

MNI Bank Of Canada Review: June 2025

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MNI View: Proceeding Carefully

June 4, 2025 - By Tim Cooper

The Bank of Canada held rates in June for the second consecutive meeting at 2.75%, in line with the MNI Markets Team's expectation and the broad consensus, though defying some market and analyst expectations for a cut.

- There was a very slight shift in implied market pricing for further 2025 BOC cuts after the decision, but basically unchanged despite the decent implied probability of a cut.
- Cumulative pricing through the July meeting points to 13bp of cuts through that point (2.61% implied OIS rate, vs 2.59% just before the decision). September retains the first full cumulative cut pricing (2.50%, roughly unchanged vs pre-decision), with end-year rates at 2.37% (unch vs pre-decision).
- Indeed pricing through end-2025 did not really shift much through either the decision or the press conference, with the BOC reinforcing the message that it was less forward-looking than usual in setting policy given elevated uncertainty amid the US-Canada trade conflict. As such, the policy statement notes that Governing Council is "proceeding carefully".
- The communications leaned slightly hawkish, keeping the door open to a cut but not emphatically. The data simply didn't make a compelling enough case to cut rates, with "firmness in recent inflation data" (Gov Macklem would later note firm core CPI for April "has got our attention") and "softer but not sharply weaker" economic activity.
- Gov Macklem noted in his opening statement that there "could" be the need for a cut ahead, conditional on the incoming data: "We also discussed the path ahead for the policy interest rate. Here, there was more diversity of views. On balance, members thought there could be a need for a reduction in the policy rate if the economy weakens in the face of continued US tariffs and uncertainty, and cost pressures on inflation are contained."
- The statement language removed the reference from the prior statement that it could "act decisively" if the economy clearly moved in one direction. Macklem said that the likelihood of the April MPR's adverse scenario of a "pretty extreme, protracted, severe trade war" appears to "have come down somewhat" since then April meeting. And Macklem's commentary includes this note in inflation ("There is some unusual volatility in inflation, but these measures suggest underlying inflation could be firmer than we thought.")
- The policy statement sums up the situation thusly: "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."
- Mirroring the limited movement in market rates, we didn't see any changes in analysts' outlooks for the rest of the easing cycle. Most analysts expect either one or two 25bp cuts ahead, with the next meeting on July 30 being very much "live" and accompanied by what BOC leadership hopes will be a conventional central forecast instead of scenario-based, as the tariff picture becomes clearer.
- A cut at that point remains a 50/50 proposition per market pricing. As Macklem acknowledged, they will be looking at two inflation reports between now and then (Jun 24 and Jul 15); they will also get one GDP

report (Jun 27, for April / prelim May), and a quarterly Business Outlook report (Jul 21). The first port of call is Friday's employment report for May, with a second to come on Jul 11.

BOC Pricing Remains Steady, July Cut Seen A Little Less Likely

The near-dated OIS curve barely moved between pre-decision and the end of the press conference. There was perhaps less dovishness than hoped/expected in the presser, with implied yields ticking slightly higher at the close.

- Current OIS pricing for cumulative cuts through the next 4 meetings: 13bp (Jul), 25bp (Sep), 33bp (Oct), 38bp (Dec).

	Post-Press Conference	Pre-Press Conf	5 Minutes Post Decision	Pre-Decision
Jun 04 2025				2.72
Jul 30 2025	2.62	2.60	2.61	2.59
Sep 17 2025	2.50	2.49	2.50	2.49
Oct 29 2025	2.42	2.41	2.40	2.39
Dec 10 2025	2.37	2.37	2.37	2.37

BOC Links:

- [Rate announcement](#)
- [Press conference opening statement](#)
- [Press conference webcast](#) (starts 1030ET)

Instant Answers For BOC Rate Decision

- Overnight Rate Target **(2.75%, unchanged, as majority of economists expected)**
- Does the Bank signal it is prepared to LOWER rates in the future? **Yes**
- Does the Bank signal it is prepared to RAISE rates in the future? **Not answered**
- Does the Bank signal it intends to leave rates on hold? **Not answered**
- Does the Bank mention core inflation has been elevated or above the 2% target for headline CPI? **Yes**
- Does the Bank say the trade war is boosting inflation or inflation expectations? **Yes**
- Does the Bank say the risks to growth from the trade war appear to have eased? **No**

Key Changes In The Rate Decision Statement

- Similar to previous statement BOC will continue monitoring timing and strength of downward pressure on inflation from a weaker economy and upward pressure from higher costs.
- BOC removed reference from prior statement that it could "act decisively" if the economy clearly moved in one direction.
- BOC says core inflation higher than it had expected, possibly because of tariffs.
- "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," BOC said.
- Recent surveys show consumers expecting higher prices and businesses intend to pass tariff costs to their customers, BOC also said.
- "Governing Council is proceeding carefully, with particular attention to the risks. This means we are being less forward-looking than usual."
- The central bank will pay close attention to risks and uncertainties: "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."

