Tiff Macklem: Monetary Policy Decision

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, 4 June 2025.

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Good morning. I'm pleased to be here with Senior Deputy Governor Carolyn Rogers to discuss today's monetary policy announcement.

Today, Governing Council maintained the policy interest rate at 2.75%.

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.

The trade conflict initiated by the United States remains the biggest headwind facing the Canadian economy.

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.

In addition to the uncertainty about US tariffs, there is also uncertainty about their impacts. At its April decision, Governing Council said it would pay close attention to 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.

Since then, there is partial information on some of these risks and uncertainties. Let me provide an update.

So far, the US economy has proven resilient. Imports were strong as businesses tried to get ahead of tariffs, and that pulled down first-quarter US GDP. But domestic demand remained relatively strong. Early indicators for the second quarter suggest a rebound in growth as imports fall back and domestic demand continues to expand.

The flip side of the strength in US imports was a surge in Canadian exports. This boosted 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. Strong spending on machinery and equipment held up growth in business investment by more than expected. Consumer spending slowed from a very strong fourth-quarter pace, but continued to grow despite a sharp drop in consumer confidence. Housing activity contracted as resales fell significantly, and government spending also declined.

The labour market has weakened, with job losses concentrated in trade-intensive sectors. The unemployment rate rose to 6.9% in April. So far, employment has held up across sectors that are less exposed to trade. But businesses are generally telling us that they plan to scale back hiring.

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. Spending by Canadian families and businesses has shown some resilience in the face of US tariffs and heightened uncertainty. But they are likely to remain cautious, suggesting domestic spending will remain subdued.

It is still too soon to see the direct effects of retaliatory tariffs in consumer price data. What we can see clearly is the impact of the elimination of the consumer carbon tax. This knocked 0.6 percentage points off inflation in April, largely due to lower gasoline prices, and pulled headline inflation down to 1.7%. This tax effect will remain in the year-over-year change in the CPI for the next 11 months before falling out next April.

Inflation excluding taxes was 2.3% in April, slightly stronger than the Bank had expected and up from 2.1% in March. The Bank's preferred measures of core inflation, as well as other measures of underlying inflation, moved up in April. 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. Many businesses report they are already facing higher costs related to finding alternative suppliers and developing new markets. The Bank will be watching measures of underlying inflation closely to gauge how inflationary pressures are evolving.

The Bank is also watching inflation expectations closely. In April, we reported consumers and businesses expected prices to rise as a result of tariffs, while 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.

Governing Council will continue to assess the timing and strength of both the downward pressure on inflation from a weaker economy and the upward pressure on inflation from higher 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.

We are focused on ensuring that Canadians continue to have confidence in price stability through this period of global upheaval. We will continue to support economic growth while ensuring inflation remains well controlled.

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