MNI Bank Of Canada Preview: Dec 2025

Announcement Date: Wed, 10 December
Decision / Opening Statements: 0945ET, **Press Conference**: 1030ET

MNI Review of Previous Meeting (October): **LINK**

CONTENTS

MNI POV: Firm Hold, But Hike Talk Picking Up

Dec 9, 2025 - By Tim Cooper

- *The Bank of Canada's easing cycle looks to be at an end, with markets overwhelmingly expecting a rate hold in December through the subsequent 4 meetings to mid-2026.*
- *Firmer-than-expected macroeconomic data since the October meeting has fuelled speculation that the BOC's next move will be a hike and not a cut, with a 25bp increase fully priced by Q4 2026.*
- *With incoming data catching all observers off guard, it leaves open the possibility that the BOC could sound a little more cautious about its current rate stance than it did at the previous meeting, though MNI Markets (and consensus) expects the overall message to remain the same.*
- *In short, the BOC and Gov Macklem are likely to communicate that while activity and employment data have been more upbeat than anticipated, rates remain at "about the right level" and that it would take more material surprises to force a reconsideration.*

At its last decision on October 29, the Bank of Canada accompanied a 25bp rate cut by clearly signalling its intention to hold rates steady thereafter for the foreseeable future, with the key phrase: "If inflation and economic activity evolve broadly in line with the October projection, Governing Council sees the current policy rate at about the right level to keep inflation close to 2% while helping the economy through this period of structural adjustment."

- This guidance was caveated with "if the outlook changes, we are prepared to respond", but since then the incoming data have if anything argued in favour of removing rather than adding accommodation (we go through the latest data developments below).
- Economic surprises have been firmly to the upside (Citi's Econ Surprise Index for Canada hit its highest since March last week), with 25bp of upward repricing for rates over the next 12 months came after last week's shock employment report which showed a sharp drop in the unemployment rate. Markets now see a full rate hike cumulatively priced through October 2026, with a little more than 50% probability of a hike by next July.
- Analysts are unanimous on a December rate hold, with markets pricing in just 1-2bp of cuts in what looks to be the most straightforward decision this year. In line with market pricing, almost all analysts have removed any further rate cuts from their outlook since the October meeting and, latterly, the November labour market report. Some have started to see rate hikes by early 2027 enter their base case.
- Fiscal policy is also seen as underpinning the rate outlook, with PM Carney confirming announcing stimulus as anticipated a few days after the October BOC. Per our Policy Team (see article below, *"Canada*

Meeting	Current	After September BOC Meeting (Oct 30)	Change since then	Cumulative Change From Current Rate (bp)
Dec 10 2025	2.23	2.24	-1.3	-1.9
Jan 28 2026	2.23	2.21	2.4	-1.5
Mar 18 2026	2.26	2.18	8.0	1.2
Apr 29 2026	2.29	2.17	12.2	4.0
Jun 10 2026	2.27	2.16	11.4	2.3
Jul 15 2026	2.34	2.18	15.9	9.4

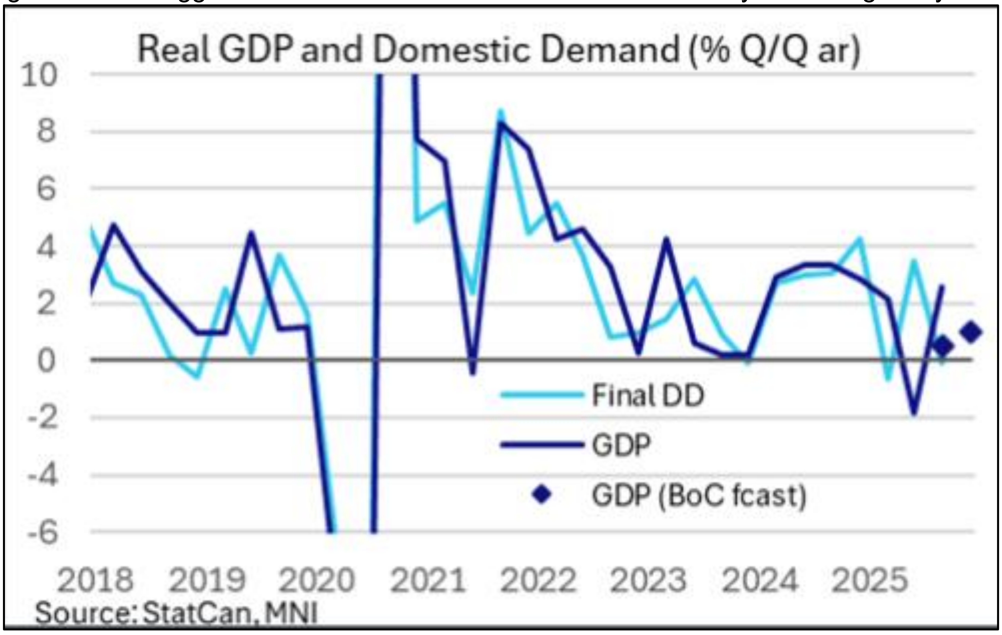
Source: MNI, Bloomberg Finance L.P. As Of Dec 9

Deficits Leave Room For Flexible BOC-Ex-Officials"): budget deficits will remain elevated on an expensive NATO spending target and business investment supports, former officials told MNI, though stimulus is modest enough to avoid tying the central bank's hands at a time of weak growth and sticky core inflation.

