Musings on the Bank of Canada

This note has three objectives: First, it pushes back on gratuitous, lazy criticisms that are sometimes lobbed at the Bank of Canada, such as it being too focused on backward looking data. Second, it highlights the Bank's efforts to keep its finger on the pulse of the economy and avoid being a slave to stale data. Third, I call for the Bank to release the results of its Business Outlook Survey and the Canadian Survey of Consumer Expectations earlier, rather than sit on the results for a month. Normally, it has the results in hand for those policy meetings when it does not release a Monetary Policy Report. Release the surveys.

Pushing back on lazy criticisms

When someone disagrees with a Bank of Canada (BoC) policy decision a go to criticism is to say that the Bank is too focused on backward looking data and is thus blind to what is underway or can't see what is coming — the correct course of action would have been to follow said person's recommendation. In fact, the Bank of Canada is aware of data limitation issues and is not a slave to backward looking data.

A day after the BoC's non-surprising, non-move on 4 June, BoC Deputy Governor (DG) Sharon Kozicki spoke on this issue in Toronto to the CD Howe Institute.

Let's set the stage a bit first. To start, a week before the BoC meeting, the CD Howe Institute's Monetary Policy Committee had called on the Bank to cut its policy rate by 25bp to 2.5%. That recommendation included the disclosure that two of the bank economists on the committee called for a rate cut even though their published forecasts were for an unchanged policy rate. This is not to criticize. Instead, it highlights the fact that there were good arguments in favour of leaving rates on hold and in favour of cutting by 25bp.

However, as the BoC had given little indication that it was predisposed to a rate cut on 4 June, the market viewed the probability of a rate cut as quite low. Accordingly, it is easy to reconcile recommending a rate cut, while forecasting no change — there's what you think the Bank should do and there's what you think the Bank will do.

After the meeting, the CD Howe published an Op-Ed by Steve Ambler and Jeremy Kronick arguing that the Bank should have cut its policy rate. The point here is not to re-litigate or debate the BoC's decision per se, other than to highlight that even though the market was fully priced for an unchanged policy rate, the intellectual debate was far from settled. In fact, even in their piece Ambler and Kronick said "*while we understand the bank's thinking, we believe they should have cut*."

One can look at the evolving situation and come to a different conclusion. That is fine. What bothers are unjustified criticisms lobbed at the BoC.

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Getting data on the state of the economy

Turning back to DG Kozicki's speech, she detailed the Bank's efforts to examine data beyond the traditional macroeconomic data to gain insight relevant to policymaking.

For example, she highlighted that aggregate data do not provide much insight into how economic developments are affecting individual households or businesses, and that many traditional indicators are backward looking. Seemingly, the BoC understands data and strives to not be bound by those limitations.

As a case study, DG Kozicki detailed how the BoC adapted during COVID19 in tracking higher frequency (non-traditional) data. The reason was that traditional economic models and traditional data were not equipped to deal with the effects of the pandemic and the restrictions on economic activity and the speed of developments.

She also highlighted the importance of BoC surveys (the quarterly Business Outlook Survey, the quarterly Canadian Survey of Consumer Expectations, and the monthly Business Leaders' Pulse) in providing valuable information to aid policy deliberations. These surveys are the BoC's finger on the pulse of the economy.

> "*When we expand the kinds of information we consider in our decisions, we gain a more complete view of how raising or lowering the policy rate affects consumers and businesses across the country*."

DG Kozicki also went into some detail on the Bank's outreach initiatives that provide additional insight on economic developments. They are another finger on the pulse of the economy.

Overall, the efforts clearly demonstrate that the Bank is focused on tracking the evolution of shocks hitting the economy as close to real time as possible. The Bank is not a slave to backward looking data.

The mortgage cliff

Another criticism directed at the BoC over the past couple of years is that is not taking into consideration such things as the mortgage renewal cliff that looms through 2025 and 2026, which risks weighing heavily on consumer spending.

In fact, the Bank tracks very detailed data on the mortgage market, via information on individual mortgages, allowing it to assess the evolution of risks to the housing market.

A January 2025 Staff Analytical Note described the dataset as being used to *"monitor risks to financial stability and the broader economy*," and highlighted that "*about 60% of outstanding mortgages will renew before the end of 2026. As well, about 40% of outstanding mortgages could be subject to a higher interest rate at renewal over the same period*."

The analysis underlying that note was utilized by Senior Deputy Governor (SDG) Rogers in a November 2024 speech, where she discussed the "*mortgage wall*," referring to the roughly 60% of mortgages to be renewed. Rogers also acknowledged that as mortgages are renewed at higher rates households could "*pull back on spending by more than we expect*."