Full 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.

Key Points Of Press Conference Opening Statement

"Uncertainty remains high. The Canadian economy is softer but not sharply weaker. And we've seen some firmness in recent inflation data. Against this backdrop, we decided to hold the policy rate unchanged as we continue to gain more information on US trade policy and its impacts."

"Since our April decision, 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. The extreme financial turmoil we saw in April has moderated and stock markets have recovered their losses. However, the outcomes of the trade negotiations are highly uncertain, tariffs are well above their levels at the beginning of 2025, and new trade actions are still being threatened. The recent further increases in US tariffs on steel and aluminum underline the unpredictability of US trade policy."

"first-quarter GDP growth in Canada, which came in at 2.2%, slightly stronger than the Bank had forecast. The composition of growth was largely as expected. Exports and inventories were strong but final domestic demand was roughly flat... The pull forward in exports and inventory accumulation in the first quarter borrows economic strength from the future, so the second

quarter is expected to be much weaker... The labour market has weakened, with job losses concentrated in trade-intensive sectors."

"It is still too soon to see the direct effects of retaliatory tariffs in consumer price data... 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 reflect the effects of trade disruption... longer-term inflation expectations remained well anchored. Recent surveys continue to show consumers are bracing for higher prices, and many businesses say they intend to pass on tariff costs."

"At this decision there was a clear consensus to hold policy unchanged as we gain more information. We also discussed the path ahead for the policy interest rate. Here, there was more diversity of views. On balance, members thought there could be a need for a reduction in the policy rate if the economy weakens in the face of continued US tariffs and uncertainty, and cost pressures on inflation are contained. Faced with unusual uncertainty, Governing Council is proceeding carefully, with particular attention to the risks. This means we are being less forward-looking than usual."

Press Conference Transcript (Unedited)

https://media.marketnews.com/BOC_Press_QANDA_Jun2025_2045d63281.pdf

Other Press Conference Highlights

The main highlights of the press conference are noted at the beginning of this report. Other comments of note:

- **Asked at the post-meeting press conference if inflation would need to slow in both May and June for BOC to consider a July cut, BOC Gov Macklem responds:** "Yes, we will be looking at those carefully... CPI ex-tax moved up in April. And more significantly, if you look at our preferred measures of core, and in fact, if you look at a range of alternative measures of core if you look at the distribution of price changes, the percentage above 3%, what you can see is they all moved up in April. That has got our attention... Some of the components, particularly travel, for example, have been very volatile... but the fact that quite a number of measures of core or alternative measures of core all moved up does make you think that underlying inflation could be a little bit firmer than we thought, so, you know that is something we will be watching and what we've indicated is that look we're looking at both those downward pressures on inflation coming from the weaker economy and the upward pressure on inflation, coming from costs, and, yeah, we'll have to factor all that in in July."
- **On Governing Council's deliberations:** "We did talk about the future path [of rates], and the Governing Council thought that there could be a need for a further reduction in the interest rate - if the tariffs continue, if that creates more weakness in the Canadian economy, and if the cost pressures coming through inflation are contained, I wouldn't interpret that as forward guidance. That was part of our deliberations, nothing more, nothing less. The only forward guidance we can give you, really is, as I've already indicated, given the unusual level of uncertainty we are proceeding carefully. And what that means is that we're being less forward looking than usual."
- **On how the economy is playing out relative to the two forecast scenarios in the April MPR, Gov Macklem says:** "We're somewhere between the two scenarios, but it's still a moving target. And you know, we'll have to see where things go... since April, the likelihood of scenario two, which is a pretty extreme, protracted, severe trade war - the likelihood of that does appear to have come down somewhat... I hope the situation becomes clear and we can go back to a more usual forecast, or at least a central scenario with some risks, but that's really going to depend on how things play out."
- **Dep Gov Rogers reiterates that the BOC hopes to publish a central forecast with July's MPR:** "certainly it is our intention to get back to a central scenario.. It is our hope and our expectation that that by July, we'll be back there, but we'll need to wait and see."
- **A little more commentary than usual on CAD - Macklem says re FX impact on goods imports inflation:** "some of that [previous] depreciation may also be coming through the goods prices we're seeing now, because it takes some time for that to get passed through. As [Deputy Gov Rogers] suggested, that's now going to - if the assuming the dollar stays 70 to 73 cents - that'll start to work in the other direction."
- **Asked if consistent uncertainty tilts the BOC toward a rate cut, Macklem says:** "when the Governing Council deliberated about the future path for interest rates on balance, different members had somewhat different perspectives. It's not surprising, particularly given the uncertainty, there's going to be some

diversity of views about how things are going to play out and what that means. But on balance, Governing Council thought that if this uncertainty continued, if US tariffs continued, and that continued to weaken the Canadian economy, and if the cost pressures coming through on inflation were contained, yeah, there could be a need for a further reduction in our policy interest rate."

