

MNI Bank Of Canada Preview: July 2025

Meeting: Wed, 30 July

Decision / Opening Statements/Monetary Policy Report: 0945ET, Press Conference: 1030ET

MNI Review of June Meeting: https://media.marketnews.com/BOC_Review_June2025_8829aed778.pdf

CONTENTS

[MNI POV \(Point of View\)](#) | [Prior Statements and Q&A Highlights](#) | [Intermeeting Commentary](#)
[Data Watch](#) & [MNI Instant Answers](#) | [Analyst Summary Table](#) | [MNI Policy Team Insights](#)

MNI POV: Data Calls For Further Patience

July 29, 2025 - By Tim Cooper

- Data developments since the June meeting mean the Bank of Canada will maintain the overnight rate target steady at 2.75% for a third consecutive meeting on Wednesday.
- Better-than-expected labour market data and stubbornly high core inflation, combined with continued uncertainty over the US-Canada trade dispute, give the BOC impetus to wait until its next meeting in September before committing to further moves.
- While the BOC is likely to retain its easing bias, judging from market pricing, the question now is whether the BOC's easing cycle is at an end after 225bp of cuts through March.
- We note that while most analysts still expect at least one further cut, median expectations of the terminal overnight rate as tracked by MNI have crept up to 2.25% from 2.125% since prior to the June meeting.
- The latest Monetary Policy Report is likely to include two tariff-related scenarios as in the previous round, with a less negative estimate for Q2 GDP and slightly higher core inflation.
- The policy statement should reflect this better-than-expected economic activity evolution as well, but once again we do not expect any firm forward guidance.

The Bank of Canada is set to hold the overnight rate at 2.75% on Wednesday Jul 30 (decision 0945ET), a third pause after seven consecutive cuts. This would keep rates in the middle of the BOC's neutral range of 2.25–3.25%.

- The BoC is prone to surprising markets more than most of its central bank peers. But this is the first upcoming meeting in the last three at which opinion is not split over the decision: there's under 5% implied probability of a rate cut at this meeting per OIS markets. Compare that to 20% on the eve of the June meeting (decision was a hold) and 30-40% in April (again, a hold) when the outcome wasn't entirely clear. Indeed the last fully-priced decision was March's 25bp cut, which may turn out to be the final one of the cycle after 225bp in easing.
- **Since Q1, data developments have seen market pricing for future cuts slowly evaporate, with analysts not quite convinced but moving in that direction.** We've seen the expected BOC terminal rate rise to 2.25% (per MNI consensus), versus 2.125% prior seen prior to the June meeting, and we think this could creep up further.
- While most analysts continue to expect at least one or two more cuts by year-end, with most basing their view on expectations that the Canadian economy will weaken sharply, markets (OIS) see no full 25bp reductions seen through year-end (17bp in total over the next 4 meetings to December). That compares to just after the June meeting when a full 25bp cut and then some had been expected.

In the inter-meeting period, two months of CPI data (May and June) along with a positive surprise in the main labour market aggregates affirmed the case to hold rates. That's especially relevant now since the BOC has become less "forward looking" amid tariff-related uncertainty, relying on incoming data to form its decisions.

- Echoing the language in the meeting decision, the June meeting minutes released last month noted "The weaker the economy and the more downward pressure on inflation, the more there would be a need to lower the policy interest rate further. However, if the recent firmness in underlying inflation were to persist, it would be more difficult to cut the policy rate.... Overall, members agreed there could be a need for a further reduction in the policy interest rate if the effects of U.S. tariffs and uncertainty continued to spread through the economy and cost pressures on inflation were contained."

- Looking at the data, there appeared to be both persistent “firmness in underlying inflation”, with arguably little evidence that economic weakness was spreading.

June's Labour Force Survey saw much-better-than-expected employment (+83.1k, vs 0.0k consensus) and unemployment rate (6.9%, vs 7.1% consensus) data. The unemployment rate is still elevated but it improved for the first time since January. Indeed at an unrounded 6.87% it marked a 3-month low. And this was the biggest overall monthly job gain in 6 months. The 3-month sum of full-time jobs is now up to +103k, fastest in 6 months, even as part-time jobs remain basically flat (-3k). Full-time employment is up 1.7% Y/Y for a 2nd month, with part-time up 1.5%.