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There are some "blind spots." The Bank's January 2025 report said that the mortgage dataset only relates to data from federally regulated institutions. It "*excludes loans made by credit unions and caisses populaires, which are provincially regulated, as well as mortgage investment companies, mortgage finance companies and other private lenders that are not regulated by OSFI*." (This only serves to highlight the fragmented nature of the Canadian financial system and the overlapping regulatory oversight, which has left some disturbing gaps, but that is an issue for another note.)

The Bank has been tracking mortgage market risks using this dataset for some time. For example, in September 2023, not long after the BoC ended its tightening cycle by leaving its policy rate unchanged at 5% and amid questions about the effects of the elevated policy rate on households, DG Kozicki said:

> "*… from our analysis of anonymized microdata, we know that some households, such as those with variable interest rates and variable mortgage payments, have been really challenged by higher mortgage payments*."

She also described how their analysis of mortgage market risks was used: "*We don't set our policy based on what is happening to one subset of households or to the price of any one good or service. But we do our best to understand what is going on at a detailed level. This helps us do a better job of forecasting where the economy is likely to be headed and helps us balance risks*."

More recently, the mortgage dataset helped inform the 2025 Financial Stability Report (FSR) that said "*based on current market expectations, more than 90% of mortgage holders with a five-year fixed-rate mortgage will face payment increases at renewal that are smaller than they were stress-tested for*." As well, in a footnote in the FSR, the mortgage data along with data from the Canadian Financial Monitor allowed the Bank to assess "*that 85% of mortgage holders renewing in 2025 and 2026 could cover their expected payment increases for 12 months or more using current financial assets*."

The BoC's Governing Council is aware that some households will face significant financial challenges, but their analysis of detailed mortgage market data, allowed them to assess that the risks to the mortgage renewal wave were manageable — with a US trade policy linked caveat:

> "*Taken together, these factors suggest that most households will be able to absorb higher payments as their mortgages renew. But this does not mean it will be easy. Many households will have to adjust their spending to manage higher payments. And some may have trouble keeping up with payments on other debt.*
>
> *Moreover, the trade war poses risks to employment and income, particularly in industries that depend on trade. Some affected households may find it difficult to manage their debt payments*."

Hence, the Bank has looked deep into the risks from higher rates on the mortgage market and the potential fallout on consumer spending and understands the risks to the economic outlook and to financial stability. They have looked deep into the characteristics of individual mortgages issued by federally regulated financial institutions and came to an informed decision. You can disagree with the conclusion or assess the risks to the outlook differently. Criticizing the Bank for a lazy reliance on stale data is gratuitous and baseless.

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A risk management and monetary policy

The Bank has also been following its risk management approach to monetary policy during this recent episode, even if it left its policy rate unchanged on 4 June. At its 12 March policy meeting, the Bank assessed that the deterioration in soft data — consumer and business sentiment — due to the spike in uncertainty owing to Trump47's trade policies and tariff threats posed a severe downside risk to the economic outlook that more than offset stronger than expected economic growth. Hence, the Governing Council decided to reduce the policy rate by 25bp to 2.75%.

Nonetheless, given the economy had performed well to start the year, the GC were "*generally assigning less weight to downside risks to inflation*." Thus, even as they cut rates in response to the sharp deterioration in sentiment, there were still lingering concerns about inflation.

The Summary of Deliberations for the March meeting provided details on the discussions around the trade/tariff shock: "*Initial results from recent Bank surveys suggested that intensifying trade tensions and pervasive uncertainty were hurting confidence and leading consumers to be more cautious.*"

"*The Bank's surveys also indicated that trade uncertainty was prompting businesses to revise down their sales outlooks, especially in manufacturing and sectors dependent on discretionary consumer spending. Many businesses reported scaling back their investment plans and hiring intentions. In addition, businesses were facing higher costs as imported machinery and equipment had become more expensive due to the depreciation of the Canadian dollar since last autumn*."

There were two other interesting tidbits of information in the March SoD.

The first was a discussion about the less than perfect read across from soft data to hard data. That is, even though consumer and business confidence fell sharply in response to the tariff threat that does not directly map over to poor hard data outcomes — "*there had been periods when confidence weakened but spending had held up*." The soft data are informative, but not necessarily determinative. A central bank must remain data dependent.

Despite that caveat, the GC agreed that there was more than enough evidence that downside risks to the economy had increased significantly and that a reduction in the policy rate was appropriate.

The second interesting tidbit was the acknowledgement that, absent the increase in US trade policy uncertainty, the GC believed that the policy rate would have been left at 3%. That is, the BoC would have paused its easing cycle in March rather than April.

