Three things to watch from Wednesday's Bank of Canada meeting

As both domestic and global risks continue to linger, the Bank of Canada looks set to retain its dovish bias at its April meeting. We think a rate hike this year looks increasingly unlikely

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The Bank of Canada (BoC) is likely to stick to its dovish message at its April policy meeting and keep rates on hold at 1.75%. The downbeat outlook for both the domestic and global economy, as well as some slightly lower inflation figures, may even push policymakers towards a more cautious attitude when it comes to further rate hikes.

The central bank has already hinted that rates will remain on pause for the time being, and that further rate hikes will depend on three factors. Let's look at each of them in turn:

1 Global trade uncertainty

BoC Governor Stephen Poloz noted recently in a speech in Iqaluit that "the global economy could get a significant lift if trade peace were restored". Particularly for Canada, this lift should come via a reduction in uncertainty – which will likely spur business investment, as well as lessening the strain on firms exporting to both the US and China.

2 Sub-par outlook for the energy sector

Global oil prices regained some poise in the New Year, which means that the lagged impact of the late-2018 oil price decline is starting to dissipate. Nevertheless, as uncertainty surrounding pipeline approvals lingers, the problems for Canada's energy sector haven't completely faded. The BoC's latest business survey conveyed a sense of reduced business optimism compared to the winter survey, although investment intentions remained relatively healthy for the year ahead. However, this didn't include firms that are directly (or indirectly) affected by the production constraints attached to Western Canadian crude oil.

3 Household activity doubts

The strength of the labour market has been one of the only bright spots in the economy, but it has failed to create much bullish appetite for the Canadian dollar in light of disappointing economic data, struggles within the energy sector and a prevailing impression that the housing market is under scrutiny.

If the BoC's recently-released spring Business Outlook Survey is anything to go by, the positive news we've been getting from employment reports could slowly start to dwindle. While labour-related production constraints remain the most frequently cited bottleneck, the indicators of labour shortages fell. This could suggest labour market pressures are beginning to subside.

A lot also depends on the housing market. Recent employment and income gains are struggling to translate into better household activity, but the federal 2019 budget - which offers financial incentives for first-time buyers, could provide a boost to the housing market when it comes into effect later this year.

For the time being though, falling house prices, higher interest rates and a tricky selling environment bode ill for domestic demand in the near-term.

> While there is still some room for green shoots later in the year if these risks begin to fade, it will take time for positive sentiment to feed through into better economic activity. We therefore wouldn't be surprised to see the BoC follow the Fed's lead and signal that rates will be kept on hold for the rest of the year.

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