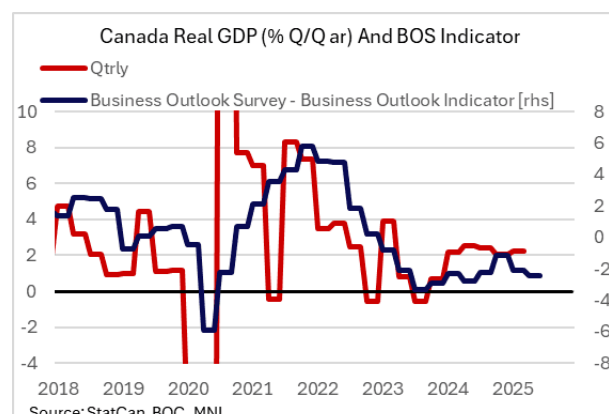
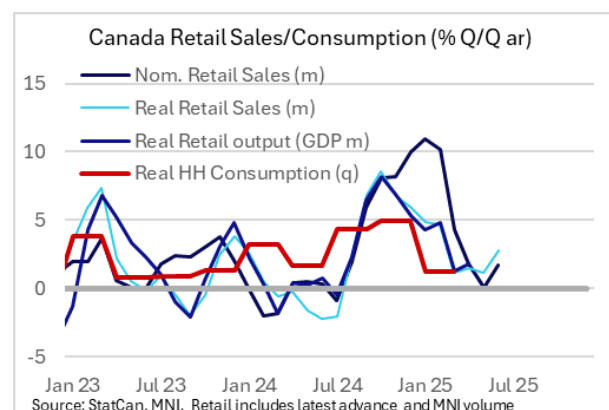
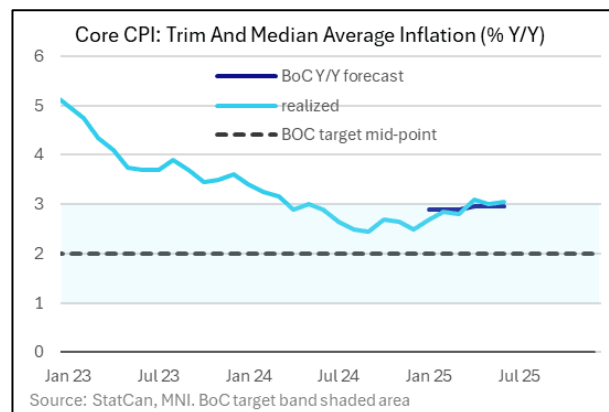
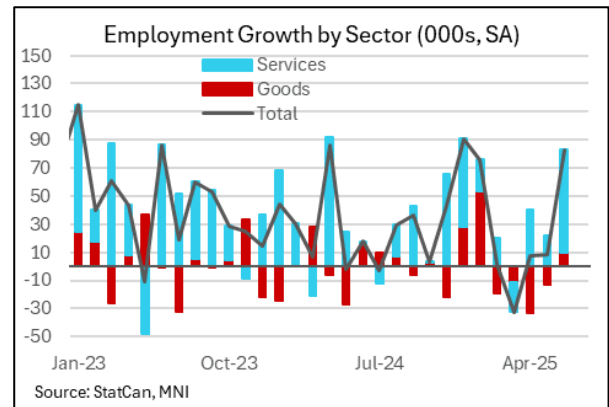
- Goods sector jobs were weak but positive, and services-producing jobs rose 73.1k, the most in 28 months. That was led by retail and wholesale employment up 33.6k, defying some expectations that the Hudson's Bay bankruptcy would weigh in this category. Only two categories within services (transportation and "other") were negative, which will be taken as an indication that tariff-related employment weakness isn't spreading to the broader economy.

And the June CPI report showed stronger-than-anticipated price pressures. The main takeaway was the slightly-higher-than-expected print for the BOC's preferred inflation metric: with the trim / median average finishing Q2 averaging 3.05%, higher than the 2.95% "forecast" by the BOC in its April projections (its two tariff scenarios were 2.9% or 3.0%).

- For the quarter, Y/Y trim averaged 3.03% and median 3.07%. June didn't see a major upside miss on the major core metrics, but when combined with the upside "miss" in headline CPI (a below-BOC target 1.8% Y/Y in Q2, but vs 1.5% in April's BOC projections), the apparent acceleration in inflation momentum is reason enough to stay on hold.

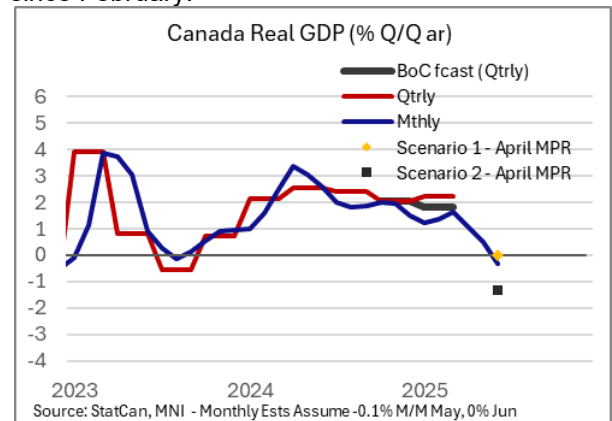
Combined with these are other monthly pieces of evidence that activity may have troughed early in Q2 and started to pick up going into Q3.

- For example, in the final major data before the BOC decision, Canadian retail sales came in as weak as expected in May, falling 1.1% M/M, exactly in line with StatCan's advance estimate made a month earlier. But perhaps the bigger takeaway is that the advance estimate for June's retail sales is for 1.6% M/M gains - which would be the fastest pace since December. The BOC may also take note of diminishing, or at least steadying, impact of the US-Canada trade war on retail businesses (StatCan: "32% of retail businesses were impacted by the trade tensions in May,



compared with 36% in April.") Indeed the estimated pickup in June would bring retail sales to a new all-time high in nominal terms and at or near all-time highs in volume terms. It would represent quarterly volume growth north of 2.0% (3M/3M SA basis) for the first time since February.

- **The Bank of Canada's quarterly Business Outlook Survey (BOS) and Canadian Survey of Consumer Expectations (CSCE)** showed broadly that the economy and inflation expectations stabilized between February (the Q1 survey) and May (the Q2 report released this month). Neither survey's findings are an obstacle for further BOC rate cuts, but nor do they make a compelling case for further easing (although the consumer survey was clearly the weaker of the two).
- **The latest monthly GDP reading showed** a below-consensus -0.1% M/M reading for April, with the May flash estimate also pointing to a 0.1% contraction (we get the data on July 31, the day after the BOC decision). That was indicative of quarterly growth of -0.3% in Q2, if June comes in flat (which looks like pessimistic assumption given other activity data for the month). This would be between the BOC's two scenario estimates of -1.3% and 0.0% in its April projections. This comes after the latest quarterly GDP release on May 30 showed Q1 annualized GDP +2.2%, above the BOC forecast for +1.8%



Monetary Policy Report/Projections: That gets us to the latest Monetary Policy Report / Projections due at this meeting. The prior meeting's summary table is adjacent, showing the two "scenarios", one more pessimistic on the outlook than the other amid tariff threats. The BOC has signalled a preference to get back to a central forecast as opposed to dual scenarios, though it's not likely that will happen in July.

That's because of multiple areas of uncertainty that could continue to warrant scenario-based analysis. First and foremost is US President Trump's stated deadline of August 1 to reach a trade deal with Canada, absent which a 35% tariff rate on Canadian exports to the US has been threatened. We could add to such areas of uncertainty the federal government's fall budget and various incoming data, but those are fairly ordinary areas of uncertainty and the US tariff situation is enough to keep the outlook extremely clouded.

Given the above, we expect to see another dual-scenario outlook, albeit a more optimistic one than April's on the activity front. This will include a less negative estimate for Q2 GDP with slightly higher core inflation. If they do publish a single, central forecast, this would be a surprise and suggest that the BOC has more confidence in its ability to make projections despite aforementioned uncertainties.

		2024		2025	
		Q3	Q4	Q1	Q2
CPI inflation (year-over-year percentage change)	Scenario 1	2.1	1.9	2.4	1.5
	Scenario 2	2.1	1.9	2.4	1.5
	January 2025 Report	2.1	1.9	2.1	
Core inflation (year-over-year percentage change)*	Scenario 1	2.7	2.7	2.9	2.9
	Scenario 2	2.7	2.7	2.9	3.0
	January 2025 Report	2.5	2.6	2.5	
Real GDP (year-over-year percentage change)	Scenario 1	1.9	2.4	2.3	1.6
	Scenario 2	1.9	2.4	2.3	1.3
	January 2025 Report	1.5	1.8	1.7	
Real GDP (quarter-over-quarter percentage change at annual rates)	Scenario 1	2.2	2.6	1.8	0.0
	Scenario 2	2.2	2.6	1.8	-1.3
	January 2025 Report	1.0	1.8	2.0	

* Core inflation is the average of CPI-trim and CPI-median.
Note: The assumptions and scenarios were finalized on April 11, 2025.
Sources: Statistics Canada and Bank of Canada calculations and estimates

The policy statement should reflect this better-than-expected economic activity evolution as well, suggesting as Macklem has previously that reality has unfolded much closer to Scenario 1 than Scenario 2. There could be some note of continued elevation in core inflation metrics. In June the BOC noted "firmness in recent inflation data" which could stand, though "softer but not sharply weaker" economic activity could sound a little more positive this time. Once again, however, we do not expect any firm forward guidance given tariff uncertainty.

Markets Heading Into The Decision

OIS markets see current pricing for a July cut at just under 5%, with no full 25bp reductions seen through year-end (17bp in total over the next 4 meetings to December).

Meeting	Current	Post-June Meeting (Jun 05)	Change since then	Cumulative Change From Current Rate (bp)	Incremental Chg (bp)
Jul 30 2025	2.74	2.65	8.6	-1.2	-1.2
Sep 17 2025	2.69	2.54	15.0	-6.0	-4.8
Oct 29 2025	2.63	2.46	17.4	-11.9	-5.9
Dec 10 2025	2.58	2.41	17.8	-16.6	-4.7

Key Inter-Meeting BoC Commentary

Speaker	Commentary Since Previous BoC Rate Decision
Tiff Macklem (Governor)	<p>June 18 Speech (link)</p> <p>BOC Gov Macklem said the announcement of a 30-day deadline for a U.S. trade deal has a big influence on the interest-rate path because ending tariffs would diminish conflicting pressures around layoffs and price increases, while affirming his stance borrowing costs can decline if the economy weakens further.</p> <ul style="list-style-type: none"> • "My colleagues on Governing Council and I agreed there could be a need for a further reduction in the policy interest rate if the effects of US tariffs and uncertainty continued to spread through the economy and cost pressures on inflation were contained." • "Assessing the inflationary impact of tariffs has been a moving target because the United States has repeatedly changed the size and scope of tariffs. The prospect of a new Canada-US trade deal offers hope that tariffs will be removed. But until we have a deal, inflation will be affected by both US tariffs and Canadian counter-tariffs." • "It's still too early to see the direct effects of counter-tariffs in the inflation data, but we may be seeing some indirect effects related to trade disruption...The Bank's preferred measures of core inflation, as well as other measures of underlying inflation, moved up in April. There is some unusual volatility in inflation, but these measures suggest underlying inflation could be firmer than we thought. Higher core inflation can be partly attributed to higher goods prices, including food, and may be starting to reflect new costs related to US tariffs. The Bank will be watching measures of underlying inflation closely to gauge how inflationary pressures are evolving." • "Employment usually responds with a lag. Final domestic demand in Canada was soft in the first quarter, and if tariffs and uncertainty were to continue, households and businesses will likely remain cautious. If demand stays soft, at some point more businesses will cut jobs." • "Further weakening in the job market will put more downward pressure on inflation. But if tariffs were to continue, they'll add costs. As I have said before, we can't let a tariff problem become an inflation problem." • "These economic impacts underline the importance of a new trade deal with the United States."

June 4 Rate Decision Statement

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%.

Since the April Monetary Policy Report, the US administration has continued to increase and decrease various tariffs. China and the United States have stepped back from extremely high tariffs and bilateral trade negotiations have begun with a number of countries. However, the outcomes of these negotiations are highly uncertain, tariff rates are well above their levels at the beginning of 2025, and new trade actions are still being threatened. Uncertainty remains high.

While the global economy has shown resilience in recent months, this partly reflects a temporary surge in activity to get ahead of tariffs. In the United States, domestic demand remained relatively strong but higher imports pulled down first-quarter GDP. US inflation has ticked down but remains above 2%, with the price effects of tariffs still to come. In Europe, economic growth has been supported by exports, while defence spending is set to increase. China's economy has slowed as the effects of past fiscal support fade. More recently, high tariffs have begun to curtail Chinese exports to the US. Since the financial market turmoil in April, risk assets have largely recovered and volatility has diminished, although markets remain sensitive to US policy announcements. Oil prices have fluctuated but remain close to their levels at the time of the April MPR.

In Canada, economic growth in the first quarter came in at 2.2%, slightly stronger than the Bank had forecast, while the composition of GDP growth was largely as expected. The pull-forward of exports to the United States and inventory accumulation boosted activity, with final domestic demand roughly flat. Strong spending on machinery and equipment held up growth in business investment by more than expected. Consumption slowed from its very strong fourth-quarter pace, but continued to grow despite a large drop in consumer confidence. Housing activity was down, driven by a sharp contraction in resales. Government spending also declined. The labour market has weakened, particularly in trade-intensive sectors, and unemployment has risen to 6.9%. The economy is expected to be considerably weaker in the second quarter, with the strength in exports and inventories reversing and final domestic demand remaining subdued.

CPI inflation eased to 1.7% in April, as the elimination of the federal consumer carbon tax reduced inflation by 0.6 percentage points. Excluding taxes, inflation rose 2.3% in April, slightly stronger than the Bank had expected. The Bank's preferred measures of core inflation, as well as other measures of underlying inflation, moved up. Recent surveys indicate that households continue to expect that tariffs will raise prices and many businesses say they intend to pass on the costs of higher tariffs. The Bank will be watching all these indicators closely to gauge how inflationary pressures are evolving.

With uncertainty about US tariffs still high, the Canadian economy softer but not sharply weaker, and some unexpected firmness in recent inflation data, Governing Council decided to hold the policy rate as we gain more information on US trade policy and its impacts. We 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.

Governing Council is proceeding carefully, with particular attention to the risks and uncertainties facing the Canadian economy. These include: the extent to which higher US 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.

We are focused on ensuring that Canadians continue to have confidence in price stability through this period of global upheaval. We will support economic growth while ensuring inflation remains well controlled.

mni Central Bank Watch - Bank of Canada

July 29, 2025

MNI Bank of Canada Data Watch List											
Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI	% y/y	1.9	2.3	↓	1.8	↑					-0.96
Core CPI - Median	% y/y	3.1	2.8	↑	2.5	↑					1.22
Industrial Product Price	% m/m	0.4	0.2	↑	0.4	→					0.14
Breakeven 10-Year	%	1.98	1.86	↑	1.86	↑					1.43
Economic Activity		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
PMI Manufacturing	Index	45.6	46.3	↓	52.2	↓					-1.52
GDP	% m/m	-0.1	0.4	↓	0.3	↓					-0.88
Manufacturing Sales	% m/m	-0.91	-0.52	↓	0.71	↓					-0.46
Trade Balance	CAD bn	-5.86	-2.14	↓	-0.61	↓					-1.14
Monetary Analysis		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
M3 Money Supply	% y/y	5.06	6.43	↓	5.38	↓					-0.77
Bank Lending Survey (Q)	% m/m	1.51	-1.89	↑	1.71	↓					-0.68
New House Prices	% m/m	-0.2	0.0	↓	-0.1	↓					-0.59
Housing Starts	K	283.7	214.3	↑	232.2	↑					1.05
Consumer / Labour Market		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
Retail Sales	% m/m	-1.1	-0.7	↓	0.4	↓					-1.26
Retail sales Ex-Autos	% m/m	-0.2	0.6	↓	-0.6	↑					-0.36
Employment Chge m/m	K	83.1	-32.6	↑	91.0	↓					1.07
Ave Hourly Wage Rate	% y/y	3.16	3.46	↓	3.82	↓					-1.68
Markets		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
S&P/TSX Composite	Index	27405	24918	↑	24728	↑					1.73
Canadian 10-Year Yield	%	3.52	2.97	↑	3.23	↑					1.35
CAD Yield Curve (2s-10s)	bps	70.9	51.1	↑	29.5	↑					1.16
CAD TWI	Index	116.09	111.91	↑	112.98	↑					1.29

Note: For quarterly data the 3m ago column will display the previous data point and the 6m ago column will display the data point prior to that.
Source: MNI, Bloomberg Finance L.P.

MNI Instant Answers

We have chosen the following questions for our Instant Answers service with the BoC decision at 0945ET:

- Overnight Rate Target (%)
- Does the Bank signal it's prepared to LOWER rates in the future?
- Does the Bank reiterate it could LOWER rates if the economy weakens amid tariffs and inflation is contained?
- Does the Bank signal it is prepared to RAISE rates in the future?
- Does the Bank signal it intends to leave rates ON HOLD?

Analyst Expectations And Key Comments

Analyst BoC Policy Rate Expectations

Analyst	July	Terminal (if known)	Rate path/broader comments
Median	On hold	2.25%	
Canadian institutions			
BMO	Hold	2.00%	Cuts 75bp by early 2026.
CIBC	Hold	2.25%	25bp cuts in Sep and Dec. "we suspect that [BOC] will keep the door open to future cuts should core measures of inflation ease back again"
TD	Hold	2.25%	25bp cuts in Oct and Dec. "the near-term risk is that the Bank signals that they have reached the end of their easing cycle - particularly given that just one more cut doesn't feel like a plausible outcome. At this point, it's a choice between zero cuts, and 2+ cuts"
National	Hold	2.25%	25bp cuts in Q3 and Q4, 1 25bp hike by end-2026. "There's growing momentum around the idea that the easing cycle is over. We disagree and we don't expect Governing Council to validate this more hawkish view"
Scotiabank	Hold	2.50%	Cut in Q2 2026. "Risk of a cut [in July] rests upon the BoC's willingness to surprise but would be difficult to explain with a credible narrative."
RBC	Hold	2.75%	"Overall, sticky inflation readings, a weakening but relatively resilient economic backdrop and prospects for larger fiscal spending are reasons why we do not expect the BoC will cut again in this cycle."
Desjardins	Hold	*	Cuts resume in September. "the still elevated unemployment rate suggests that there is a need for monetary easing ahead – that's even with fiscal stimulus on the horizon"
Other institutions			
JPM	Hold	2.00%	"With OIS markets only pricing ~12bps of cuts by year-end, risks are skewed towards a more dovish hold if the BoC emphasizes forward-looking tariff drags over backward-looking forecast revisions (similar to the Fed). ...75bps of cuts later this year as tariff drags push Canada into a recession."
BofA	Hold	2.00%	"We continue to expect the BoC to cut 25bp in Sep, Oct, and Dec to put the policy rate below neutral. The risk to our call is for the BoC to remain on hold for longer than we expect."
CBA	Hold	2.25%	25bp cuts in Oct and Q1 2026. "The risk is the BoC may need to lower interest rates below neutral if the economy deteriorates more than we expect. Conversely, a stronger rise in core inflation could encourage the BoC to keep its policy rate on hold for longer."
ING	Hold	2.25%**	"one or two additional cuts later in the year remain quite likely, and we think market pricing is too hawkish. We continue to expect some pressure on the Canadian dollar on the back of worsening domestic drivers"
Wells Fargo	Hold	2.25%**	"While our prior forecast anticipated rate cuts in July and October, we now expect the BoC to hold rates steady at its upcoming July meeting. A 25 bps rate cut is likely in September, with a possible follow-up cut in December, though the latter remains contingent on the pace of economic growth and core inflation softening."
GS	Hold	2.50%	25bp cut in October "we continue to think the broader labor market looks quite soft. The Business Outlook Survey was also not especially dovish....Though the risk of a cut [in July] seems low, we argue that the BoC is still more likely than not to provide further easing this cycle."
BNY Mellon	Hold	*	"The BoC will use its July report to update its neutral rate estimate and economic projections, signaling how it plans to balance slowing inflation gains against lingering risks to growth amid domestic structural imbalances and external shocks. Meanwhile, trade issues continue to linger over the Canadian economy but the CAD's recent performance and BoC pricing does not indicate strong risk of a highly adverse impact."
SEB	Hold	*	
Unicredit	Hold	*	"The room for further easing during the remainder of the year remains modest."

*No mention of terminal rate changes alongside July meeting view call. ** Multiple rate scenarios. Correct to the best of MNI's knowledge Jul 29 2025, Sorted by lowest to highest terminal rate

MNI Policy Team Insights

MNI BOC WATCH: No Cut Competing With Fed Day, Trump Deadline

By Greg Quinn (July 24)

OTTAWA - Bank of Canada Governor Tiff Macklem has no reason to shake things up with a shock interest-rate cut Wednesday hours before the Fed's rate decision and in the same week as Donald Trump's Aug. 1 deadline for 35% tariffs unless there's a trade deal.

Resilient growth and inflation during the biggest trade war since the 1930s between two of the world's largest trading partners provide another reason all 17 economists surveyed by MNI see the Bank's policy rate staying at 2.75% for a third consecutive meeting in a decision due at 945am EST.

Core [inflation](#) Macklem says has his attention remains stuck around 3% or the top of his target band for headline CPI, and cutting now invites criticism about a repeat of the Covid price jump. Worst-case scenarios around a recession starting in the second quarter have receded with a return to [job gains](#) and non-U.S. exports pulling the trade [deficit](#) back from a record. (See: [MNI INTERVIEW: Canada Exports Can Grow This Yr Despite Tariffs](#))

The Governor at the June 4 [meeting](#) said while tariffs make him less forward-looking, a cut remains in play if the economy stumbles and inflation remains stable. Economists on balance say damage from tariff threats requires stimulative monetary policy towards the end of the year with perhaps two rate cuts. The Bank earlier cut rates seven times between last June and March.

LARGELY RINGING TRUE

Proof of the need for more stimulus may not emerge until Canada reports second-quarter GDP on Aug. 29 and the federal government presents a fall budget costing out increased deficit spending on NATO's defense target. There are also slower-moving risks as consumers refinance popular five-year fixed-rate mortgages taken out when borrowing costs were at record lows, and the government's move to [slash](#) immigration that could slow demand and pressure on housing costs.

Canada's dollar has also shown unexpected strength this year, taking away one source of inflation from higher import costs. That's even with the Bank's lending rate about the farthest below the Fed's benchmark since 1997. The U.S. dollar has weakened globally this year as investors question the impact of U.S. policies.

The Bank in April shunned a precise economic forecast to give two scenarios based on the trade war's intensity and it's unclear if a regular forecast will return in this decision. Macklem's press conference will also be a chance to learn his views on policy if no trade deal is reached and Trump imposes the tariffs or moves the deadline for a deal again. Prime Minister Mark Carney last week suggested an agreement may not be met by the deadline.

"The Summary of Deliberations from June's policy meeting listed three key reasons why the Bank left rates unchanged: heightened policy uncertainty, firm inflation data and surprising economic resilience. With all three of these still largely ringing true, next week's decision seems a no-brainer," Bradley Saunders of Capital Economics wrote in a research note. (See: [MNI INTERVIEW: Mild Stimulus Cures Canada Recession- Ex-Clerk](#))

MNI INTERVIEW: Strip Job Language From BOC Mandate- Ex Fellow

By Greg Quinn (Jun 17)

OTTAWA - The Bank of Canada should remove full employment language from its mandate and return to a single target for inflation as had stood for decades previously, a former BOC research fellow told MNI, suggesting a change in next year's policy review that would see former governor and now Prime Minister Mark Carney undo a move by his predecessor Justin Trudeau's administration.

"Inflation targeting where the central bank is really just interested in one goal, it's very clear, it's very transparent, it has been very successful" McGill University economics Professor Francisco Ruge-Murcia said. "I also don't think that the change in language was ideal in the previous edition."

Canada was the first G7 nation to adopt an inflation target in the early 1990s and reviews the mandate every five years, with several governors over time praising the success of the 2% goal in keeping prices low and stable. The last renewal between Governor Tiff Macklem and Trudeau's Finance Minister Chrystia Freeland in late 2021 [added](#) language about seeking "maximum sustainable employment" when the inflation goal is met.

"You really cannot hit two targets with one instrument," Ruge-Murcia said. Economists have long held the view interest rates can only effectively control one major economic variable and not employment and inflation at the same time, while stabilizing inflation often means getting the economy to a place where employment is also robust. "In a way, it's kind of embedded in the goal of having an inflation target."

Resetting the Bank's [mandate](#) when it comes due at the end of next year is a good idea because the soft dual mandate "forces the Bank to sort of trade off on employment and inflation in a way that I think isn't ideal," Ruge-Murcia said.

CONFLICTING SHOCKS

At the last renewal officials acknowledged inflation had climbed well above target in the pandemic rebound and the employment goal could not be pursued at the time. While the Bank cut its policy rate from 5% last June to 2.75% as inflation was wrestled back to target from 8%, Macklem has said little about full employment recently. The jobless rate has crept up to 7% this year, the highest since 2016 outside of Covid.

Macklem has held rates for the last two meetings, citing the risk of weakness from U.S. trade tensions and concerns about [core](#) inflation quickening past 3%. At the last decision he said there's evidence he will need to cut again later this year.

Ruge-Murcia agreed with that stance, citing early evidence the job market is pointing to bigger weakness in the economy while the trend in core prices after initial tariffs remains unclear. (See: [MNI INTERVIEW: Mild Stimulus Cures Canada Recession- Ex-Clerk](#))

"In Canada, the issue is that the effect of the tariffs on employment may be larger, and it may take effect faster. Already there have been layoffs, and already unemployment [is rising]," he said. "This may probably induce the Bank to reconsider the last decision, and perhaps to cut the interest rate."

Shifting U.S. trade announcements make it difficult to give a precise rate forecast, he said. "There are shocks for which inflation and output move in the same direction, and there are shocks in which they move in opposite directions," Ruge-Murcia said. "This is what makes the work of the central bank so difficult."

MNI INTERVIEW: Surge Pricing Mandate Would Aid BOC- Andolfatto

By Greg Quinn (Jul 22)

OTTAWA - Adding an emergency surge pricing mechanism that allows for temporary overshooting of the inflation target to next year's Bank of Canada mandate review would improve transparency and public support in case of another stumbling block similar to the pandemic, former BOC adviser and St. Louis Fed economist David Andolfatto told MNI.

Pandemic deficit spending was bound to lift prices and adhering too narrowly to the 2% inflation goal in a future squeeze will make things worse by threatening a painful recession, Andolfatto said. Distrust from pandemic policies could be repaired with mandate language making clear the case for emergency fiscal and monetary coordination and the potential for above-target inflation, he said.

"You could imagine the way taxi cab drivers sometimes raise the fares, there's suddenly a spike in the price of fuel and for the time being, we're going to elevate the fare to reflect that," he said in an interview from the University of Miami where the Vancouver native now leads the economics department.

Covid exposed a need for rapid spending even unlike say the Korean War, when governments raised taxes taking pressure off monetary policy, Andolfatto said. Such tradeoffs could return soon, he added, as Canada is set to boost military spending to 5% of GDP to meet a NATO target and Prime Minister Mark Carney is rejecting talk of tax hikes.

Policymakers can choose between higher income or wealth taxes and an "inflation tax" and it's best to clarify that in the Bank's operations, Andolfatto said. "If you agree that the inflation tax is playing a role, then the Bank of Canada clearly cannot be expected to hit its inflation mandate at 2% through this crisis. You have to cut it some slack, and Parliament has to recognize it be built into the legislation."

FIGHTING THE RIGHT WAR

Fiscal dominance is less of a concern for Andolfatto, who pointed to wartimes in Canada and the United States where that happened but was understood as wider patriotic challenge. "Do you want to create a recession through when you're fighting the Japanese in the Second World War?" he asked.

Bank officials have expressed regret about pain from the inflation jump and Conservative Leader Pierre Poilievre called for Governor Tiff Macklem's firing saying he underwrote inflationary deficits. The Bank didn't start hiking until March 2022, a full year after CPI moved above 3%, though the effects of the pandemic at the time remained unclear. (See: [MNI: Trudeau Privy Advisers Studied Sticky CPI, Higher Rates](#))

The Bank's mandate is keeping inflation in the middle of a 1% to 3% band and CPI reached about 8% as the Covid shutdowns eased. There is also flexibility in not being required to fix past misses. (See: [MNI INTERVIEW: Strip Job Language From BOC Mandate- Ex Fellow](#))

Public dismay is misguided according to a paper he wrote for the CD Howe think-tank, and Andolfatto said Macklem deserves better especially from political critics. "He's a dedicated public servant following the mandates of the Bank of Canada, and he guided the Bank of Canada in the way he and his committee thought were best," said the former classmate of Macklem.

"My recollection is the Conservatives did probably support a lot of the stimulus," Andolfatto said. "What would he (Poilievre) have done, let interest rates go to 20%?"