- The current 2.25% overnight rate represents the bottom of the BOC's "neutral" estimate range (2.25%-3.25%), a level which Macklem said in early November is “providing some stimulus” as the Canadian economy adjusts to a new era of Canada-US trade frictions.
- With incoming data catching virtually all observers off guard, it leaves open the possibility that the BOC could sound a little more cautious this week about its current rate stance than it did at the previous meeting, though MNI Markets (and consensus) expects the overall message to remain the same.
- The BOC and Gov Macklem are likely to communicate that while data have been more upbeat than anticipated, rates remain at “about the right level” and that it would take more material surprises to force any reconsideration. Any meaningful steer as to the next move will have to wait until 2026.

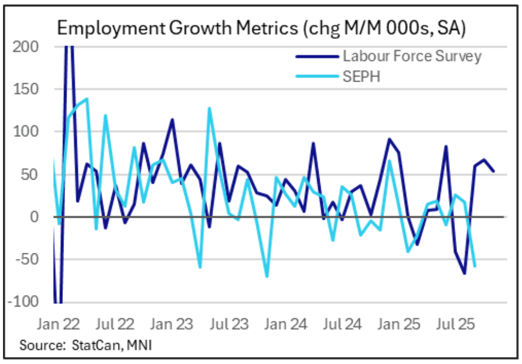
Data Paints A Positive Picture, But Not Yet A “Material” Change: Gov Macklem in the October press conference said that the BOC would be able to assess incoming data relative to its base-case outlook and adjust policy if there has been a “material change”. It’s too soon to determine that there has truly been a “material” shift in the outlook, even if incoming data, particularly GDP and labour market readings, have surprised to the upside versus the Bank’s October Monetary Policy Report projections as well as the market’s. Indeed, even the strong data include some caveats in what has been a volatile year for Canadian macro amid a broader structural economic transition. That should keep the BOC patient in discerning the signal from the noise.

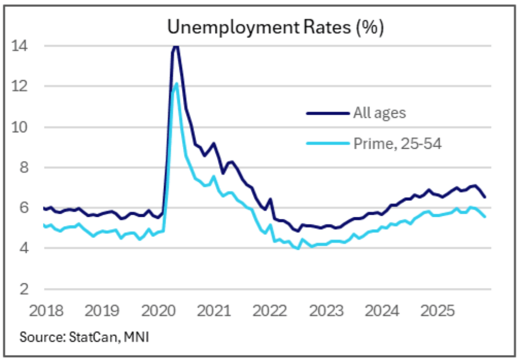
- **Activity:** GDP grew at a 2.6% annualized rate in Q3, compared with the BOC MPR’s 0.5% forecast, while GDP was revised up substantially for 2022-24 - suggesting that economic slack isn’t as pronounced as had been feared (the BOC anticipated in October that a currently negative output gap would be closed by end-2026). However, the GDP print was weak under the surface (weak imports, with consumer spending and business investment lower) and the October advance monthly GDP reading of -0.3% suggests that momentum may have been limited going into Q4. Indeed this would chime with various “soft” indicators including PMIs that suggest the economic bounce seen Q3 is not really extending into year-end.

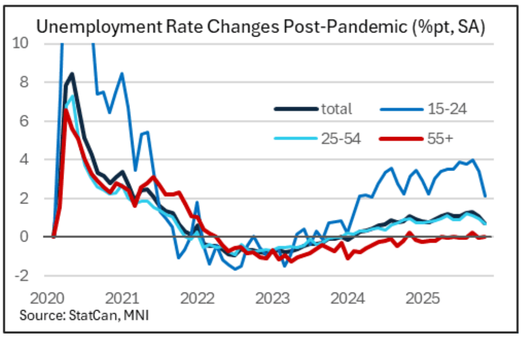


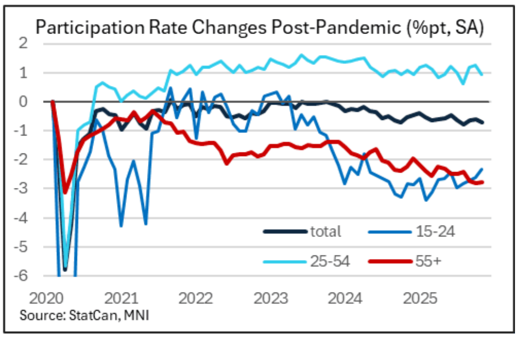
- **Employment:** This is probably the biggest area of reconsideration for the BOC after saying in October’s deliberations that “members agreed that the labour market was soft.” The November labour survey was much stronger than expected even after allowing for some caveats that undermine the extent of the beat, such as another part-time driven jobs gain and rounding for the u/e rate. Employment jumped 54k (sa, cons -2.5k) in November for a third consecutive very strong month. It follows increases of 67k in Oct and 60k in Sep after a cumulative 106k decline through Jul-Aug, highlighting the survey’s volatility. It was dominated by part-time job creation for a second month running, rising 63k after 85k in contrast to full-time jobs dropping by -9k after -19k.

- Overall employment growth was 1.5% Y/Y in November with full-time roles up 0.8% Y/Y (softest since Aug 2024) and part-time roles up 4.6% Y/Y (strongest since Aug 2024). The unemployment rate meanwhile fell from 6.88% to 6.54%, a large beat from consensus of 7.0% (albeit skewed slightly lower). This was the largest decline in the u/e rate in twenty years excluding pandemic distortions and it also sees the u/e rate return to levels from early in the year, having seen 6.55% in February.

