BoC key interest rate stays at 2.75%

SLGI ASSET MANAGEMENT INC.

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- The Bank of Canada (BoC) decided to hold rates steady within a complex economic landscape that pitches trade and growth uncertainties against persistent inflationary pressures.
- First quarter (Q1) GDP growth came in at 2.2% (annualized) higher than estimates of 1.7%. Consumer spending, while expected to turn cautious, has shown some resilience despite plummeting confidence. This, coupled with the potential inflationary impact of tariffs outweighing reduced pressures from weak demand, complicates the BoC's decision-making process.
- While April headline inflation came in at 1.7% (1.6% expected), core inflation remained problematic at 3.2%. Businesses report expectations of higher input costs due to potential tariffs, with two-thirds anticipating increased costs if widespread tariffs are implemented. This has led to higher near-term inflation expectations among firms.
- However, jobs data was very weak. Only 7,400 Canadian jobs were created in April, pushing the unemployment rate up 0.2% to 6.9%, a level last seen in November 2024 and the highest since January 2017 outside of the pandemic. This was the third straight month of weak jobs creation. Manufacturing lost 31,000 jobs with Ontario and the auto hub hardest hit. Most of the April job gains were from the Federal elections hiring blitz.
- The housing market continues to soften, reducing concerns about potential interest rate hikes fueling another surge in house prices.
- The ongoing trade conflict with the United States has undoubtedly cast a shadow over the Canadian economy. The Q1 2025 Business Outlook Survey revealed a sharp deterioration in business sentiment, with 32% of firms now anticipating a recession in the next 12 months, up from 15% in the previous quarter. Investment intentions have weakened considerably, and hiring plans have fallen below pandemic-era lows.
- Similarly, the Q1 Consumer Expectations Survey shows a marked decline in consumer confidence, with 67% of consumers expecting a recession, up from 47% last quarter.
- Given these conflicting factors, the BoC likely sees the current interest rate as appropriate to navigate the uncertain economic terrain, recognizing it has four more interest rate decisions this year.
- The decision not to cut rates may also reflect a view that fiscal policy may be better positioned to provide targeted support to the economy as needed, rather than broad-based changes in interest rates that could have unintended consequences in this complex economic environment.
- As with all prior periods of market volatility and uncertainty, the prudent approach is to maintain a long-term perspective - understand one’s own risk tolerance and invest accordingly.
- Uncertainty can provide opportunities to add value through active management. Stay focused on long-term investment goals and be diversified across regions and assets classes.

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