In fact, as revealed in the SoD "*some members suggested that it could still be appropriate to maintain the policy rate at 3% until there is more clarity around tariffs and more information on their macroeconomic impact*." This does not suggest dissent from the policy decision. These members did not necessarily object to reducing the policy rate, they seemingly thought it might be prudent to await more evidence.

That said, it seems that that magnitude of the impact on confidence, and the spike in uncertainty "*had changed the outlook enough to warrant a further reduction in the policy rate*" issues that are "*compounded with the unpredictability of the US administration*."

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As we await the SoD for the June meeting coming on 17 June, we look back at BoC Governor Macklem's opening statement at the press conference on 4 June. It revealed that while the GC had a "*clear consensus*" to leave the policy rate unchanged, there was "*more diversity of views*" on the path ahead for the policy rate:

"*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*."

Hence, there was no explicit forward guidance. Instead, following the March policy rate adjustment, the Bank will closely monitor economic developments to see if further rate reductions are warranted.

That said, one can still argue that the deterioration in the labour market, the weakness in housing markets, and concerns that recent solid data have flimsy foundations as justifying another rate cut. In fact, those were the reasons highlighted by Ambler and Kronick.

However there is still an active debate underway. For example, former BoC Governor Steven Poloz spoke recently and said markets should not just assume that the Bank will cut rates again. With core inflation measures still elevated — in fact rising in recent months — the BoC might be "*preoccupied with inflation risks*," having learned a lesson from assuming pandemic inflation risks would be transitory.

Again, you are free to disagree, but don't dismiss the analytical efforts of the Bank in coming to their conclusions.

A lesson from the recent past

Speaking of Mr. Poloz, the rate reduction in March — which went against evidence justifying a pause — brought to mind the BoC's actions in early 2015, when he was BoC Governor.

In the wake of the collapse in oil prices through late 2014. The BoC did not cut the policy rate immediately upon the drop in oil prices. However, as described by former BoC Governor Stephen Poloz in Monetary policy in unknowable times, by January 2015, it was becoming clear that the drop in oil prices was weighing heavily on investment plans in the energy sector, and, under a risk management approach to monetary policy, the policy rate was reduced by 25bp.

Poloz described the "*use of so-called soft data to inform our process.*" Specifically, the decision to cut interest rates:

> *"was influenced by conversations with businesses in the oil sector. There would not be a lot of hard data on Canadian investment intentions until well after the fact. But through our Business Outlook Survey, as well as through personal conversations with oil industry executives, we were able to estimate in a timely way the scale of future reductions in business investment*."

This directly aligns with the comments presented by DG Kozicki noted above. It is actually rather disappointing that there seemed to be a need for a refresher course on these things, but here we are.

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There are two important developments related to the January 2015 episode to keep in mind. First, the Bank cut its policy rate again in July "*as the persistence and impact of the shock became clearer*" according to Poloz. The initial, January, rate cut helped to cushion the blow from the decline in oil prices; the second cut was to calibrate policy to as evidence of the economic impact accumulated. Hence, another tariff-linked rate cut is possible as the balance of risks to the economic outlook and to inflation tip one way or the other.

Second, Poloz revealed criticism leveled at the Bank in January 2015 as market participants felt the Bank "*had not been sufficiently transparent with our intention to lower the policy rate before acting*." This was not a criticism of the rate reduction per se, as it was becoming clearer that the drop in oil prices would have a significant negative economic impact, it was more that the Bank had not provided much forward guidance on the January move.

Central bankers will have face criticism and have to dodge brickbats no matter the decision they make.

One final point: Release those surveys sooner

Statements by Kozicki and Poloz highlight the importance of BoC surveys in policy deliberations. Note that the Bank releases the Business Outlook Survey (BOS), the Canadian Survey of Consumer Expectations (CSCE), and the Business Leaders Pulse (BLP), just over a week before those policy meetings that will be accompanied by a Monetary Policy Report.

However, the surveys for the BOS and the CSCE were conducted long before they were released. Usually, the surveys are conducted over a one-month period. Then the Bank sits on the results for a month before releasing just prior to the policy meeting. For example, the most recent BOS was released on 7 April, ahead of the 16 April policy meeting. The survey was conducted between 6 to 26 February.

For the CSCE, an online panel was conducted from 29 January to 19 February 19 with follow-up phone interviews from 20 to 25 February.

It might be helpful for the Bank to release these results in a timelier manner, particularly in the current environment when things are changing to rapidly. Consider that the Bank would have had the results of the 7 April BOS in hand at the time of the March policy decision, but the results would not be public for a few more weeks.

We would suggest releasing those surveys earlier, maybe before those meetings that are not accompanied by a Monetary Policy Report.

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