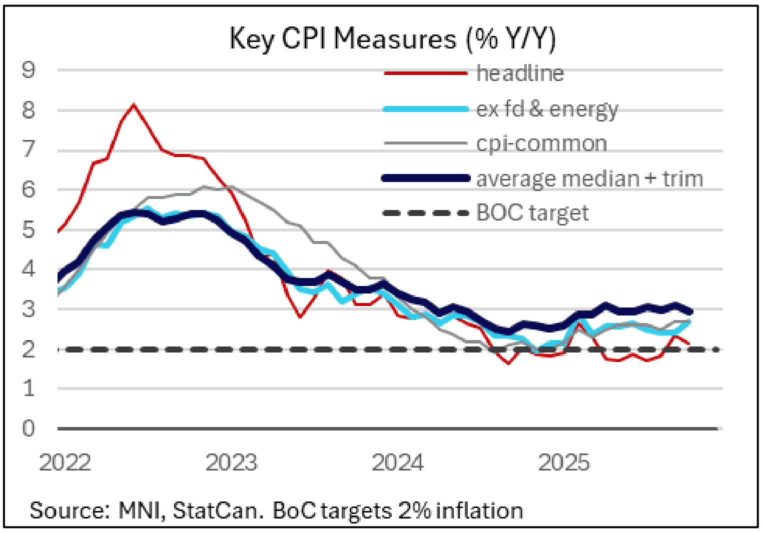








- **Inflation:** Despite headline CPI printing more or less as expected in October, some core inflation measures were surprisingly stubborn compared with an elevated September. It's unlikely to have much bearing on BOC thinking on rates. There were some worrying signs in "underlying" inflation by some metrics looks but overall they look to have remained around the BOC's estimate of 2.5%, suggesting little impetus to reconsider the policy stance on the basis of this release. MNI's "underlying" composite (averaging trim, median, ex-food/energy and CPIX) showed a rise of 2.8% on a 3-month annualized basis, which is the highest since June, but the longer-run 6-month measure dipped to 2.6% from 2.9% prior.



Key Inter-Meeting BoC Commentary

<table>
<tr><th>Speaker</th><th>Commentary Since Previous BoC Rate Decision</th></tr>
<tr><td>Tiff Macklem (Governor)</td><td>Nov 6 Senate banking committee testimony:

MNI BRIEF: Macklem told lawmakers while he would be concerned if headline inflation drifted up towards where underlying inflation has been running, companies face upside and downside pressures linked to the U.S. trade war.
Firms are seeing new costs related to supply chain disruptions but a soft economy also makes it tougher to raise prices, Macklem told the Senate banking committee. Inflation has been "tracking pretty closely" to the Bank's 2% target for about a year now even with elevated core indexes, he said. “We don’t see wage pressures as a big cost driver for companies,” he said.
Asked about a U.S. case on the legality of some of President Donald Trump's tariffs, the Governor said: “Regardless of the Supreme Court ruling, I expect we’re going to be dealing with it for some time.”
Macklem said Mark Carney's first budget introduced that week marks a "significant change" towards reviving lagging investment and productivity, a stronger-than-usual view on questions about fiscal policy he normally avoids.
“Our diagnosis of what’s holding the economy back is very similar to what’s in the budget,” Macklem told the Senate banking committee. He noted burdensome regulations and weak investment.
Ending a long period of such weaknesses requires careful follow-through from lawmakers on the implementation and buy-in from private investors, he said.

Nov 3 Q&A Appearance:

"We feel that with our interest rate at the low end of what we call our neutral range, it's providing some stimulus that's helping with this adjustment. But yeah, I mean, based on - and I would underline the conditionality of the statement - based on our current outlook with the current tariffs that are in place. Yes, we think monetary policy is in about the right place to provide some support while keeping inflation well controlled. We've also said, look, if the situation changes, you know, we're certainly prepared to adjust. We recognize there's still a lot of uncertainty."
"Our assessment overall is still underlying inflation is about two and a half [percent].... that is a bit of a concern. And what you worry about is that headline inflation is going to adjust up to those rather than those adjusting down to 2%... the more reassuring sign earlier in the year, we did see some upward momentum in those. By which I mean, if you look at the three month, six month measures, they were running at 3.5%, they've now come down a little under 3. So some of that upward momentum we saw has come out. It takes a little while for that to show up in the year over year numbers. So we think that... upward momentum is dissipated. We think there's going to be some more easing. But look, this is a structural adjustment. We don't go through these very often. So yes there is a normal amount of uncertainty about how this is going to play out. And we're watching that closely. Our priority is to make sure that a tariff problem doesn't become an inflation problem."
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October 29 Rate Decision Statement

The Bank of Canada today reduced its target for the overnight rate by 25 basis points to 2.25%, with the Bank Rate at 2.5% and the deposit rate at 2.20%.

With the effects of US trade actions on economic growth and inflation somewhat clearer, the Bank has returned to its usual practice of providing a projection for the global and Canadian economies in this Monetary Policy Report (MPR). Because US trade policy remains unpredictable and uncertainty is still higher than normal, this projection is subject to a wider-than-usual range of risks.

While the global economy has been resilient to the historic rise in US tariffs, the impact is becoming more evident. Trade relationships are being reconfigured and ongoing trade tensions are dampening investment in many countries. In the MPR projection, the global economy slows from about 3¼% in 2025 to about 3% in 2026 and 2027.

In the United States, economic activity has been strong, supported by the boom in AI investment. At the same time, employment growth has slowed and tariffs have started to push up consumer prices. Growth in the euro area is decelerating due to weaker exports and slowing domestic demand. In China, lower exports to the United States have been offset by higher exports to other countries, but business investment has weakened. Global financial conditions have eased further since July and oil prices have been fairly stable. The Canadian dollar has depreciated slightly against the US dollar.

