

MNI Rough Transcript Of BOC Press Conference: April 2026

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Q: With inflation in April expected to reach 3%, what is your message to households and businesses who might start demanding higher wages and the broader inflation expectations might also go up?

Macklem: Well. First of all, I mean, we know higher oil prices are hitting Canadians. They're hitting businesses. They're hitting consumers. We've all gone to the gas station and filled up our tank. That's against a background where food price inflation has been running high for a number of months now. These price increases reflect global events. I mean, the best thing that would be, could be to happen would be, would be that these price increases go away at the source. But that's not something we can control. What can we control? What we can control is we can ensure that these price increases in particular this surge in gasoline prices and other fuel prices, it doesn't spread become generalized, persistent inflation, maintaining the policy rate today where it is, was the right thing to do for today. And you know, as we've indicated, if things evolve broadly in line with the outlook we've presented, and in particular, oil prices come down broadly in line with the Futures Curve. You know, something close to the policy rate that we have today is probably about right. Might need a small adjustment, but I think it'd be reasonable to expect small but if, particularly if energy prices go higher, and particularly if they stay higher for longer, there could well be a need to increase the policy rate to get inflation back to 2% and really the message is, you know, we're we're committed to ensuring that inflation does stay close to 2% over time.

Q: you had a look at how AI might be affecting productivity and updating potential output is that yet factoring into policy making here in the present, maybe just talk a bit about how you're thinking about AI as you sit down to look at rate trajectory.

Macklem: Well, let me, let me put it in broader context, Kevin, there's a few things affecting potential output. And once a year, as you know, we do a comprehensive review of our of our assessment of potential output and the outlook for potential going forward. And that is, you know, we do that each each year at the in the April monetary policy report. So there is a pretty detailed appendix on that in the report. Look there, there are, I would say, three key things affecting potential in the Outlook. Population growth is historically very low. There's basically in our outlook, there's almost no population growth. So that means that, you know, we're not adding new workers, new consumers, a lot of new workers, new consumers to the economy, so that lowers potential output going forward. The second factor is and we've talked about this quite extensively in in the last report and in some previous speeches, the Canadian economy is going through a structural adjustment. Our trade relationship with the United States is fundamentally changed. Businesses are adjusting to that, and as you know, through that adjustment, that will weigh on productivity growth. Once you come out of the other side, things will be better, but there is a period of adjustment and then the third So those two things are weighing on potential output growth, particularly in the near term. The third factor, which what you mentioned, is, is AI. And there's no doubt that AI is a transformative technology, and as it, as it gets adopted by more and more businesses, and as the and as that, as they use it in their businesses, we do expect to see a labor productivity growth pick up and so that we have built in a modest increase from AI in productivity growth going forward, it builds over time. I think on average, it's adding about point two to productivity growth in the projection. So taking those three things together, potential output growth is fairly weak in the near term, but as the restructuring advances and as the effects of AI accumulate, productivity

growth picks up going forward. So that's built into our projection. You know, is AI having a big effect on our policy decision right now? No, but it is built into our projection. And, you know, it could end up that AI comes faster has a bigger effect than we've expected. It might take longer. We'll see. That's something we'll be assessing going forward.

Q: Governor, so you spell out two kind of major risks. One is oil prices remain elevated and you're forced to raise interest rates. The other is the CUSMA talks take a turn for the worse and you are forced to cut those aren't mutually exclusive risks. What happens if we end up in a scenario where tariffs have risen, CUSMA talks have floundered, and oil prices remain high? How do you balance those risks?

