MNI Bank Of Canada Review: Dec 2025

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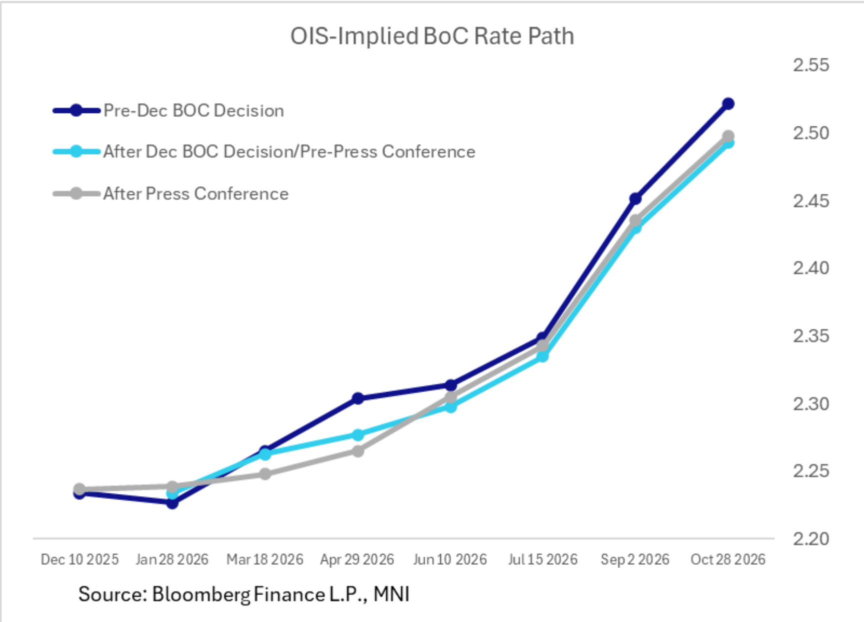
MNI View: Data Seen Solid, But Not Yet Material

Dec 10, 2025 - By Tim Cooper

As largely expected the BOC produced a fairly neutral appraisal of the economy and rate outlook alongside the unanimously-expected overnight rate hold at 2.25%. The market reaction to the decision release was slightly dovish (about 2-3bp of implied hiking taken out of the path over the next 7 meetings), reflecting the Statement's downplaying of recent upside surprises in macro data developments. The post-meeting press conference saw little further shift in rate expectations, with Gov Macklem acknowledging the resilience in the Canadian economy evident in the latest data, but highlighting that it "hasn't fundamentally changed our view".

- Coming out of the meeting, markets price in 25bp of cumulative hikes through the October 2026 meeting, vs 27bp prior, with the path through H1 2026 almost completely flat.



Source: Bloomberg Finance L.P., MNI

- **Decision Statement Retains Guidance, Downplays Upside Data Surprises:** There is no change to October's guidance that "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." However the statement inserts "Uncertainty remains elevated." before repeating "If the outlook changes, we are prepared to respond."
- That continued "uncertainty" over the outlook keeps the BOC reluctant to make too much of the recent strength in Canadian macro data. Gov Macklem's opening press conference statement notes "While information since the last decision has affected the near-term dynamics of GDP growth, it has not changed our view that GDP will expand at a moderate pace in 2026 and inflation will remain close to target. Governing Council therefore decided to hold the policy rate unchanged. Additionally he notes that it would take "a new shock" or "an accumulation of evidence" to "materially change the outlook".
- His comments and the rate statement:
  - 1) downplay the upside surprise in GDP growth in Q3 as largely trade-volatility related, eyeing "likely" weak Q4 growth and "high" uncertainty over 2026 GDP.
  - 2) Underplay the large job gains of the last 3 months and the sharp drop in the unemployment rate as "some signs of improvement" in the labour market, suggesting the BOC is not seeing the improvement the last three months as particularly material. The statements go on to note that trade-sensitive sector labour dynamics remain weak and economy-wide hiring intentions are stilled "subdued"; and
  - 3) Make no real change to the inflation outlook, noting that headline CPI slowed in October while reiterating that underlying inflation remains around 2.5% - and seeing inflation remaining close to the 2% target as "ongoing economic slack to roughly offset cost pressures associated with the

    - reconfiguration of trade". Macklem's opening press conference statement noted that "inflation pressures continue to be contained".
- None of that should be a surprise but by the same measure no sign they are thinking about shifting gears based on the recent data surprises.