Canada's economy contracted by 1.6% in the second quarter, reflecting a drop in exports and weak business investment amid heightened uncertainty. Meanwhile, household spending grew at a healthy pace. US trade actions and related uncertainty are having severe effects on targeted sectors including autos, steel, aluminum, and lumber. As a result, GDP growth is expected to be weak in the second half of the year. Growth will get some support from rising consumer and government spending and residential investment, and then pick up gradually as exports and business investment begin to recover.

Canada's labour market remains soft. Employment gains in September followed two months of sizeable losses. Job losses continue to build in trade-sensitive sectors and hiring has been weak across the economy. The unemployment rate remained at 7.1% in September and wage growth has slowed. Slower population growth means fewer new jobs are needed to keep the employment rate steady.

The Bank projects GDP will grow by 1.2% in 2025, 1.1% in 2026 and 1.6% in 2027. On a quarterly basis, growth strengthens in 2026 after a weak second half of this year. Excess capacity in the economy is expected to persist and be taken up gradually.

CPI inflation was 2.4% in September, slightly higher than the Bank had anticipated. Inflation excluding taxes was 2.9%. The Bank's preferred measures of core inflation have been sticky around 3%. Expanding the range of indicators to include alternative measures of core inflation and the distribution of price changes among CPI components suggests underlying inflation remains around 2½%. The Bank expects inflationary pressures to ease in the months ahead and CPI inflation to remain near 2% over the projection horizon.

With ongoing weakness in the economy and inflation expected to remain close to the 2% target, Governing Council decided to cut the policy rate by 25 basis points. If inflation and economic activity evolve broadly in line with the October projection, Governing Council sees the current policy rate at about the right level to keep inflation close to 2% while helping the economy through this period of structural adjustment. If the outlook changes, we are prepared to respond. Governing Council will be assessing incoming data carefully relative to the Bank's forecast.

The Canadian economy faces a difficult transition. The structural damage caused by the trade conflict reduces the capacity of the economy and adds costs. This limits the role that monetary policy can play to boost demand while maintaining low inflation. The Bank is focused on ensuring that Canadians continue to have confidence in price stability through this period of global upheaval.

October BOC Links:

- Interest Rate Announcement: https://www.bankofcanada.ca/2025/10/fad-press-release-2025-10-29/
- Press Conference Statement: https://www.bankofcanada.ca/2025/10/opening-statement-2025-10-29/
- Monetary Policy Report: https://www.bankofcanada.ca/publications/mpr/mpr-2025-10-29/

mni Central Bank Watch - Bank of Canada

December 09, 2025

MNI Bank of Canada Data Watch List

Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI	% y/y	2.2	1.7	↑	1.7	↑					-0.22
Core CPI - Median	% y/y	2.9	3.0	↓	3.1	↓					-0.59
Industrial Product Price	% m/m	1.5	0.6	↑	-0.8	↑					1.57
Breakeven 10-Year	%	1.93	2.10	↓	1.91	↑					-0.32
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
PMI Manufacturing	Index	48.4	48.3	↑	46.1	↑					-0.11
GDP	% m/m	0.2	0.0	↑	0.1	↑					0.72
Manufacturing Sales	% m/m	3.31	0.94	↑	-1.57	↑					1.63
Trade Balance	CAD bn	-6.32	-5.59	↓	-1.65	↓					-0.76
Monetary Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
M3 Money Supply	% y/y	4.92	4.19	↑	6.49	↓					-0.62
Bank Lending Survey (Q)	% m/m	0.67	0.67	→	1.51	↓					-0.55
New House Prices	% m/m	-0.4	-0.1	↓	-0.4	→					-1.26
Housing Starts	K	232.8	293.1	↓	281.8	↓					-1.07
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales	% m/m	-0.7	1.4	↓	0.9	↓					-0.73
Retail sales Ex-Autos	% m/m	0.2	2.1	↓	-0.7	↑					0.05
Employment Chge m/m	K	53.6	-65.5	↑	8.8	↑					0.59
Ave Hourly Wage Rate	% y/y	3.97	3.59	↑	3.53	↑					1.37
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
S&P/TSX Composite	Index	31170	28564	↑	26175	↑					2.16
Canadian 10-Year Yield	%	3.42	3.38	↑	3.20	↑					-0.64
CAD Yield Curve (2s-10s)	bps	78.5	73.3	↑	60.8	↑					0.91
CAD TWI	Index	115.60	115.97	↓	116.11	↓					-0.94

Note: For quarterly data the 3m ago column will display the previous data point and the 6m ago column will display the data point prior to that.
Source: MNI, Bloomberg Finance L.P.

MNI Instant Answers

We have chosen the following questions for our Instant Answers service with the BoC decision at 0945ET:

- Target for overnight rate:
- Does the Bank signal it is prepared to lower rates in the future?
- Does the Bank signal it is prepared to raise rates in the future?
- Does the Bank say the policy rate appears appropriate if its economic forecast is realized?
- Does the Bank signal it intends to leave rates on hold?