Macklem: Yes, I provided a couple of examples, and I think the reason I provided those two examples is those are very salient assumptions in our projection around which, frankly, there is a lot of uncertainty and there, and it's not the regular kind of, kind of regular economic uncertainty. These are, these are geopolitical events. So it's hard to assess probabilities as to exactly what's going to happen. And yeah, so as you know, as we outlined, the message really is that, look today, the best decision is to maintain but monetary policy, the situation could change. Monetary policy may need to be nimble. And yeah, I, you know, we provided a couple of examples. If there's significant new trade restrictions on Canada that could have a material impact on the Canadian economy, we may need to cut to support growth if oil prices go up, and particularly if they stay up, the risk that inflation becomes more persistent goes up and there may need to be increases in the policy rate. And as we indicated, you know, probably more than one consecutive increases. Those are not the only things that could happen. Give you another example. Financial markets have been very resilient. Through this, we could see an abrupt repricing in financial markets. That would be another shock, kind of shock that we would need to take into account. And as you indicated, the reality is more than one thing. There's many combinations of these things that could happen in laying out those two examples, and in particular in showing the alternative case in the in the MPR, with a permanently higher oil price, what we're trying to convey is, you know, sort of the direction And the rough magnitude of how we would respond given certain situation, you know, given some different possible situations, obviously, if it's a combination, it's going to be even more complicated. And we'll have to, we'll have to weigh various factors, you know, the point of sort of laying out these alternatives is really to give a sense of how we would likely react in certain situations.

Q: With the the suggestion that you are prepared to potentially take a consecutive increases to the policy rate if we see elevated and sustained global oil prices, what is the time frame that Canadians should be expecting? You to be looking at these, these global oil prices, if we are at the end of the summer and we haven't seen much change in the global price of oil, should Canadians then be expecting interest rate hikes coming down the pipeline?

Macklem: Look, obviously, you know, the higher oil prices go, and the longer they're higher, the more you know, the more likely it is that we'll have to raise rates to to bring inflation back to target. But I want to stress it's, there is no set timeline here. It really depends on the conditions. It's going to depend, importantly, on, yes, what oil prices do, what we think they're going to do going forward. It's all going to depend on what we see. You know how much are higher oil prices spilling into the prices of other goods and services? How much is our outlook for inflation changing? I mean is, is that substantially increasing the persistence of inflation? So it's going to depend on on those conditions. So, I mean, what I would stress is, it's, it's about the shock itself, and it's about the propagation of the shock. And you know, if, if we're in a situation where the shocks bigger, in particular, it's more persistent, and we see clear of it, you know, we see growing evidence of propagation. That would be a clear signal that gas rates probably do need to go higher to get inflation back to target.

Q: You're talking about the potential impact of us tariffs, but also of higher oil prices. And the monetary policy report does outline what the situation could look like if oil remains at \$100 a barrel. I'm wondering what does the bank see as more of a pressing threat to the economy? Is it US trade policy potential? US tariffs being added, or oil prices being elevated and remaining closer to that \$100 a barrel that you talk about in the monetary policy report?

Carolyn Rogers: In the near term, the shock that's sort of hitting us most directly is the war in the Middle East. It's pushing oil up, and that's having an immediate impact on near term inflation. And as the governor said, if that persists, that's that's going to that the risk increases, that that oil price starts to feed into the price of other things and we need to deal with the inflation shock over the longer term. The trade tensions are the bigger threat to the Canadian economy. And there, you know, we've, we've got a restructuring underway, but we also have a review of the trade agreement that we're expecting to happen this summer, if there is a big change in that agreement that could also present sort of a new shock to the economy too. So sort of think about it, in tune to time frames.

Q: I wondered if having the policy right now at the lower end of the so called neutral range makes you a little more nervous about the potential need to tighten, and is this in another way why you're talking about a potential set of consecutive hikes.