- **In response to a question by MNI about whether the removal of language in the decision statement that the BOC could "act decisively"** if the economy clearly moved in one direction, Macklem says: "Each time we write these we have our deliberations, and then we write down what came out of those deliberations... I think, what is there this time that wasn't there last time was, we gave some indication of our reaction function as we move forward. So, yes... we did repeat that... given the uncertainty remains high, we are continuing to proceed carefully. That means we're being less forward-looking."
- **Macklem ends the press conference by noting the recent forest fires in Western Canada** which he says "are having an economic impact", though it's too early to give you an estimate".

MNI POLICY TEAM STATE OF PLAY

MNI BOC WATCH: Rate Hold And Cut Maybe Needed On Tariff Hit

By Greg Quinn (June 4, 2025)

OTTAWA - The Bank of Canada left its key interest rate at 2.75% for a second meeting Wednesday and signaled a cut can be justified if the U.S. trade war slices domestic growth and inflation remains under control, a shift from the last meeting when Governor Tiff Macklem saw more balanced risks.

"There was a clear consensus to hold policy unchanged as we gain more information," Macklem said in a statement. "On balance, members thought there could be a need for a reduction in the policy rate if the economy weakens in the face of continued U.S. tariffs and uncertainty, and cost pressures on inflation are contained."

The decision to hold rather than cut was expected by a small majority of economists, by a margin of twelve to eight, and few of them expected such a clear signal of a reduction later this year. Former Governor David Dodge told MNI earlier he sees two or three more cuts in 2025 and most economists with a clear view expect the same.

The Bank retained some language from earlier decisions about risks of slower growth and hotter inflation from the biggest trade disruption since the 1930s, including a phrase about how policymakers can't be as forward looking because of unpredictable U.S. decision-making. But the statement Wednesday dropped a line from April about being "prepared to act decisively" if the economy moved in a clear direction.

Effects from the trade war have yet to fully manifest themselves in the Canadian or U.S. economy, the Bank said. "The Canadian economy is softer but not sharply weaker. And we've seen some firmness in recent inflation data," Macklem said.

While GDP growth was a bit stronger than expected in the first quarter the Bank expects a drop in the second as gains in exports and inventory accumulation to get ahead of potential tariffs wind down. Officials also pointed to Donald Trump's move in the last week to double steel tariffs as evidence of the need to remain cautious. Canada sends three-quarters of its exports to the U.S. and that accounts for about one in ten jobs.

Dovish economists say Canada entered a technical recession in the second quarter and the Bank in April laid out two scenarios instead of a regular forecast. In the mild scenario growth stalls in the second quarter and in the harsh one the economy shrinks.

Consumers and executives see inflation boosting prices according to surveys cited by the Bank. As expected the decision devoted attention to the recent climb in core inflation even as the end of a carbon tax slowed headline CPI. "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 reflect the effects of trade disruption," Macklem's statement said.

Both of the Bank's core indexes have quickened past 3%, taking them outside its single goal of keeping headline inflation in the middle of a 1% to 3% band. Trade war or not, cutting borrowing costs again when it's unclear why core prices have been sticky could put the Bank's reputation at risk if tariffs create a burst of inflation as was seen after Covid. The Bank already leads the G7 with seven cuts since last June.

It's not just tariffs clouding the outlook. Prime Minister and former BOC and BOE Governor Mark Carney won't present a budget until this fall after winning the April 28 election, and he's pledged larger deficits that could reduce the need for monetary stimulus. While Canada's unemployment rate is about the highest since 2017 outside Covid the job market may re-balance as the government curbs record immigration. Some heavily indebted consumers are also being hit with expensive mortgage re-financings.

The benchmark lending rate is around the farthest below the Fed's benchmark since 1997, yet the country's dollar has shown a little strength in recent weeks. That diminishes the risk of more expensive imports adding to inflation pressure.

"Faced with unusual uncertainty, Governing Council is proceeding carefully, with particular attention to the risks," he said. "We will continue to support economic growth while ensuring inflation remains well controlled."