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Bank of Canada: One step at a time

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The Bank of Canada resumed cutting interest rates today as widely expected, taking the overnight rate 25bps lower and slightly into accommodative territory at 2.50%. However, the statement and the opening remarks of the press conference gave little away in terms of whether policymakers foresee further cuts ahead, making it clear that the Bank remains data dependent and will take decisions one step at a time.

Today's decision to lower interest rates for the first time since March was made with a "clear consensus" according to the press conference opening remarks. The statement revealed that the move was made not just because of a weakening economy but also fewer upside risks to inflation. While the Bank still sees underlying inflation at around 21/2% (i.e. slightly above target), the recent stability in US tariffs and removal of Canadian retaliatory tariffs have reduced upside risk. While the Bank still sees most of the weakness in the labour market as driven by trade-sensitive sectors, there was also passing notice given to a slowing of employment growth in the rest of the economy.

There was little forward guidance given in either the statement or the opening statement of the press conference, with the Bank simply stating that they will proceed "carefully" as it assesses the risks to growth and inflation. When asked during the press conference, Governor Macklem remained similarly non-committal saying that the Bank is being less forward looking than normal and that they will respond to changes in risks to growth and inflation on a meeting by meeting basis. He stressed that one of the key factor's behind today's cut was signs of weakening outside of trade sensitive sectors within the labour market, and those spillover effects from the trade dispute will continue to be important when making future decisions.

Re: Economic forecast — While little guidance was given as to if and when further interest rate cuts will be needed, in our view the economy is losing resilience and inflation will continue to be contained by the elevated unemployment rate and removal of retaliatory tariffs and we therefore see another 25bp cut at the next meeting in October.

Re: Markets — Bond yields and the Canadian dollar were little changed after the release, as the statement provided little in way of forward guidance and as investors await the Fed decision later in the day.

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