Tiff Macklem: Release of the Monetary Policy Report

Opening statement by Mr Tiff Macklem, Governor of the Bank of Canada and Ms Carolyn Rogers, Senior Deputy Governor of the Bank of Canada, at the press conference following the monetary policy decision, Ottawa, Ontario, 16 April 2025.

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Good morning. I'm pleased to be here with Senior Deputy Governor Carolyn Rogers to discuss today's policy announcement and our April *Monetary Policy Report* (MPR).

Today, Governing Council maintained the policy interest rate at 2.75% after seven consecutive rate cuts.

The Canadian economy ended 2024 in good shape. Inflation had been close to the 2% target since last summer. The substantial interest rate reductions since last spring had boosted household spending, economic growth had picked up and many businesses told us the economy had renewed momentum.

Since then, the dramatic protectionist shift in US trade policy and the chaotic delivery have increased uncertainty, roiled financial markets, diminished global growth prospects and raised inflation expectations.

The path for US trade policy remains highly unpredictable. There is also considerable uncertainty about the impacts of a trade war on our economy.

At our monetary policy decisions in both January and March, Governing Council reduced the policy interest rate a further 25 basis points as threats of higher US tariffs intensified.

A lot has happened since our March decision five weeks ago. But the future is no clearer. We still do not know what tariffs will be imposed, whether they'll be reduced or escalated, or how long all of this will last.

At this meeting, we decided to hold our policy rate unchanged as we gain more information about both the path forward for US tariffs and their impacts.

Monetary policy cannot resolve trade uncertainty or offset the impacts of a trade war. What we can and must do is ensure that Canadians continue to have confidence in price stability.

Our focus will be on assessing the downward pressure on inflation from a weaker economy and the upward pressure from higher costs. We will support economic growth while ensuring inflation remains well controlled.

Faced with pervasive uncertainty, Governing Council will proceed carefully, with particular attention to the risks. That means being less forward-looking than usual until the situation is clearer. It also means we are prepared to act decisively if incoming information points clearly in one direction.

Let me now turn to what we're seeing in the Canadian economy.

Incoming data are increasingly pointing to a considerable slowing in business investment and household spending. After expanding 5.6% in the fourth quarter of 2024, final domestic demand is expected to be roughly flat in the first quarter of 2025. Supported by a pull-forward in exports to get ahead of tariffs, GDP growth in the first quarter is forecast to be about 1.8%. But with exports expected to decline, second-quarter growth will be much weaker.

In the labour market, job growth was picking up at the end of last year, but trade tensions are disrupting this recovery. Employment was flat in February, down in March, and many businesses report they are scaling back their hiring plans.

Inflation in Canada has risen from 1.8% at the time of the January Report to 2.3% in March, reflecting the end of the GST/HST holiday and some rebound in goods price inflation. Elevated shelter price inflation continues to ease but goods price inflation rose more than shelter price inflation came down. The prices for imported goods have been boosted by the past depreciation of the Canadian dollar. Some businesses have also said suppliers are proactively raising prices in anticipation of future tariffs. Near-term inflation expectations have also risen because households and businesses expect tariffs will raise prices.

The very near-term outlook for inflation is relatively clear. The elimination of the consumer carbon tax on April 1 will reduce CPI inflation by about 0.7 percentage points for one year. Lower global oil prices will also pull inflation down, so total CPI inflation is expected to be about 1½% in April.

Looking beyond the very near term, what happens to the Canadian economy and inflation depends critically on US trade policy, which remains highly unpredictable. Given this uncertainty, point forecasts for economic growth and inflation are of little use as a guide to anything. So in this MPR, we instead present two illustrative scenarios that span a wide range of possible paths for US trade policy. In the report, we call these scenarios 1 and 2.

In Scenario 1, we assume most of the new tariffs get negotiated away, but the process is unpredictable, and businesses and households remain cautious. GDP growth in this scenario stalls in the second quarter, then expands only moderately. Inflation drops below the 2% target for the rest of 2025 and into 2026, both because of the end of the consumer carbon tax and a weak economy.

In Scenario 2, we assume a long-lasting global trade war. The economic consequences are severe. Canada's GDP contracts in the second quarter and the economy is in recession for a year. Growth gradually returns in 2026 but remains soft through 2027 as US tariffs permanently reduce Canada's potential output and lower our standard of living. Inflation rises above 3% in mid-2026 as tariffs, countermeasures and shifts in supply chains raise costs, pushing up many prices. Inflation then eases as weak demand limits ongoing inflationary pressures.

To be clear, these are only two of many possible scenarios, and even these do not span the possible outcomes.

Governing Council agreed that where US trade policy is relative to scenarios 1 and 2 is a moving target. The April 2 announcement put the situation closer to Scenario 2, but the partial rollback on April 9 and new exemptions in recent days have moved trade policy back towards the middle of the two scenarios. We don't know what's coming next, and US policy could well move back and forth before the situation is clearer.

As we considered monetary policy, we used these two scenarios to reflect the uncertainty about US trade policy. We also considered risks related to the impacts of tariffs-these could be smaller and slower, or bigger and faster than captured in the scenarios.

What happens with inflation will depend importantly on what happens with tariffs. And if we find ourselves in a protracted trade war, we will see opposing pressures on inflation. A weaker economy will put downward pressure on inflation and higher costs from tariffs will put upward pressure. Both the uncertainty about tariffs and their opposing forces on inflation make forecasting inflation especially difficult at this time.

Moving forward, we will pay close attention to the risks and uncertainties to the Canadian economy and inflation. These include: the extent to which higher 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.

Let me wrap up.

Since January, we've had a seismic shift in US trade policy and a sharp increase in uncertainty. New US tariffs are now in place on key Canadian industries and on every other US trading partner. Financial markets in Canada and around the world have violently repriced and remain volatile. Households and businesses in Canada and beyond are braced for weaker growth and higher prices.

Monetary policy will ensure inflation remains well controlled and support economic growth as Canada confronts this unwanted trade war. As always, we will be guided by our monetary policy framework and our commitment to maintain price stability over time.

With that, the Senior Deputy Governor and I would be pleased to take your questions.