Preview: BoC rate decision, MPR and Governor statement due Wednesday 30th July at 14:45 BST/09:45 EDT

SUMMARY: The BoC is expected to leave rates unchanged at the upcoming meeting, with the BoC likely to leave out forward guidance again, given uncertainties in the economy. The Monetary Policy report will be eyed to see how they expect Trump's tariffs to impact the Canadian economy based on the current trade environment. The policy rate of 2.75% remains at the midpoint of the BoC's nominal neutral rate estimate (between 2.25-3.25%). This limits room for more rate cuts, unless the economy were to deteriorate in the face of trade tensions. Macklem, in June, had suggested that rate cuts would be needed if the effects of tariffs and uncertainty continued to spread through the economy and cost pressures were contained. However, recent data saw inflation remain towards the top-end of the BoC's target, while the labour market situation improved, dimming the prospects for near-term rate cuts. Money markets are only pricing in 14bps of further easing by year-end, implying a 56% probability of one more rate cut this year, but any deterioration in trade relations may see a rate cut priced with more certainty and vice versa, depending on how the economy unfolds. The recent outlook surveys showed signs of optimism and improvement; however, despite the ongoing uncertainties, with the worst-case scenarios from Q1 less likely to occur, while business expectations on short-term inflation have returned to levels seen at the end of 2024. However, the consumer survey declined as spending intentions weakened further due to the persistent threats of tariffs and related uncertainty. Consumers' short-term inflation expectations have changed little since increasing markedly in Q1 2025.

RATES/MPR: BoC expected to keep rates on hold at 2.75%, in fitting with the mid-point of the BoC's estimate of the neutral rate. This limits room for more rate cuts, unless the economy were to deteriorate in the face of trade tensions. Money markets are only pricing in 14bps of further easing by year-end, implying a 56% probability of one more rate cut this year, but any deterioration in trade relations may see a rate cut priced with more certainty and vice versa. The BoC MPR will be eyed to see how the forecasts of the central bank have changed since April for the two different scenarios, or perhaps if they acknowledge which one is more likely. In April, the BoC MPR provided two scenarios: 1) Most tariffs imposed since the trade conflict began are negotiated away. 2) Uncertainty and limited tariffs in Scenario 1 persist, and other US tariffs are added with a long-lasting global trade war unfolding. These assumptions were finalised on April 11th, after April 2nd Liberation Day and April 9th's Liberation walk back to a 10% baseline, albeit Canada was still subject to the 25% fentanyl related tariffs, and there is a risk this goes up to 35% from August 1st, depending on negotiations. Nonetheless, prices remain towards the upper-end of the BoC's target, and the latest labour market report was solid, showing the economy is faring better than expected in the face of Trump's tariffs, and this may be shown in the MPR.

TRADE SITUATION: The current state of US/Canada tariffs has a 25% blanket tariff on Canadian goods that are non-USMCA compliant due to the influx of fentanyl into the US, as well as a 50% tariff on aluminium and steel imports. However, if a deal is not reached by August 1st, then tariffs will be lifted to 35%. US President Trump even warned on Friday that Canada could just face a tariff and no negotiation. This leaves a lot of uncertainty on the table for Canada, with the situation still fluid with talks ongoing ahead of the August 1st deadline. Canada has retaliated against the US, imposing a 25% tariff on about CAD 30bln worth of US goods. The BoC rate decision takes place just two days before the trade deadline, which will provide a bit more clarity on the future trade relations between the US and Canada. Nonetheless, uncertainty still remains and therefore makes sense for the BoC to stand pat in July, particularly with rates at neutral.

RECENT COMMENTARY: Since the June rate decision, BoC Governor Macklem said the prospect of a new Canada-US trade deal offers hope that tariffs will be removed and that recent progress is encouraging. He also said that cutting rates would be more difficult if the recent firmness in underlying inflation persists, noting BoC is proceeding carefully. He warned that a rate cut would be needed if the effects of tariffs and uncertainty continued to spread through the economy and cost pressures were contained. On the labour market, he is watching closely for signs of widening weakness. Note, these remarks were made on June 18th, before the June jobs and inflation reports, as well as before the 35% tariff letter threat from Trump.

RECENT DATA: The BoC core measures of CPI have been around 2.9% for the last three months, still within the BoC's 1-3% inflation target range, albeit to the top-end. The labour market hasn't shown any further sign of decline, with the unemployment rate falling to 6.9% in June from 7.0%, despite expectations for a rise to 7.1% with the labour market remaining more resilient than expected. The employment change of 83k surged above the unchanged forecast and prior 8.8k, albeit this was primarily led by part-time employment, but full-time employment still saw a 13.5k increase. On the recent data, RBC notes that "firmer price growth among domestically produced and consumed services comes alongside a June labour market rebound, improved business sentiment, and resilient consumer spending trends". The desk adds that while downside risks to economic growth remain, recent data is consistent with its base-case that the BoC is done with rate cuts this cycle.

SURVEYS:

BOS: The Business Outlook Survey said tariffs and related uncertainty, along with spillover effects on the Canadian and global economies, continue to have major impacts on businesses' outlooks. However, the worst-case scenarios that firms saw in Q1 are now seen as less likely to occur. Sales outlooks remain pessimistic overall due to widespread concerns about the broader effects of a slowing economy. But recent monthly survey results suggest some improvement in firms' outlooks—particularly among exporters—because few have been directly affected by the current tariffs. Uncertainty continues to drive cautiousness in outlooks for hiring and investment. Most firms expect to maintain current staffing levels and limit investment to regular maintenance over the next 12 months. For some, cost increases due to tariffs and trade uncertainty have materialised. Affected firms see weak demand and competition as constraining their ability to pass cost increases on to their customers, although most still plan for some pass-through. Businesses' expectations for short-term inflation have returned to levels reported at the end of 2024. Overall, it is still clear that uncertainty remains due to the impact of trade, but firms are perhaps not as pessimistic as they were in Q1.

CSCE: The Canadian Survey of Consumer Expectations indicator declined this quarter as spending intentions weakened further due to the persistent threats of tariffs and related uncertainty. Consumers continued to see the labour market as soft. Fears of job loss remain elevated but have declined slightly since last quarter. The trade conflict is leading consumers to become increasingly cautious about their spending plans and to change their spending behaviour. Many respondents expressed a desire to prioritise spending on Canadian goods and vacations in Canada. Consumers' short-term inflation expectations have changed little since increasing markedly in the first quarter of 2025. While consumers expect large increases in motor vehicle prices over the next 12 months, their inflation expectations for essential goods and services declined this quarter. More consumers cited tariffs as the most important factor affecting the Bank of Canada's ability to control inflation. Overall, the consumer appears to be expecting a slowdown with a softer expenditure outlook, although short-term inflation expectations have seen little change since rising in Q1.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.
newsquawk.com · +44 20 3582 2778 · info@newsquawk.com