Macklem: Well, look, I would emphasize that there was a clear consensus on the Governing Council that the best thing to do today is maintain the policy interest rate where it is. But I will stress that there is no risk free path for the policy interest rate if we had raised rates now and then oil prices come down in line with what the market is expecting by the time those higher interest rates are impacting the economy, we wouldn't. They wouldn't be needed, and we'd wished we hadn't raised the policy interest rate. But look, if oil prices stay high and we hold rates we maintain for too long, yeah, we could see higher energy prices spread to other prices of other goods and services and start to become more persistent inflation. And yeah, in that case, we will probably wish that we'd raised rates earlier. So we got to manage. We've got to manage both those risks. Greg and as he said, I think there was a clear consensus that right now, the best thing to do is maintain. But let me add two additional points of context. First of all, the current context is we're starting from a situation where inflation has been close to target for roughly a year and a half. Now, we're also starting in an economy where there's some slack. You can see it in the labor market. Our estimate of the output gap is it's, you know, it's around minus 1% so we're starting with some slack. So in that context, we, you know, we don't think higher energy prices are going to be rapidly passed through to the prices of other goods and services. Because when there's some slack in the economy, when the economy, labor market is soft, you know, businesses are. They're cautious about passing on price increases. They're worried about losing clients. So we don't expect it'll be rapid. I think you're clearly going to see it in some places. You're already seeing fuel surcharges in some places, but we're not expecting it to rapidly broaden. But you know, that's something that needs close monitoring. The other thing I would stress is that we know uncertainty is high, and we recognize that monetary policy may need to be nimble. If the situation changes, we need, we need, we may need to change course. And you know, as I've said a couple of times, if, if oil prices go higher, and particularly if they stay higher for longer, that will increase the risk that inflation generalizes and becomes more persistent. And in that case, yes, we may well need consecutive increases in the policy rate to get inflation back to the 2% target.

Q: Corra is still stuck higher than the bank's target. You've given it no indication you plan to fix any dislocation issues there. Is that still the case?

Carolyn Rogers: You've got a little bit of a margin, but, you know, we have some tolerance there. So, so, I mean, you've called it a dislocation, I guess that's maybe stronger term than what we would use. So, so, I mean, our market operations are basically back to sort of normal. Our balance sheets back to being normalized so we keep an eye on Cora, but I guess we wouldn't characterize it as a dislocation.

Q: What I want to know is what motivated you and the Governing Council to provide this form of forward guidance today, about you know when, right when rates may increase or when rates may decrease?

Macklem: Well I I wouldn't really characterize this so much as forward guidance. And it's not about when something's going to happen. It's about the it's really more about our reaction function. It's about what. You know, the Governing Council is very aware that there are a wide range of outcomes that are possible, and as part of our deliberations, we not only discussed what the best thing to do today is, but we also discussed what would we do in If some of these other outcomes were to materialize because you got to recognize that, you know, when you're taking there's a lot of uncertainty. And yes, you know we have a baseline outcome, but we're the first ones to admit that is not the only possible thing that could happen. And there is an unusually wide range of things that could happen. So as you discuss about what the best thing to do today is, you need to also be thinking about what you know, how well positioned are you to deal with these other things? So that's why we discussed those. And having discussed those, I think it is useful to convey, certainly directionally, how we would handle these various outcomes. I think we're not the only ones grappling with this uncertainty. Everybody's trying to grapple with uncertainty. Our job is to be a source of stability, a source of predictability. So we're, you know, we're, what we're saying is that, you know, we're prepared to respond as needed, and you know, we're giving some some broad strokes as to what that could look like.

Q: Talk about consecutive rate cuts probably gives you, and I'm sure some Canadians who might be watching some nasty flashbacks to where we were with covid. What lessons have you learned from that spike, and what do you plan to do differently this time to avoid a similar inflation?

Macklem: Since there, I think there's, there's more than one lesson from covid. Look, I think one of the key lessons from covid is, as we were coming out of covid, there was certainly a combination of shocks, very disrupted global supply chains that persisted for some time. Obviously Russia's unprovoked attack of Ukraine really boosted food and energy prices, and the impact on inflation was large, and it was rapid. And I think one of the lessons from covid is that when the economy is already overheated, when it's already in excess demand and an additional big negative supply shock that boosts global energy and food prices can spread quickly to other goods and services, and it gets back a bit to my answer to Greg. It's the flip side of it. When the economy is already in excess demand, companies are having trouble actually keeping up with all the demand for their goods and services. So when their costs go up, they're like, well, we might as well just pass this right on. We're having trouble keeping up already. Let's just pass these price increases on. And that's what we saw in covid. Not only were companies increasing prices but more they were increasing prices more frequently. And to be frank, as a result, our models were having trouble keeping up with how fast inflation was going up. Today's situation is quite different. The economy is in excess supply. And as I said to Greg, you know, against that background, businesses are a bit more are more cautious about passing on cost increases. Doesn't

mean they won't pass them on at all, and certainly in businesses that where energy is a big part of the cost structure, they have to pass some of it on. But you know they will tend to be more cautious.

Carolyn Rogers: Maybe what I'd add is, I mean, you're right when you know we were always our current things thinking is always affected by what happened in the past. And it is true, you know, big consecutive increases in the interest rate. We know that's a pressure on Canadians, but what we also learned really clearly is they don't like inflation either. Canadians don't like inflation either. So, so I mean, we would raise interest rates with the sole purpose of making sure we keep inflation at Target. So,

Q: You've mentioned it's especially vital to watch medium and longer term inflation expectations. So many Canadians are wondering what de anchored expectations look like. So in the latest Business Outlook Survey, showed medium term or two year expectations at 3.4% rising 60 basis points in a month. If the next two year expectations reading gets closer to 4% would you still consider that to be anchored inflation expectations?

Carolyn Rogers: I think maybe I would say Rob is when, when we look at inflation expectations, what I mean, what we know about consumer inflation expectations, it's a bit different than business expectations. They're very affected by the current perception of inflation. And current perception of inflation is really very affected by the things you buy most often, every day, groceries and gas. And we know that that the shocks we're seeing right now are pushing gas up and groceries food inflation has been a bit higher than headline inflation. So so we keep that in mind when we look at how consumers view inflation expectations more in general, what I would say is is you need to be careful to look for trends versus month over month impacts on on inflation expectations. So, you know, we keep a very close eye. We look a little bit differently at how businesses see inflation expectations versus consumers. But what we're really looking for is an overall trend line. Is there a break point? I mean, what you're asking for, is there a number at which we completely change our view? No, we combine what we're seeing in that data with other things and other feedback we're getting in outreach and stuff. So there isn't sort of a number at which we turn from one view to another.

Tiff Macklem: I just add Rob, just to broaden this a little bit. Think one thing we're, we're conscious of is that, you know, coming out of covid, inflation rose rapidly to just over 8% and for many Canadians, this was really the first material inflation they had experienced in their lifetime, and unfortunately, a whole new generation of Canadians learned just how painful inflation is. And against that background, Canadians may be more attentive, may be more aware of the risks of inflation, and as Carolyn just mentioned, particularly when it's in food and gasoline, things people tend to buy every week, it can have a very immediate effect on on their inflation expectations. So, you know, there is a risk that inflation expectations aren't as well anchored as they were before covid. On the other hand, you know, we demonstrated inflation? Yes, inflation went up just over 8% we also brought it back down to 2% relatively quickly. I won't say it was without pain. It certainly was not easy for many Canadians. But we didn't cause a recession. We got it back without a recession. And you know what we saw in our own public trust? You know, surveys of public trust in the Bank of Canada, yeah, when inflation went up to 8% gains for quite rightly, asking a lot of questions, public trust in the Bank of Canada went down. But when inflation came back down and has remained at 2% that public trust has come back down. So, you know, on that basis, it doesn't look like the credibility of the central bank and our resolve to keep inflation close to, you know, Canadians confidence in price stability has been eroded. So, you know, these are more psychological factors. But as we assess what's happening with inflation expectations, we are alive that, you know, we are cognizant of the fact that how people form their expectations may may evolve over time, and that's something we'll certainly watching closely.