mni

All Signal, No Noise

MARKET ANALYSIS

MNI Bank Of Canada Preview: Sept 2025

Announcement Date: Wed, 17 September
Decision / Opening Statements: 0945ET, **Press Conference**: 1030ET

MNI Review of July Meeting: https://media.marketnews.com/BOC_Review_July2025_833cb8f580.pdf

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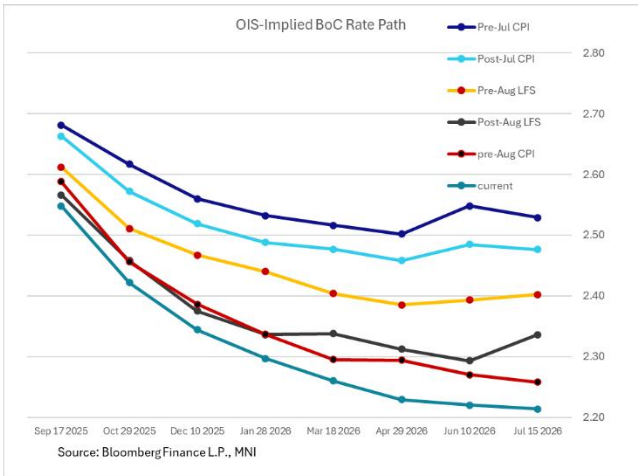
MNI POV: Cuts To Resume On Softening Data

Sept 16, 2025 - By Tim Cooper

- *The Bank of Canada is expected to cut its benchmark overnight rate by 25bp to 2.50% on Wednesday September 17. This comes after three consecutive holds, amid a period in which activity and labour market data proved more resilient than expected in the face of the US-Canada trade conflict.*
- *Data since the July meeting have been almost unambiguous in tilting the balance toward a further easing, culminating with softer core CPI trends in August's inflation report released on the eve of the decision.*
- *Almost all Canadian analysts expect a 25bp cut to be announced Wednesday.*
- *A 25bp reduction would bring rates toward the lower end of the BOC's estimated neutral range.*
- *With no Monetary Policy Report released at this meeting and thus no new economic projections, there will be initial attention on the decision statement which is expected to remain non-committal on future cuts but retain the overall easing bias. That's a tone likely to be echoed at the press conference.*
- *While Governing Council's message will probably reiterate they are proceeding "carefully" with a meeting-by-meeting approach, the overall meeting communications will leave the door open to another rate cut in October if data continue to develop in a similar direction over the interim period.*
- *Views on the BOC terminal rate are split between those analysts who see one further cut beyond this week (2.25% terminal), and those who see two more (2.00%, so slightly below what would largely be considered neutral). That matches markets pricing between 1 and 2 cuts by end-2026 in addition to this week's.*

The Bank of Canada is widely expected to cut its benchmark overnight rate by 25bp to 2.50% on Wednesday September 17. This comes after three consecutive holds, amid a period in which activity and labour market data proved more resilient than expected in the face of the US-Canada trade conflict.



- We've heard almost nothing from BOC leadership since the July meeting, save for a speech on central bank independence and flexible inflation targeting delivered by Gov Macklem at a Banco de Mexico conference in August.
- That leaves us with the data to determine the Bank's likely course of action – and it's been almost unambiguous in arguing for the resumption of cuts.
- August's inflation data (more on which below) triggered a final dovish shift in rate pricing, with the OIS-implied rate path now fully pricing a September cut (vs ~90% prob prior), with about 4bp added across the implied cuts though next summer (a 2nd 25bp cut is priced through January 2026, vs March prior to the CPI release).
- This is the culmination of a longer-term trend that has come following multiple data points on the soft side of consensus since the July BOC meeting, including the last Labour Force Surveys and CPI readings - all of which elicited at least a slightly dovish reaction.
- It's also come in sympathy with a downtick in Federal Reserve implied rates as US jobs data has come in on the soft side, cementing pricing for a 25bp rate cut to be announced hours after the BOC decision.

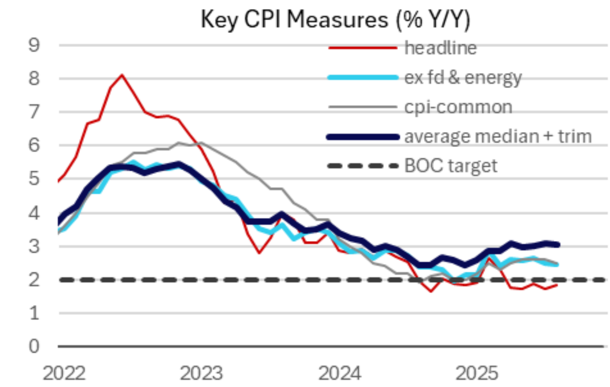
July's rate decision noted that *"With still high uncertainty, the Canadian economy showing some resilience, and ongoing pressures on underlying inflation, Governing Council decided to hold the policy interest rate unchanged. We will continue to assess the timing and strength of both the downward pressures on inflation from a weaker economy and the upward pressures on inflation from higher costs related to tariffs and the reconfiguration of trade. If a weakening economy puts further downward pressure on inflation and the upward price pressures from the trade disruptions are contained, there may be a need for a reduction in the policy interest rate."* As we detail below, those criteria for a cut appear to have played out in the data.

- With no Monetary Policy Report released at this meeting and thus no new economic projections, there will be initial attention on the decision statement which is expected to remain non-committal on future cuts but retain the overall easing bias. That's a tone likely to be echoed at the press conference.

- While Governing Council's message will probably reiterate they are proceeding "carefully" with a meeting-by-meeting approach, the overall meeting communications will leave the door open to another rate cut in October if data continue to develop in a similar direction over the interim period.