Macklem: Recent Data Encouraging, But Doesn't Fundamentally Change Our View: On that note, Gov Macklem in the press conference Q&A described the latest strong job data as "encouraging", but makes it clear that it doesn't mark a material change in the Bank's outlook. This suggests that the BOC will remain patient through volatile data before deciding on its next move.

- "You're seeing overall employment has moved up. So that is encouraging. There is some resilience to the economy. What I would say, though, is looking forward, it hasn't fundamentally changed our view. The Canadian economy is going through a difficult structural adjustment that is going to take some time. When you talk to companies, they're being very cautious about their investment plans. They're cautious about their hiring plans. So yes, we are pleased to see this resilience. But going forward, we continue to expect fairly modest growth."
- Having downplayed the importance of the recent data, Macklem notes that the apparent economic resilience is due in part to the upward revisions to growth/productivity for 2022-24, but also Canada's relatively low tariff rate on US exports. "We have very steep tariffs on some key sectors in our economy, steel, aluminum, autos, lumber, but for the rest of the economy, it continues to operate largely tariff Free with the United States."

Indeed, through the Q&A, Gov Macklem portrayed the Bank's economic outlook as largely unchanged since the October meeting, though there have been acknowledgements throughout today's communications that the economy is on more solid ground than they had expected.

- Macklem says that the upside surprise to GDP growth in Q3 and the upward revisions to prior years don't alter the Bank's outlook that there is still a negative output gap, however the gap may be smaller than was estimated in the October Monetary Policy Report (which saw the gap as being closed by end-2026):
- "The recent data, as we've discussed, is showing some improvement, and that is welcome news, but it has not changed our view that the economy is still in excess supply and we continue to expect modest growth going forward...mechanically [the 2.6% GDP growth in Q3 vs 0.5% projected in the MPR] means the output gap is smaller...we still see that slack being taken up pretty slowly."
- Replying to questions from MNI's Greg Quinn, Macklem says that while the Bank had tariff scenarios that included a recession, "at the end of the year, as we get to the end of the year, the R word people are talking about is resilience."

Macklem On 2026 Hikes: Not Going To Put Future Policy On A Timeline: Asked whether traders are getting ahead of themselves in pricing in rate hikes in H2 2026, Macklem doesn't exactly dismiss the possibility, noting that BOC will be assessing data in a "symmetric way" in looking for material changes in "either direction":

- "Given how we see things right now, we think the policy rate is about right... how we see things going forward? Well, that's a more difficult question, and I'm not going to put our policy on a timeline. What markets can count on is, we're going to take our decisions one at a time based on the best available information."
- "The other thing I would point markets to is, we're going to be assessing incoming data relative to our outlook, and we'll be doing that in a symmetric way. If our outlook changes materially in either direction, either because there's a big shock, or because there's an accumulation of evidence, one way or the other, we're prepared to respond."

Two CPI Reports Feature Ahead Of Next BOC Decision: Attention turns to two key data releases to round out the year: November CPI (December 15) and October GDP (December 23), with the December labour report (January 9) and CPI (January 19) the key releases ahead of the Bank of Canada’s next decision on January 28 (1bp of cuts priced).

BOC Links:

- **Interest Rate Announcement:** https://www.bankofcanada.ca/2025/12/fad-press-release-2025-12-10/
- **Press Conference Statement:** https://www.bankofcanada.ca/2025/12/opening-statement-2025-12-10/
- **Press Conference Video:** https://www.bankofcanada.ca/multimedia/press-conference-policy-rate-announcement-december-2025/

Instant Answers For BOC Rate Decision

- