



Laurentian Bank Securities **ECONOMIC RESEARCH AND STRATEGY**

Bank of Canada Decision: More neutral than easing words...for now

Like other central banks and investors, the BoC sees the troubling deceleration in global economic growth and how trade-related uncertainty drags down business and market confidence. By not signalling policy rate cuts in the coming months, it seems clear BoC officials still take some comfort in the simple fact that the overnight rate target stands at 1.75%, not 2.50%. While “*the Bank expects economic activity to slow in the second half of the year*”, it will apparently not be enough to significantly bring down the current 2% CPI inflation rate and justify a new easing cycle. In other words, there is not much to gain by switching from a neutral to an easing stance for a single 25 bps rate cut. Also, the BoC appears concerned about the possibility that lower mortgage rates “*could add to already-high household debt levels, although mortgage underwriting rules should help to contain the buildup of vulnerabilities*”. This is another reason explaining why markets viewed the BoC as less dovish than hoped this morning. This reference to long-term financial vulnerabilities is in our view the biggest addition to the statement. It may explain to some extent why the BoC seems to be on a different path than the chorus of central bankers already easing. A gloomier global outlook appears necessary to bring the BoC officials’ consensus in favour of policy rate cuts. Next? The *Economic Progress Report* will be released tomorrow at 11:45AM. Delivered by Deputy Governor Larry Schembri, this speech will reveal more details surrounding the neutral statement.

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