Analysts Almost Unanimous On At Least One More Cut: Almost all Canadian analysts expect a 25bp cut to be announced Wednesday - the exception is RBC, whose core view is that the BOC will not make further cuts.
- The closest we got to a view change post-CPI was RBC, which came into this week as the only major Canadian institution eyeing a hold this week, a view it appears to maintain while acknowledging it's a close call: "The BoC will also have to consider upside inflation risks from sticky core inflation, resilient consumer spending, and planned fiscal stimulus that is likely more effective at addressing the targeted economic impact of trade-related disruptions than interest rate cuts. Today's inflation report does little to sway that assessment, and we continue to think the Bank of Canada's decision tomorrow will be a close call between a 25 basis point cut to the overnight rate and a hold.
- A 25bp reduction would bring rates toward the lower end of the BOC's estimated neutral range of 2.25–3.25%. Views on the BOC terminal rate are split between those analysts who see one further cut beyond this week (2.25% terminal), and those who see two more (2.00%, so slightly below what would largely be considered neutral).

Moderating Core Inflation Trends Keep BOC On Track To Cut: August's Canadian CPI data out Tuesday continued July's theme of steady-to-moderating core inflation after an uncomfortably hot period, and will not present an obstacle to the BOC cutting its benchmark rate Wednesday. This was an important development as the resilience of core inflation was a key component to the BOC's decision to hold rates through the summer's trade-related uncertainty. Another factor since that will have helped ease concerns was Canada's decision to end counter-tariffs on the US at the start of September, taking some of the upside pressure off import prices.

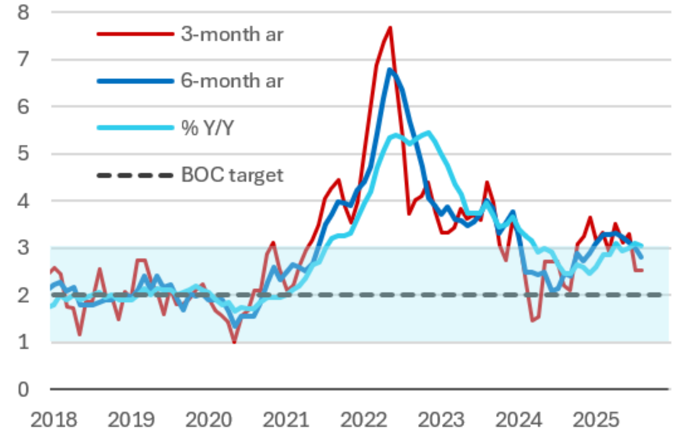


Source: MNI, StatCan. BoC targets 2% inflation

- August headline CPI printed in line with expectations, ticking up to 1.9% Y/Y after 1.7% in July. In fact, on an unrounded basis, it was on the low side of expectations: 1.85% after 1.73%. And it kept the rate below 2% for a 5th consecutive month.
- While that will keep BOC officials persuaded that price pressures are under control, their closely-watched trim/median average measure continues to show little disinflationary progress, at an in-line-with-expectations 3.05% Y/Y, trim 3.0% and median 3.1% (prior trim/median was revised up to 3.10% from 3.05% prior so technically this was a deceleration).
- Other Y/Y core measures were somewhat mixed. Ex-food and energy inflation (2.44% Y/Y unrounded) was the lowest since March (2.50% prior), while the measure of CPI ex-8 most volatile/indirect taxes was relatively steady at 2.63% (2.57% prior). Ex-mortgage interest CPI was 1.73% Y/Y, up from 1.54% prior for the highest since March.
- When we look at the sequential measures, these too were relatively tame. All-items CPI rose 0.18% M/M on a seasonally-adjusted basis (0.12% prior), with the NSA reading of -0.06% M/M the joint-softest of the year (0.30% prior).

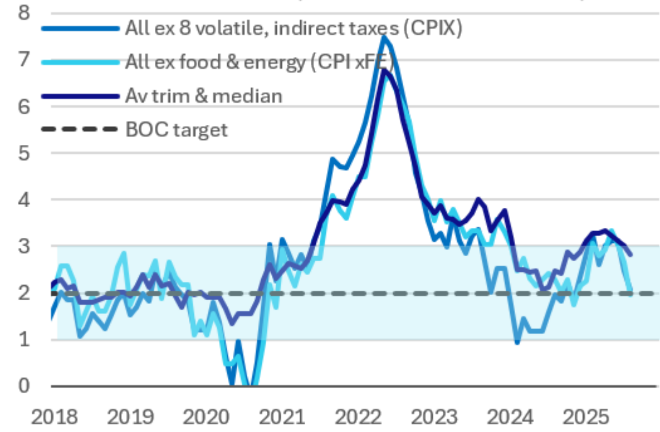
- Ex-food and energy rose 0.13% M/M (0.06% prior). Trim decelerated to 0.19% from 0.23%, with median up to 0.23% from 0.14% (which had been a 12-month low).
- This meant that the trend rates of major aggregates moderated. Ex-food and Energy ticked down to 1.6% on a 3-month moving average annualized rate basis, the lowest since September 2024, with the 6-month at 2.0%. Ex-8 most volatile/taxes was steady at 2.3% on the 3M but fell to a 9-month low 2.1% on a 6M basis. And while the trim/median average 3mma was steady at 2.5% (a joint-10 month low), the 6-month measure was a 9-month low 2.8%, printing below 3% for the first time this year.
- The component details showed deceleration in shelter and core goods prices (durable goods Y/Y softened), with the only major upside concern being in non-shelter services which ticked higher.

Core CPI: Trim And Median Average Inflation (%)



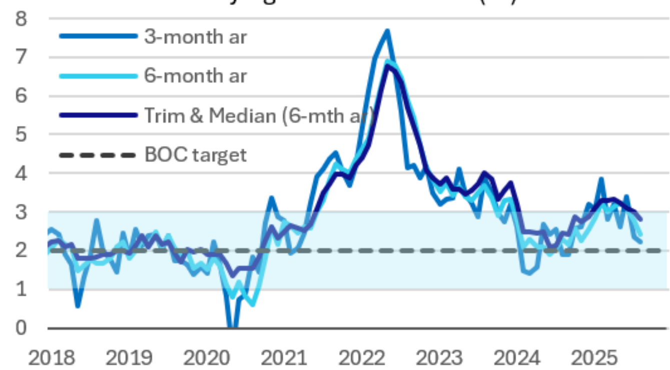
Source: StatCan, MNI. BoC target band shaded area

Core CPI Metrics (% 6-mth annualized, SA)



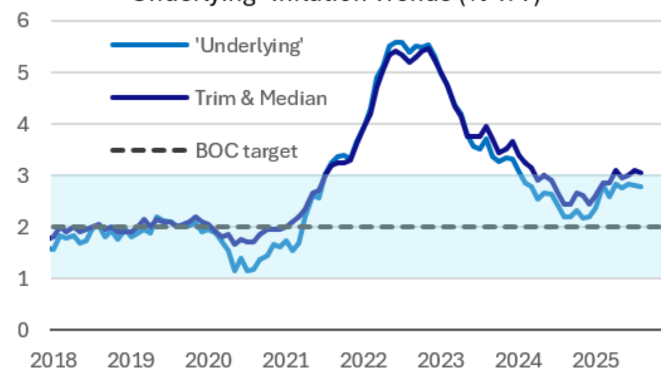
Source: StatCan, MNI. BoC target band shaded area

"Underlying" Inflation Trends (%)



Source: StatCan, MNI. BoC target band shaded area.
We estimate underlying inflation as an unweighted average of CPI-trim, CPI-median, CPIxFE and CPIX.

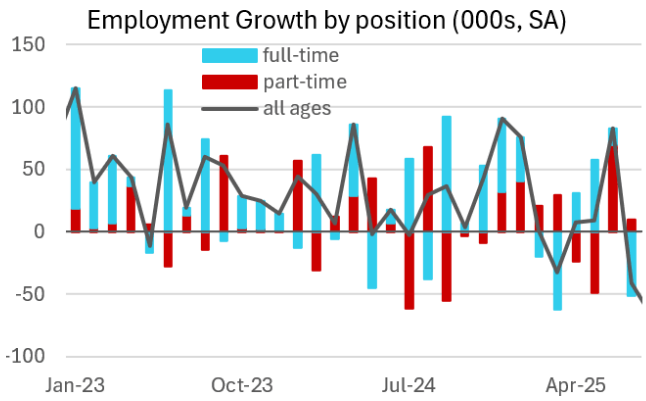
"Underlying" Inflation Trends (% Y/Y)



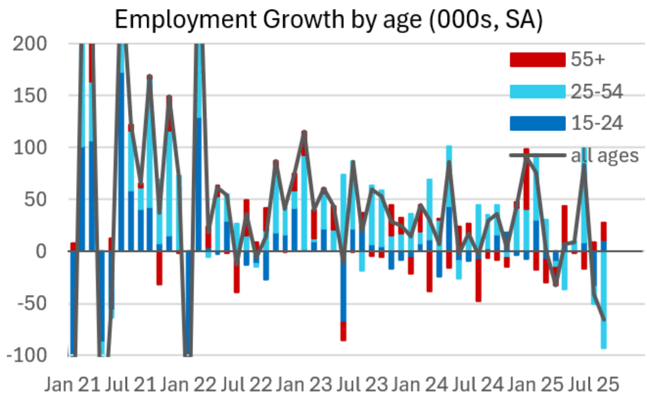
Source: StatCan, MNI. BoC target band shaded area.
We estimate underlying inflation as an unweighted average of CPI-trim, CPI-median, CPIxFE and CPIX.

Jobs Market Softening: The BoC's July meeting deliberations noted "some members expressed concern about the risks of further increases in the unemployment rate and the implications for households if the trade conflict were to escalate or the effects were to spread through the economy more broadly." Data since then will only have increased those concerns.

- **Tipping the scales in favor of a 25bp cut (which previously was only around 50% market-priced) was August's Labour Force Survey which was unambiguously weak**, and in several aspects marked a deterioration from the poor July report, from the fall in employment to the rise in the unemployment rate. Weakness appeared broad-based, including by industry, with continued signs that US-Canada trade tensions are weighing on the labor market.



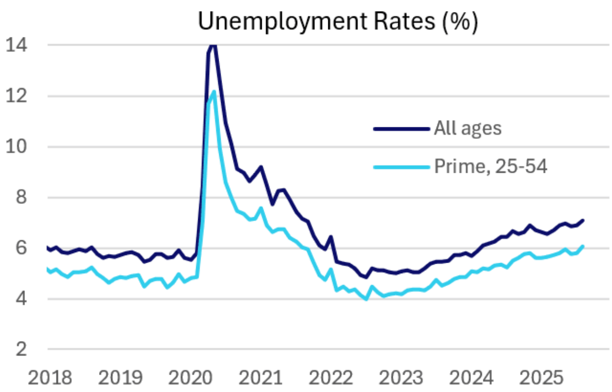
Source: StatCan, MNI



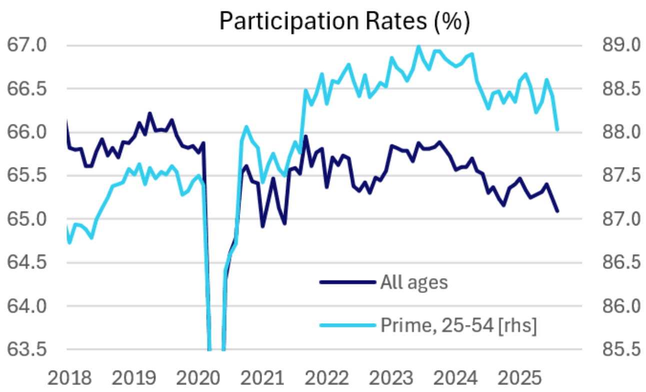
Source: StatCan, MNI

- **The 65.5k drop in employment in August was a deterioration from the 40.8k drop a month prior, for the biggest decline since April 2021 (and far below the +10k expected). This was the first back-to-back fall in employment ex-pandemic since 2019**, fully erasing the 83.1k surprise jump in June (3-month total now -23.2k), and brings the 6-month moving average growth to -6.6k - the first time that's been negative since 2014 (ex-pandemic). While the 15-24 age category saw a 10k rise in employment - biggest since January and after a 34k drop in July - in a very worrying development, the prime 25-54 age bracket saw a 93k fall, worst since January 2021, following on from 16k in July. (55+ was up by 17k after +9k). This is the core of the labour force and saw its unemployment rate rise to 6.06% from 5.79% prior. Prime-age employment and overall employment are now at a lower level than at the start of the year.

- **The unemployment rate rose 0.16pp unrounded to 7.07% (7.0% consensus) the first time (unrounded) above 7% since September 2021.** This was despite a continued decline in the participation rate (65.09% from 65.23%) and the prime-age participation rate (88.03% after 88.42%) to the lowest levels since 2021, with the labor force contracting by 31k after a 33k decline - despite continued if slowing growth in the population. The number of unemployed rose 35k after falling on net the previous two months combined. That brought the employment-to-population ratio down to 60.5% from 60.7% prior, which outside of the pandemic and its aftermath is the lowest since the 1990s.

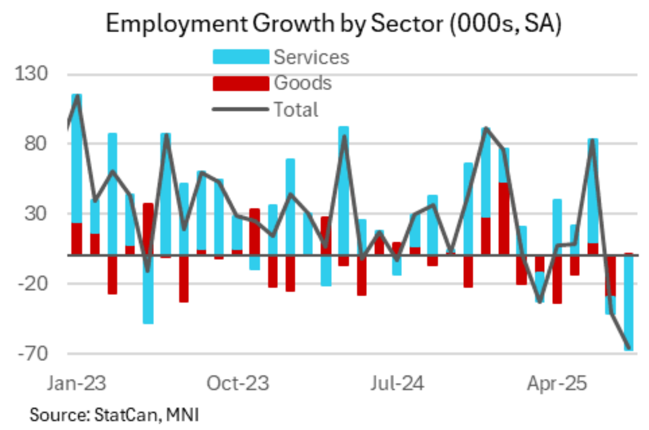


Source: StatCan, MNI



Source: StatCan, MNI

The industry breakdown of August's LFS also suggested broadening weakness in the labour market, which will be of concern to the Bank of Canada which has been attentive for signs that trade-related weakness is bleeding out into the broader economy.

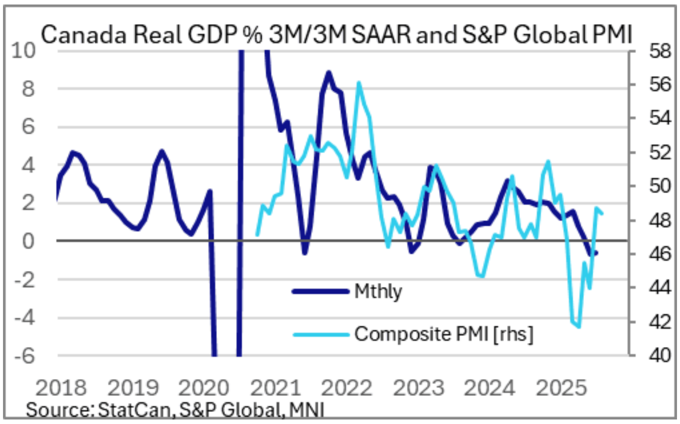


- The beleaguered goods-producing sector saw 2k jobs growth (was -29k in July), only the 2nd gain in the last 7 months - but employment has fallen 41k this year overall as the US-Canada trade dispute has been a key theme. In the latest month, manufacturing stood out on the weak side with a 19k employment drop (worst since April).

- Services-producing employment however fell 67k (was -12k in July), which outside of the 2020-21 pandemic volatility was the biggest-ever monthly drop. In turn, the standout was Professional, scientific and technical services which saw a 26k fall in employment (after +3k in July). Outside of February's 33k fall, that's the biggest decline outside 2020-21.

- **The separate SEPH payroll Canadian payroll employment fell by 32.9k in June, per the Survey of Employment, Payrolls and Hours (SEPH) - the worst month since February and erasing the gains of the prior 2 months (33.1k).** Payrolls in 10 of 20 sectors declined, led by including manufacturing (-8.4k; -0.5%), retail trade (-8.1k; -0.4%), and construction (-5.2k, -0.4%). Public administration jobs cushioned the blow, rising .3.8k; or +0.3%; with the other 9 sectors little changed. Effectively, private sector payrolls were very weak. The longer-term trends are poor and appear to be worsening: the 6-month change in payroll employment is -46.5k, which outside of the start of the pandemic is the worst since 2009; the 12-month rise of 41.0k is the weakest since early 2010.

Growth Recovery Has Stalled: The first half of the year concluded on a sour note for growth as Q2 GDP printed -1.6% Q/Q annualized, worst in 5 years, albeit close to the Bank of Canada's "current tariff scenario" of -1.5% and lower than -0.8% economists expected. Exports fell 27% or the most since 2009 financial crisis ex-pandemic. Business investment in machinery and equipment fell the most since 2016, though final domestic demand +3.5% in Q2 from -0.9% in Q1.



- **Having contracted for 3 consecutive months, monthly GDP by industry rose 0.1% M/M in July** per Statcan's flash estimate, a result that is roughly mirrored by the improvement in PMIs. To be sure, this is a recovery from very weak conditions as opposed to a burst of activity going into late summer, particularly for services.

- **Indeed, August PMIs suggested a service sector-led moderation in economic activity vs July, even if the suggesting that activity has stabilized after very negative conditions in Feb-Jun amid US trade war concerns.** The Composite index ticked down to 48.4, from July's 48.7 which had been a 6-month high. The Services data out Thursday showed a deterioration to 48.6 from what had been an 8-month high 49.3 in July - the previously-released Manufacturing reading showed a 2.2 point improvement to 48.3, a 7-month best.

Key Inter-Meeting BoC Commentary

Speaker	Commentary Since Previous BoC Rate Decision
Tiff Macklem (Governor)	**Aug 26 Speech – “Flexible inflation targeting in a shock-prone world” (link)** Macklem said at a Banxico-hosted event that central banks must keep their political independence because that helps control inflation in an era where prices are becoming less stable, with Canada and Mexico more vulnerable to recent swings in US trade policy. • “The structural tailwinds of peace, globalization and favourable demographics are turning into headwinds, and the world looks increasingly prone to shocks. …Headwinds that limit supply could mean more upward pressure on inflation going forward. And more frequent supply shocks could mean more variability in inflation." • "Hard choices and uncertainty increase the risk of public disappointment, frustration and criticism. That’s why it’s important for central banks to remain independent from the political process.” • "When the future is more clouded, we naturally put more weight than usual on recent data until we have a better sense of how the economy is responding to new shocks. And second, we put less weight on the base-case projection and more weight on the risks," he said. "This helps us understand how our policy decisions will hold up across a range of outcomes."