Analyst Expectations And Key Comments

MNI Policy Team Insights

Analyst BoC Policy Rate Expectations

Analyst	December	Terminal (if known)	Rate path/broader comments
Median	**Hold**	**2.25%**	
Canadian institutions			
National	Hold	2.25%	**Hold through 2026.** "We expect the Bank to maintain their view that their policy stance is appropriate, but they'll reiterate that they're "prepared to respond" if the outlook changes. Ultimately, we see the Bank holding steady through 2026."
BMO	Hold	2.25%	**Hold through 2026.** "It increasingly appears that the Bank of Canada is now done. While the BoC leaned that way after its prior decision in October, the run of data since then has been so firmly planted on the strong side that market chatter is now that the next move could be a hike (albeit well down the road)."
Desjardins	Hold	2.25%	**Hold through 2026.** "We expect the Bank of Canada will maintain the language from the last statement about the current level of rates being appropriate. However, for the next six months or so, until fiscal policy becomes a more important player, the Bank of Canada is the only game in town for the economy. If evidence emerges that their cost-push inflation theory has led them astray, they will need to change tack quickly. There's too much at stake to delay further easing unnecessarily. They need to play to win."
CIBC	Hold	2.25%	**Hold through 2026.** "Its statement will give a nod to economic uncertainties and some weak spots within the Q3 GDP figures, but might also cite signs that the labour market is improving. Expect it to repeat its message that rates are now at an appropriate level, reinforcing expectations that barring an economic surprise, they could be on hold for an extended period."
TD	Hold	2.25%	**Hold through 2026, begins hiking early 2027. "**The policy statement should strike a more upbeat tone with the sharp rebound for Q3 GDP and further labour market strength, while guidance may indicate some recent progress while repeating the Bank's pledge to maintain price stability."
RBC	Hold	2.25%	**Hold through 2026.** "Underlying inflation pressures are running above the BoC's 2% inflation target, and could prove stickier than the central bank would like in the future thanks to stronger-than-expected consumer and government spending in 2026. Our base case assumes per-capita growth will slowly improve in 2026 with no additional interest rate cuts from the central bank."
Scotiabank	Hold	2.25%	**50bp of hikes in H2 2026.** "Key to expectations for a policy rate hold at this meeting is that they told us so at the last meeting...What has changed since that statement is a blend of factors that probably reinforce a protracted hold...[Taylor Rule] shows 50bps of hikes next year starting in 2026Q3."
Other institutions			
BNY Mellon	Hold		"We previously expected the bank to cut this month, but Canadian economic data have been more resilient than anticipated, and inflation remains slightly elevated. Our data suggest that cross-border clients are aligned with this view, as hedge-related positions have halved since the Q1 lows, despite ongoing uncertainty in trade relations with the U.S."
BofA	Hold	1.75%	**Cuts in Mar and Apr to 1.75%.** "cuts will be to support the economy in a context of a negative output gap and inflation near the target (Exhibit 5 and Exhibit 6). Beyond April, further easing will depend on growth outcomes, as structural factors-such as lower potential growth-limit the scope for aggressive cuts. The timing of the potential cuts remains uncertain, in our view, as they depend on headline and core inflation dynamics. Cuts by the BoC also depend on what the US Fed does. Cuts by the Fed made BoC cuts more likely."
ING	Hold	2.00%	**Final 25bp cut in early 2026.** " in the wake of recent firmer-than-expected growth and jobs numbers, we expect a pause. Nonetheless, the threat that ongoing trade tensions with the US pose means we continue to expect one more cut in early 2026."
Wells Fargo	Hold	2.25%	**Likely hold through 2026,** "given [a] combination of resilient activity and still-high prices/"
GS	Hold	2.25%	**Hold through 2026.** "While recent data have lowered the risk that the BoC will need to ease further to support the economy, we see less risk that the BoC will hike next year since 1) we forecast that inflation will return to 2% next year and 2) the policy rate remains within the BoC's neutral rate range."
Rabobank	Hold	2.25%	**Hold through 2026.** "Elevated inflation suggests that further rate cuts would be ineffective at this stage and, in fact, provides the Bank with an incentive to maintain policy at a moderately restrictive level...In our assessment, risks to the Bank's inflation outlook are skewed to the downside as economic activity slows and household purchasing power erodes."
JPM	Hold	2.25%	**Hold through 2026** (had previously seen another rate cut in Q1). "While markets are now pricing rate hikes later in 2026, we see that outcome as unlikely."
SEB	Hold		" A best-fit policy rule suggests the Bank has essentially landed at its neutral stance, aligning current settings with underlying economic conditions."
Morgan Stanley	Hold	2.25%	**Hold through 2026, one hike in Q1 2027.** "As the economy hovers above its estimate of potential output growth, we expect one policy rate hike in 1Q27, and then the terminal rate is at 2.50% through 2027, still below the mid-point of neutral."

Correct to the best of MNI's knowledge as of Dec 9 2025, Sorted by lowest to highest terminal rate

MNI BOC WATCH: Hold Seen As Only Option As Economy Stabilizes

By Greg Quinn (Dec 5)

OTTAWA - The Bank of Canada is seen keeping its policy interest rate at the low end of its neutral range Wednesday to wrap a year where it cut three times to cushion the shock of the biggest tariff war with the United States since the 1930s, and was still able to see inflation stabilize at target.

All 23 economists surveyed by MNI see the overnight target remaining 2.25% in a decision at 9:45am EST, the first unanimous poll in recent memory. Governor Tiff Macklem's Oct. 29 cut of 25bps came with the message that unless the economy has a wild swing, he has done enough to tackle U.S. tariffs as high as 50% and keep inflation around 2%.

Jobs and GDP since then have grown faster than expected but hardly enough to make up losses coming from the biggest year-to-date trade deficit on record that is hurting business investment. Prime Minister Mark Carney has signaled he and Donald Trump won't engage on saving a North American trade deal until next year and the U.S. President has suggested he may walk away from such a bargain.

Those risks will leave slack in the economy in 2026 when the Bank sees growth around 1%, modest enough to slow core inflation rates stuck around 3%. The job market has moved into better balance, with unemployment easing from the highest in a decade outside the pandemic earlier this year. A report Friday showed the biggest jobless rate decline in two decades excluding the covid period.

“Three consecutive months of relatively positive labour market releases should keep central bankers comfortably on the sidelines,” said Tiago Figueiredo at Desjardins.

