



Bank of Canada Rate Announcement

June 1 2022

Bank of Canada hikes 50 basis points and signals more to come

The Bank of Canada increased its policy interest rate by half a point today to 1.5 per cent, a magnitude widely expected by markets and economic forecasters, and continued its quantitative tightening path. The target for the overnight rate remains below pre-pandemic levels, but the Bank signaled that more and potentially aggressive hikes are to come as it wrestles with high levels of inflation.

The Bank's statement zeroed in on the inflation pressures we are now accustomed to. CPI inflation at 6.8 per cent and at multi-decade highs exceeded its expectations and is expected to move temporarily higher (reflecting higher energy prices), while core measures are also heightened from 3.2 to 5.1 per cent. Importantly, it noted that "The risk of elevated inflation becoming entrenched has risen", pointing to rate hikes that could be accelerated in speed and magnitude.

Global factors, including the war in Ukraine continues to amplify inflation pressures through higher commodity prices despite slowing global economic growth, while U.S. domestic demand remains firm despite the negative headline print. In Canada, the Bank underscored the strength in the economy that it deems is in excess demand. While yesterday's GDP print of 3.1 per cent was softer than market consensus, it came in near the Bank's forecast. Labour markets remain tight, and the Bank generally expects consumer demand and exports to expand in Q2.

Broadly, today's decision was expected albeit with a more hawkish tone. The Bank stated in clear terms that it intends to hike going forward given excess demand in the economy and persistent above target inflation. The door was opened to further hikes of 50 basis points or more with the statement, "the Governing Council is prepared to act more forcefully if needed". Another 50 basis point hike is on the table for July which will come alongside the updated Monetary Policy Report as the Bank moves rather quickly to neutral.

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