July 30 Rate Decision Statement

The Bank of Canada today maintained its target for the overnight rate at 2.75%, with the Bank Rate at 3% and the deposit rate at 2.70%.

While some elements of US trade policy have started to become more concrete in recent weeks, trade negotiations are fluid, threats of new sectoral tariffs continue, and US trade actions remain unpredictable. Against this backdrop, the July Monetary Policy Report (MPR) does not present conventional base case projections for GDP growth and inflation in Canada and globally. Instead, it presents a current tariff scenario based on tariffs in place or agreed as of July 27, and two alternative scenarios—one with an escalation and another with a de-escalation of tariffs.

While US tariffs have created volatility in global trade, the global economy has been reasonably resilient. In the United States, the pace of growth moderated in the first half of 2025, but the labour market has remained solid. US CPI inflation ticked up in June with some evidence that tariffs are starting to be passed on to consumer prices. The euro area economy grew modestly in the first half of the year. In China, the decline in exports to the United States has been largely offset by an increase in exports to the rest of the world. Global oil prices are close to their levels in April despite some volatility. Global equity markets have risen, and corporate credit spreads have narrowed. Longer-term government bond yields have moved up. Canada's exchange rate has appreciated against a broadly weaker US dollar.

The current tariff scenario has global growth slowing modestly to around 2½% by the end of 2025 before returning to around 3% over 2026 and 2027.

In Canada, US tariffs are disrupting trade but overall, the economy is showing some resilience so far. After robust growth in the first quarter of 2025 due to a pull-forward in exports to get ahead of tariffs, GDP likely declined by about 1.5% in the second quarter. This contraction is mostly due to a sharp reversal in exports following the pull-forward, as well as lower US demand for Canadian goods due to tariffs. Growth in business and household spending is being restrained by uncertainty. Labour market conditions have weakened in sectors affected by trade, but employment has held up in other parts of the economy. The unemployment rate has moved up gradually since the beginning of the year to 6.9% in June and wage growth has continued to ease. A number of economic indicators suggest excess supply in the economy has increased since January.

In the current tariff scenario, after contracting in the second quarter, GDP growth picks up to about 1% in the second half of this year as exports stabilize and household spending increases gradually. In this scenario, economic slack persists in 2026 and diminishes as growth picks up to close to 2% in 2027. In the de-escalation scenario, economic growth rebounds faster, while in the escalation scenario, the economy contracts through the rest of this year.

CPI inflation was 1.9% in June, up slightly from the previous month. Excluding taxes, inflation rose to 2.5% in June, up from around 2% in the second half of last year. This largely reflects an increase in non-energy goods prices. High shelter price inflation remains the main contributor to overall inflation, but it continues to ease. Based on a range of indicators, underlying inflation is assessed to be around 2½%.

In the current tariff scenario, total inflation stays close to 2% over the scenario horizon as the upward and downward pressures on inflation roughly offset. There are risks around this inflation scenario. As the alternative scenarios illustrate, lower tariffs would reduce the direct upward pressure on inflation and higher tariffs would increase it. In addition, many businesses are reporting costs related to sourcing new suppliers and developing new markets. These costs could add upward pressure to consumer prices.

With still high uncertainty, the Canadian economy showing some resilience, and ongoing pressures on underlying inflation, Governing Council decided to hold the policy interest rate unchanged. We will continue to assess the timing and strength of both the downward pressures on inflation from a weaker economy and the upward pressures on inflation from higher costs related to tariffs and the reconfiguration of trade. If a weakening economy puts further downward pressure on inflation and the upward price pressures from the trade disruptions are contained, there may be a need for a reduction in the policy interest rate.

Governing Council is proceeding carefully, with particular attention to the risks and uncertainties facing the Canadian economy. These include: the extent to which higher US tariffs reduce demand for Canadian exports; how much this spills over into business investment, employment and household spending; how much and how quickly cost increases from tariffs and trade disruptions are passed on to consumer prices; and how inflation expectations evolve.

We are focused on ensuring that Canadians continue to have confidence in price stability through this period of global upheaval. We will support economic growth while ensuring inflation remains well controlled.

mni Central Bank Watch - Bank of Canada

September 14, 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	1.7	1.7	→	1.9	↓					-1.15
Core CPI - Median	% y/y	3.1	3.1	→	2.5	↑					1.02
Industrial Product Price	% m/m	0.7	-0.8	↑	1.6	↓					0.50
Breakeven 10-Year	%	1.98	1.91	↑	1.96	↑					1.96
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
PMI Manufacturing	Index	48.3	46.1	↑	47.8	↑					-0.12
GDP	% m/m	-0.1	0.2	↓	0.2	↓					-0.50
Manufacturing Sales	% m/m	0.30	-1.57	↑	0.36	↓					0.54
Trade Balance	CAD bn	-4.94	-7.57	↑	3.40	↓					-0.53
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	4.19	6.49	↓	6.15	↓					-1.85
Bank Lending Survey (Q)	% m/m	0.67	1.51	↓	-1.89	↑					-0.67
New House Prices	% m/m	-0.1	-0.4	↑	-0.1	→					0.17
Housing Starts	K	294.1	282.7	↑	233.4	↑					1.16
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	1.5	0.9	↑	2.5	↓					0.89
Retail sales Ex-Autos	% m/m	1.9	-0.7	↑	3.2	↓					1.02
Employment Chge m/m	K	-65.5	8.8	↓	1.1	↓					-1.32
Ave Hourly Wage Rate	% y/y	3.59	3.53	↑	3.97	↓					0.15
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	29284	26175	↑	25393	↑					1.97
Canadian 10-Year Yield	%	3.19	3.20	↓	2.90	↑					1.07
CAD Yield Curve (2s-10s)	bps	68.0	60.8	↑	32.9	↑					1.14
CAD TWI	Index	115.09	116.11	↓	111.83	↑					0.68

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:

- Overnight Rate Target (%)
- Does the Bank signal it is prepared to LOWER rates in the future?
- Does the Bank say the case for further rate reductions is strong?
- Does the Bank reiterate it could LOWER rates if the economy weakens and inflation is contained?
- Does the Bank mention core inflation has been elevated?
- Does the Bank say growth or job market prospects have weakened?
- Does the Bank say it may be less forward looking with policy?

Analyst Expectations And Key Comments

Analyst BoC Policy Rate Expectations

Analyst	September	Terminal (if known)	Rate path/broader comments
Median	**25bp cut**	**2.25%**	
Canadian institutions			
BMO	25bp cut	2.00%	**2 more 25bp cuts through early 2026.** The September "decision is not a foregone conclusion, although most believe that the pronounced weakness in employment in recent months and the heavy drop in Q2 GDP have weighed the scales to a 25 bp cut… It's noteworthy that while the Bank's preferred measures of core inflation have been stuck around 3% for months now, and likely stayed there in August, the official commentary suggests that underlying inflation is "around 2½%". This may be a nod to the old tried-and-true core CPI of ex food & energy & indirect taxes, which is at precisely 2.5% (vs. 3.1% stateside)."
Desjardins	25bp cut	2.00%	**2 further 25bp cuts.** "developments since the July MPR point to a further deterioration in the growth outlook and a notable reduction in upside risks to inflation. The latest employment and GDP data suggest that the Canadian economy has continued to soften, while the removal of countertariffs on US goods will reduce any lingering inflationary pressures. As a result, the direction of travel for interest rates is clear. "
CIBC	25bp cut	2.25%	**Final 25bp cut in Q4.** "The BOC is... expected to keep the door open to further reductions. We suspect that the CPI data released the day before the meeting would need to surprise significantly to the upside to prevent [a cut], which seems unlikely given recent weakness in the labour market and the recent run of fairly muted core inflation readings... a big fiscal boost to change Canada's fortunes in the next few quarters is also unlikely. Even if the approval process is speeded up, getting the shovels in the ground for major projects will take time and have that work appear in the data."
TD	25bp cut	2.25%	**One further 25bp cut, in October.** "We look for a dovish tone as the Bank acknowledges the growth outlook has softened and that price pressures are showing signs of stabilization. ..If we are correct on the 25bp rate cut, we don't think the Bank will need to go out of its way to provide much guidance on the prospects for further easing in Q4. .. on one hand, there is slack in the economy, and growth has swung well below potential. On the other, core inflation sits around 3.0% y/y. In recent meetings, the Bank determined that the economy hadn't softened enough to look past persistent core inflation."
National	25bp cut	2.25%	**One further 25bp cut, in Q4.** "While economic data had held up better than was expected earlier this year, recent developments in the labour market are signalling the need for greater monetary policy support... Inflation is still somewhat above target, but the July report offered some encouraging signs that pressures are waning. Technically, the BoC will have one additional look at inflation before they make their rate decision, but we don't think that report is likely to derail a cut."
Scotiabank	25bp cut	2.25%	**One further 25bp cut, in October.** "For some time now there has been a small amount of slack in the economy as measured by output gaps...The BoC previously showed inflation falling back to 2.1% y/y in 2026Q4 and 1.9% in 2027Q4 given that the 'current tariff scenario' they provided may be the most likely one at this point (chart 11). They would likely be more concerned about downside than upside risks to this given fresh domestic and US developments explained below. Insurance easing against the risk of undershooting 2% inflation in future may dominate in the nearer term. ...While not our call, I can't dismiss the case for the BoC to hold this week."
RBC	Hold	2.75%	**No further cuts.** "we point to concentrated tariff impact and rising fiscal support for why we still expect the BoC to remain on hold...we expect the [September] decision will be a closer call...than the high likelihood of a cut currently priced into markets. The [BOC] is weighing signs of softening in the economy (higher unemployment, lower exports) against broader inflation concerns. We look for the central bank to narrowly opt for a hold on interest rates. Although, that will also depend on the August consumer price data out the day before the decision."
Other institutions			
JPM	25bp cut	2.00%	"Our call for the BoC to ease [in September] and then further this year is conditioned on two main ideas. First is an expectation that recent labor market weakness is an early sign of an economy tipping into recession from the US trade war. The BoC may find it particularly concerning that labor market weakness has now spread beyond tariff-impacted sectors to include a wider range of industries. Second, that inflation will come down relatively quickly in a recession. This combination underpins our call for the policy rate to decline to 2% by the end of this year, which would put policy into a modestly accommodative stance given current BoC estimates of neutral."
BofA	25bp cut	2.00%	"The weakened labor market, as evidenced by the job destruction shown in July's and August's prints, as well as the sharp contraction of GDP in 2Q will be the main risks for a cut (in September). Risk is for a hold."
ING	25bp cut	2.25%	One further 25bp cut in December. "in the wake of a large GDP contraction in the second quarter and rising unemployment... Tariffs will continue to weigh on the economy, and with inflation broadly in line with target, we look for a 25bp cut on Wednesday, with a further 25bp cut in the fourth quarter. "
Wells Fargo	Hold	2.25%	Cuts in October and in Q1 2026. "In our view, [September] is a close call. While we lean toward the BoC holding steady this month and cutting in October, we would not be especially surprised if officials opted to lower rates as soon as [this week]. The August CPI report, due just ahead of the BoC meeting, could be pivotal—particularly if core inflation surprises to the downside."
GS	25bp cut	2.25%	"Inflation will continue to be the most important indicator for the policy path...and the August report delivered on Tuesday could present some risk to the decision. "
Rabobank	25bp cut	2.50%	"Despite the need for the Bank of Canada to cut quickly in order to preserve some strength in the labor market, the depth and pace at which the Bank can continue to cut at is limited... even though individual inflationary components are returning to normalized levels, at the end of the day, it's still too high. ...we suspect that this September cut will be the final cut from the Bank... However, much of this view is dependent on how inflation looks in the August CPI inflation report, to be printed just one day before the Bank of Canada makes its decision next week."
SEB	25bp cut	*	"The US-Canada trade war has left the Bank of Canada in a struggle between its inflation mandate and economic realities as slowing growth and weakening labour markets. Despite core inflation above target, the BOC may lean on more optimistic signals and view tariff-driven pressures as transitory, with headline inflation below 2% and services cooling faster than goods."
Unicredit	Hold	*	"The big contraction in labour data in Canada for August ... has probably re-opened the possibility of another 25bp rate cut, to 2.50%, by the BoC on Wednesday. However, the decision is still a close call as, while headline inflation in Canada fell to 1.7% yoy in July, core indices remain around 3.0% yoy. The BoC might also wait to gauge the impact of US tariffs on exports."