Fiscal policy also blunts the need for monetary aid with Carney's budget offering a deficit of 2.5% of GDP and defense spending set to more than double to 5% in coming years to meet a NATO target. Macklem says fiscal policy is better placed to help damaged industries like steel and autos and the government has recently doubled some of those supports. (See: MNI: Canada Deficits Leave Room For Flexible BOC-Ex-Officials)

A quarter of economists see the Bank cutting early next year as the economy weakens, though they don't expect a direct signal of that so soon after officials signaled the pause. Reasons for holding include sticky core prices and high-profile grocery bills, at a time when officials are using a broader array of indicators to figure out why core prices are still above average. (See: MNI INTERVIEW: Ranchers See Beef Costs Staying Elevated)

MNI INTERVIEW: Ranchers See Beef Costs Staying Elevated

By Greg Quinn (Dec 2)

OTTAWA - Beef prices in the U.S. and Canada will remain high on tight supply and continued strong demand, in addition to the lingering risk of new American trade barriers, Canadian Cattle Association Dennis Laycraft told MNI, the kind of food inflation that’s deterred central banks from cutting borrowing costs.

“We’ve got the tightest cattle numbers in Canada and the United States in probably eighty years," he said. "We are producing almost as much beef from that smaller group of cattle because of how much more efficient our producers are.”

Drought conditions and a parasite discovered in Mexico has disrupted cattle stocks that can't be quickly built up, Laycraft said in an interview after testifying at a Senate committee in Ottawa. Short supply led to a recent shutdown of a Tyson processing plant that is another drag on production, he said. (See: MNI INTERVIEW: Supply Damage Supports BOC Hold- Dal's McNeil)

U.S. feeder cattle prices have climbed 23% this year as of Friday, and Canadian beef striploin prices by the same margin. Canada's cattle herd was little changed according to a July government count after falling since 2021.

Solid U.S. demand and even faster growth in Asia also support the market, he said. So are higher prices elsewhere in the economy pressuring costs for ranchers.

“We continue to see strong demand for the product," he said. "I'm not sure how many of our inputs are going down in price.”

INFLATION IMPACT

The Federal Reserve and Bank of Canada have resisted calls for steeper rate cuts in part because inflation has been slow returning to target. Core indexes have been higher in Canada at 3% versus headline CPI around 2% and grocery prices have topped overall inflation for nine straight months. Officials in Australia and New Zealand have been expressing more inflation concern and the BOJ is tightening this year after a long absence. (See: MNI INTERVIEW:BOJ Goes To Neutral Even If Govt Pressure-Sheard)

Asked if consumers can expect prices to return to normal, Laycraft said: “What is normal? Ever since the pandemic, we've been going through a whole bunch of different things.”

“We continue to see good strong sales, not just in Canada but in all of our markets around the world,” he said.

U.S. sales and prices have been even stronger than Canada, he said. “And the demand is for high-quality grain-fed beef, it's really growing fastest in Asia.” He told lawmakers that on a recent trip to Japan beef tongue cost more than some prime steaks.

President Donald Trump has largely spared beef from tariffs but there's concern around North American free trade pact negotiations next year, Laycraft said. Cattle often move between the three countries based on feeding cycles and market conditions.

“We're continuing to talk with many of our counterparts in the U.S.... they see the same thing we are, some tight numbers," Laycraft said. "We need those cattle moving so we can keep the processing plants operating.”

“We've got to work things out,” on trade, he said. "No one can replace the United States and Canada trade, we're the largest two-way trade in live cattle beef in the world.”

MNI INTERVIEW:BOC To Avoid Mission Creep Amid PQ Threat-Ambler

By Greg Quinn (Nov 26)

OTTAWA - The Bank of Canada will be guilty of mission creep if it sets monetary policy more favorable to Quebec separatists calling to abandon the dollar, at a time when it already faces elevated risks of political attacks on its autonomy, Montreal economist and former bank adviser Steve Ambler told MNI.

The Parti Quebecois leads in recent opinion polls ahead of next year's provincial election but their claims about the benefits of creating a local currency and central bank are overstated and may hurt their credibility, Ambler said.

“If you start to get into what can the Bank of Canada do for Quebec, then that would be an example of mandate creep,” the retired Universite du Quebec a Montreal professor said. “The Bank of Canada has one main instrument, and what they can try and hit primarily is just the overall rate of inflation Canada-wide.”

The Bank will likely stick to its plan to keep rates on hold after cutting to 2.25% from 5% Ambler said because inflation is on target and there is modest growth, even as Quebec's forest and aluminum industries are among the hardest hit by U.S. tariffs.

Ambler co-authored a paper saying the Bank needs better legal protection against government interference and said interventions from other provincial leaders like Ontario's Doug Ford add to political risk. Tiff Macklem already faces pressure with the Conservative leader saying he would fire the Governor for the pandemic inflation burst, while U.S. President Donald Trump has repeatedly threatened to fire Jerome Powell.

The Bank would be better insulated against such pressure if legislation was changed to further deter a finance minister from ever invoking a power to direct monetary policy, and to give the Bank more control over earnings to cover any QE losses, Ambler said.

GUARD AGAINST TRIVIAL REASONS

"We're trying to guard against it being used for more trivial reasons," Ambler said, citing a recent paper he co-authored for the CD Howe think tank. (See: MNI: BOC Needs Better Legal Protection Of Its Autonomy-CD Howe)

While a directive has never been issued since the law was changed after a Liberal government sought and failed to remove former Governor James Coyne in 1961, it now seems more likely to be deployed. "What happens south of the border sooner or later tends to filter to us; Trump has been making all sorts of noises lately" about firing Powell, Ambler said. He also pointed to Ontario's Ford and other premiers saying the Bank should have lowered rates faster after Covid lockdowns ended.

