. 1.44 at the end of March to ~1.39 at the time of writing, which may help offset some of the inflationary pressures ahead, but inflation risks are tilted to the upside due to the aforementioned tariffs on the Canadian economy from the US. The labour market report for March was weak, highlighted by the unemployment rate ticking up to 6.7% from 6.6%, in line with expectations, while the participation rate fell to 65.2% from 65.3%. The jobs report also showed that full-time employment plummeted, declining by 62k in March, adding to the 20k losses in February - showing signs of concern within the labour market. Part-time employment rose by 30k, adding to the prior 21k.

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