**No mention of terminal rate changes alongside September meeting view call. Correct to the best of MNI's knowledge as of Sep 15 2025, Sorted by lowest to highest terminal rate*

MNI Policy Team Insights

MNI BOC WATCH: Ready To Cut As Job Worries Overtake Inflation

By Greg Quinn (Sep 15)

OTTAWA - The Bank of Canada is widely seen cutting its key interest rate a quarter point Wednesday after three meetings on hold because of mounting evidence the U.S. trade war is causing broad economic weakness and diminishing the chance core inflation stays elevated.

Fourteen economists surveyed by MNI see a quarter-point cut to 2.5% in the decision at 9:45am EST and four see a hold. Analysts also see the need for another cut at the October or December meeting.

Unemployment has risen to the highest in almost a decade excluding the pandemic, GDP contracted in the second quarter and economists say the last CPI report suggested core inflation will come down from a spell of running at 3%. Governor Tiff Macklem in July said a return to stimulus was possible if the economy weakened and inflation was stable.

The drag on investment and confidence from the trade war is also set to linger with officials shifting from talk of a quick deal to a fuller renegotiation of a North American pact in 2026. Canada's trade deficit has grown to a record so far this year, a big reason economists see third-quarter growth coming in at just half the Bank's estimated 1% pace.

"For the BoC, with slack sticking around for a while, the inflation outlook looks less concerning," Ali Jaffery of CIBC wrote in a research note. “We expect to hear dovish talk aimed at solidifying expectations for another cut in October.”

JOBS SETBACK

Cutting this week and later this year would bring the policy rate to the bottom of the Bank's estimated neutral range. Former officials say that leaves Governor Macklem scope to provide a bit of stimulus with little risk of re-igniting inflation. (See: MNI INTERVIEW: BOC Has Easy Decision To Cut Next Week-Lapointe)

Core inflation measures appear to be overstating trend inflation that's perhaps closer to 2.5%, Macklem has said. There is another inflation report Tuesday that could upend things, though by that point officials will likely have written a draft communique.

The Bank cut rates seven times in a row before holding at the last three meetings as inflation faded, and officials say elevated trade-war uncertainty means they must be less forward-looking.

Bets on a rate cut solidified after employment fell 65,500 in August following a 40,800 decline in July. That swung the year-to-date jobs total into negative territory, the worst result since the global financial crisis in 2009 outside the pandemic.

"Officials indicated in July that they could support further interest rate cuts if the labour market continued to soften. That is exactly what has happened since, while the upside risks to inflation have also eased," Thomas Ryan of Capital Economics wrote in a research note.

MNI: Carney Deficits Are Bulwark Against Big Macklem BOC Cuts

By Greg Quinn (Sep 12)

OTTAWA - A growing budget deficit under Prime Minister Mark Carney aimed at countering the hit to demand from the U.S. trade war means Bank of Canada Governor Tiff Macklem will not need to lower interest rates much further to support flagging growth, former officials told MNI.

"Expansionary federal fiscal policy will likely be one of several factors that prevents the Bank of Canada from cutting interest rates into stimulative territory," said Tony Stillo, former forecasting manager at Ontario's finance ministry. (See: MNI: Canada Approved CAD95B Geopolitical Contingency Borrowing)

The Bank is widely expected to cut its 2.75% policy rate 25bps Wednesday, while one more reduction in either October or December is also seen as a strong possibility. Two cuts would take the key rate to the bottom of the Bank's estimated neutral range, at a time when core prices are advancing at a 3% rate, another constraint on monetary stimulus.

Carney's pledge to trim program spending freeing up money to back investments in large resource projects is unlikely to keep the deficit in line on top of a pledge to boost military spending to NATO's target according to Stillo, now with Oxford Economics. Fiscal policy will boost GDP 0.2pp next year and 0.7pp in 2027 according to Stillo, which is significant given a rate cut influences growth over two years.

DEFINITE INFLUENCE

Deficit spending will "definitely" influence the Bank's path even amid the hit from the U.S. trade war says Pedro Antunes, a former BOC economist in the domestic forecasting group and now chief economist at the Conference Board of Canada. (See: MNI INTERVIEW: Mild Stimulus Cures Canada Recession- Ex-Clerk)

"That weakness is already being felt but might be countered by policy measures the Carney government is putting into place," Antunes said. "Ultimately, the Bank will react to how inflation and the economy are progressing." While Canada's economy could rebound late this year from a tariff-related contraction, its trade deal with the United States is up for renegotiation next year and that could again scramble growth and inflation.

Carney won an election at the end of April pledging to revitalize Canada's economy while running a deficit of CAD62 billion or 2% of GDP and a pledge to lower debt as a percentage of GDP over a four-year mandate. Officials tell MNI that fiscal "anchor" will be difficult with new spending commitments. The budget for the fiscal year that began April 1 will be presented in October after being delayed by the election and Parliament's summer recess.

This year's deficit will also rise because Carney dropped counter-tariffs that were to bring in billions of dollars and because plans to trim program spending by 15% are difficult to realize, officials told MNI.

CARNEY'S STREET CRED

"With a high degree of uncertainty around the economic outlook and promises that very likely require hard tradeoffs just to keep debt as a share of GDP tilting in the right direction, this credibility will be key," said Rebekah Young, a former finance department and IMF official now at Scotiabank.