The Bank declined comment on the PQ's proposal, and the finance minister's office didn't provide a response. Industry Minister Melanie Joly, who represents a Montreal district, told reporters Tuesday the PQ would hurt Quebeckers' purchasing power because any new currency would be tied to the province's smaller economy.

ANOTHER CUT UNLIKELY

Another protection against BOC mission creep is for next year's mandate review to drop language about maximum employment if inflation is stable, Ambler said. "Flexible inflation targeting works well and continues to work well. We should stick with that."

Fiscal dominance is a smaller risk in Canada than elsewhere because of its lower debt, Ambler said, but that may only be a matter of degree.

"When you have such low rates of economic growth and disastrous private business investment… you can't afford deficits or the size of the deficit you can afford is much lower," he said. "It's a question of temptation or exerting at least implicit pressure on the Bank to keep interest rates low in order to help with financing the debt."

The flat economy also means the Bank sticks to its view rate cuts are done because inflation is near target and the economy has enough support after the U.S. imposed tariffs. "They are at the bottom of the band for what they consider the neutral rate," Ambler said. "So it would have to be real economic weakness for them to cut again."

MNI: Canada Deficits Leave Room For Flexible BOC-Ex-Officials

By Greg Quinn (Nov 18)

OTTAWA - Canada's budget deficits will remain elevated on an expensive NATO spending target and business investment supports, former officials told MNI, though stimulus is modest enough to avoid tying the central bank's hands at a time of weak growth and sticky core inflation.

Stronger fiscal anchors are needed in coming years to bring the budget back towards balance and prevent weak government productivity from dragging the economy, former officials said. Prime Minister Mark Carney's Nov. 4 budget abandoned a goal of lowering debt-to-GDP and focused on a similar measure for the deficit.

“What’s important with a fiscal anchor is to have one but also to keep the same one over time,” Yves Giroux, who finished a term as Parliament's budget officer in September, said in an interview. “Having a fiscal anchor that changes every year, or regularly, it defeats the purpose.”

Carney's goal of doubling military spending to 5% of GDP by 2035 is just the start of pressures like past commitments to boost healthcare and other social programs, he said. “It’s a lot of demands at the same time, so that’s probably why the fiscal anchors are less constraining than they could be,” Giroux said.

The new interim budget officer said last week Carney's deficit anchor has less than a 10% chance of being met given higher spending and a weak economy.

SPACE TO TACKLE PROBLEMS

Deficits to Giroux remain in line with the BOC's stance that the Oct. 29 cut to 2.25% will be the last if its forecast holds up for inflation to remain around 2%. Governor Tiff Macklem says higher costs from U.S. tariffs and supply-chain damage should be offset by weaker Canadian growth.

This year's CAD78 billion deficit is a record in cash terms outside Covid but only 2.5% of GDP. Carney's deficit "is nothing like what we saw in the Covid period,” Giroux said while attending a Macdonald-Laurier Institute conference. (See: MNI INTERVIEW: Supply Damage Supports BOC Hold- Dal's McNeil)

Macklem has flexibility to work independently because the policy rate is well above zero, former top finance department official and MLI analyst Tim Sargent told MNI.

“The Bank has the monetary space to deal with its problems; however, the Trump shock is a structural issue that is best left to fiscal policy to deal with, and to be fair the government is taking it on," he said. "What we need to guard against is mistaking a supply shock for a demand shock, which is what happened under Covid.”

Spending to protect Canada from U.S. trade policy must shift in the medium term towards a balanced budget, the only anchor voters understand, Sargent said. “The problem with things like debt-to-GDP is you don’t control the denominator. So it can bounce around and that bounces your target around."

TYING THE GOVERNMENT'S FEET

Another target worth exploring is for raising incomes or living standards, former finance assistant deputy minister and BOC research manager Jean-Francois Perrault said during the MLI conference. He also said Carney moved towards a welcome focus on investment.

“There’s a clear shift in priorities away from the operational stuff,” Perrault said, even if Carney's goal of unlocking a trillion dollars of new investment is somewhat unrealistic. Perrault is now chief economist at Scotiabank, which sees the Bank on hold through early 2026 and its next move a hike.

Canada's lagging productivity comes from low private investment but also public sector weakness, former officials said. Keeping corporate taxes low to draw investment creates another barrier to fixing the deficit, they said, but there's room to make government more efficient during Carney's plan to cut 10% of federal workers.

Historical and international comparisons show Canada's public sector lagging, former Statistics Canada chief Munir Sheikh told the conference. “We need to have some anchors which will tie the feet of the government to economic principles,” he said. Departments without restraints seek expansion no matter what their outputs are, he said.

Despite the government's commitment to fiscal restraint Sheikh said the abandonment of past goals when things got tough means that now “we don’t have fiscal anchors.”

MNI INTERVIEW: Budget Keeps Floor Under BOC Rates- Lapointe

By Greg Quinn and Lovena Patandin (Nov 5)

OTTAWA - Mark Carney's debut budget offers enough stimulus for his successor at the Bank of Canada to leave interest rates on hold next year, while leaving open some risk bond investors eventually balk at heavier borrowing plans, former finance department economist Dominique Lapointe told MNI.

Deficits of 2.5% of GDP this year and 2% in fiscal 2026 mean Governor Tiff Macklem has no need to again mark down his forecast for modest growth in coming quarters, Lapointe said, affirming the view the Bank used last week as it cut the key rate and said monetary policy is now in the right place to deal with the U.S. trade war shock.