"Carney's government has clearly articulated Canadians can anticipate greater deficit spending ahead," Young said, and deficits could remain around 2% of GDP in coming years. Scotiabank sees two Bank of Canada cuts this year and earlier argued the Bank could hold the line for the rest of this year.

Former finance department economist Dominque Lapointe agrees two cuts and fiscal action should pull Canada through the current weakness. He also cautioned that another growth setback, even a big fiscal boost from Carney, won't be enough for Macklem to remain that cautious.

"If the choice is between we have to cut to support jobs, it's the only way we can, and the government is spending more and maybe it provides a floor... it's not going to be enough," said Lapointe, now macro strategy director at Manulife Investment Management.

MNI INTERVIEW: GDP Good Enough For BOC To Hold-Mc Mahon

By Greg Quinn (Aug 29)

OTTAWA - The Bank of Canada will leave interest rates unchanged at its September meeting and likely through this year because even Friday's negative GDP report showed growing domestic demand that leaves the focus on keeping inflation close to target instead of fending off a recession, a former Quebec finance ministry staffer told MNI.

"I don't think the data is begging for them to do anything here," said Sebastien Mc Mahon, also a former official Quebec's markets regulator and now chief strategist at Industrial Alliance. "It's easy to build a story where the Canadian economy even though it won't be booming could at least for sure avoid a recession." (See: MNI INTERVIEW: Mild Stimulus Cures Canada Recession- Ex-Clerk)

Statistics Canada reported output shrank at a 1.6% annualized pace in the second quarter, with factory exports to the U.S. slumping as tariffs took effect. Domestic demand, however, rose at a 3.5% pace with gains led by households, a good sign through a period where spending could have been hurt by the trade war and indications of a hiring slowdown.

The GDP report also came with a flash monthly figure for July showing a rebound in growth at 0.1% after three months of declines. That won't be good enough for third-quarter growth to match the Bank's scenario for 1% growth in a situation where tariffs are little changed, Mc Mahon said, but it's sufficientto keep inflation in balance.

Headline inflation is unlikely to plunge below the Bank's 2% target in coming months, while Governor Tiff Macklem has little reason to worry core inflation running at 2.5% in recent months will heat up either, Mc Mahon said.

COMFORTABLE STANCE

The Bank cut rates seven times in a row before holding at the last three meetings as inflation faded, and officials say elevated trade-war uncertainty means they must be less forward-looking. The overnight rate is also back at neutral at 2.75%, giving less reason to react unless the economy craters, Mc Mahon said.

"I think the Bank is pretty comfortable with its stance," said Mc Mahon, who has attended an annual meeting of chief economists hosted by the central bank. "The Bank is kind of talking like it has done its job and it's done with this easing cycle."

Any stimulus coming this year will be modest, he said. "We don't exclude completely the odds that we have another cut by the end of the year, maybe just like as an insurance cut." Fiscal policy will also provide stimulus as the Bank stays on the sidelines with Mark Carney boosting spending on the military and expanding energy production, he said. (See: MNI: Carney Has Support To Break Longtime Big Project Barriers)

Some extra deficit spending will be helpful because investment remains weak and will be rattled again as U.S. President Donald Trump is expected to threaten to walk away from the USMCA as it's up for renegotiation next year, Mc Mahon said. There will also likely be volatility associated with the prospect Trump politicizes the Federal Reserve, and that would overtake the tariff story, he said.

"I don't see a world where we end up with no free trade agreements in North America. Will we get a better deal than we have now? I don't know, maybe a little bit worse than we have now," Mc Mahon said. "One one high conviction call that we have is to not underestimate the White House's willingness to go after the Fed."

MNI INTERVIEW:BOC Idle Rest Of Yr Despite Cut Talk- Ex Staffer

By Greg Quinn (Jul 30)

OTTAWA - Canada's central bank is staying on hold for the rest of the year because trend inflation remains elevated, a former senior BOC and finance department official told MNI, even with the Governor saying a cut is possible if the U.S. trade war slows price gains.

“They're not doing anything because core inflation is picking up,” Jean-François Perrault said in an interview Wednesday after Tiff Macklem held the key rate at 2.75% and said a cut may be needed if growth and inflation slow. (See: MNI BOC WATCH: Hold And Potential Cut If CPI And Growth Slow)

The mention of a potential cut is "opportunistic," Perrault said, given officials said trend inflation has quickened to about 2.5% from a pace of around 2% late last year.

“If growth slows as it has or maybe slows further there still is the underlying question of inflation here, and that's one of the things I think the governor wasn't super clear about” said Perrault, now Scotiabank's chief economist. Before that he was assistant deputy minister at Canada's finance department and assistant chief at the BOC's domestic analysis branch.

THINGS CAN GET SCARIER

The central bank's middle scenario for growth of just 1.1% next year appears understated given Prime Minister Mark Carney's push for faster approval of major projects, said Perrault, who recently attended a private roundtable with Carney's finance minister. Francois-Philippe Champagne has delayed a budget until the fall that will likely also show more deficit spending on the military and infrastructure. (See: MNI: Canada Approved CAD95B Geopolitical Contingency Borrowing)

Much of the data since the previous decision showed a resilient economy, Perrault said, a view the Bank also touched on. Still, five of 10 economists tracked by MNI that updated their view Wednesday see one cut later this year.

The Bank's decision came two days before U.S. President Donald Trump's deadline for a trade deal before he intends to impose 35% tariffs. Even in dire scenarios inflation pressures may increase because of retaliatory tariffs, Perrault said. Inflation expectations are already elevated and it's unlikely that even slower growth will drive inflation down, he said.

BOC staff generated three different economic scenarios based on the trade war's intensity and the status quo projection showed core inflation at 3.1% in the third and fourth quarters. That's outside the Bank's target for headline inflation of 1% to 3%, setting up trouble again if inflation is sticky like it was after Covid lockdowns.

“The resolution that sees tariffs applied more broadly against Canada, where we retaliate, presumably there would be retaliation; that’s the scenario where inflation is scarier,” Perrault said.