The Bank's implied message was "they have set the bar higher" for more stimulus, Lapointe said. "Reading between the lines," the official view is that if "you cut two times, three times more, it’s not going to make a big difference. It might inflate housing prices, which they don’t want." (See: MNI: Carney Deficits Are Bulwark Against Big Macklem BOC Cuts)

The CAD78 billion deficit is a cash record outside of Covid or a deep recession and provides more comfort to Bank officials than perhaps to bond investors, according to Lapointe.

NEXT TIME MAY BE HARDER

“International investors, they’re more sensitive to large native fiscal shocks. Today is not one, but it’s a big number and the government must keep that in mind when it wants to stay on track with how it manages its expenditures,” said Lapointe, now macro strategy director at Manulife Investment Management in Montreal. “It needs to be aware of the different environment, that if you come in with a significantly bigger number, maybe next time it’s going to be more difficult.”

The deepest tariff war with the United States since the 1930s has lifted Canada's trade deficit to a record and Lapointe said it will take five or ten years to see a payoff from the government's reallocation of money from day-to-day programs to capital investment.

“They are trying to set the level of competitiveness between Canada and the U.S. so that you don’t lose more investment,” he said. “To expand you need confidence, you need stability, and that goes even beyond what the government can do when it’s difficult to negotiate with the U.S. when the conditions and the terms change every time.”

Next year's renegotiation of USMCA is a risk to the Bank's rate path and if Donald Trump imposes a broad and permanent tariff that could require more cuts, Lapointe said. (See MNI INTERVIEW: Supply Damage Supports BOC Hold- Dal's McNeil)

NOT WORTH CUTTING

“If you get to a baseline tariff, which in our opinion there’s close to a 50-50 chance of that at the end of negotiations next year, then you’re looking at more industries being impacted,” he said.

That could mean two or three more cuts and the status of tariffs will likely be clarified around the second half of next year, Lapointe said.

Domestic demand is holding up well enough to keep rates on hold in the meantime, Lapointe said. Insolvencies are low, the housing market is rebounding and employment is still growing, he said.

“I don’t think it’s worth cutting more in that environment.”

MNI INTERVIEW: Supply Damage Supports BOC Hold- Dal's McNeil

By Greg Quinn (Nov 3)

OTTAWA - Canada's central bank can avoid cutting interest rates further even if the U.S. trade war continues hitting growth with tariffs also disrupting supply and keeping inflation pressures balanced, a professor who has worked with former BOC advisers and did PhD research there told MNI.

"One really interesting point I think that the Bank has made, actually a couple times, and I'm not sure people are picking up on it as much, is the all the effects of these tariffs on potential (growth) in Canada," said James McNeil, a Dalhousie University economics professor.

"If we have less trade, potential output is lower," he said in an interview. "We might observe declines in GDP that they wouldn't necessarily feel that they need to respond to because they don't think that it's a typical recession." (See: MNI INTERVIEW: Further BOC Cut Unclear In Trade War Fog-Mendes)

Governor Tiff Macklem on Wednesday lowered the policy rate 25bps to 2.25%, the bottom of its estimated neutral range, and said the rate may hold for a while if the Bank's forecast is realized. The Bank estimates growth of less than 1% in the second half of the year following a second-quarter contraction and a similar gain of 1.1% next year, keeping inflation around the 2% target.

DEMAND SIDE STORY

Economists surveyed by MNI are split with 10 saying the Bank will remain on hold and another 10 seeing a cut by early 2026. The risk is much more the Bank cutting again while chances of a hike being the next move are remote, McNeil said.

The propensity to possibly cut further is reinforced by McNeil's view that for now, despite the supply-side element to the trade war, "what declines we're seeing in the Canadian economy are mostly a demand side story." He didn't give a prediction of the length of a pause or any next move.

Deficit spending in Prime Minister Mark Carney's federal budget Tuesday will fill some of the gap in demand created by U.S. tariffs, he said. Macklem told reporters monetary policy has done about all it can do for the handful of industries hurt by tariffs. McNeil said that sends a signal of a green light for a big deficit rather than a Bank warning deficits will feed inflation at a time when core prices are still advancing at 3%.

While Donald Trump's trade threats have been volatile, the current effective tariff rate is only about 5% because many firms are using an exemption under USMCA, another reason McNeil said Macklem can sound more neutral.

ANOTHER TAILSPIN?

"If we start to see higher tariff rates across the board, well that would be definitely something that would be throwing the Canadian economy into another tailspin," he said. (See: MNI INTERVIEW: Canada Truckers See Worst Slump In Four Decades)

"What they're thinking is we wouldn't want to necessarily lower interest rates in a world like that, because if there's just less potential output in the economy, right? You can't magically produce more output with monetary policy.

You're just going to run out prices," McNeil said. "Maybe you shouldn't necessarily expect in future interest-cuts, even if trade continues to be a drag."

Canada’s resilient dollar is an important piece of the growth and inflation outlook as well, he said when asked about the currency’s relative strength this year. U.S. policies have hurt perceptions of both Canada’s and America’s economy, he said, a different situation from past instances where the Canadian dollar tumbled as investors saw the United States as stronger, he said.

On the Bank's framework review next year, McNeil said officials have a communications challenge around core inflation and the shift to an undefined measure of trend inflation over its previous core indexes. Similar to what other sources have told MNI, McNeil says the problem is one measure is not robust to all situations.

"They have all this information, they've got even more measures probably behind the scenes that they don't share online or tell us about necessarily. But it is useful when they're explaining their decisions to sometimes point to these measures."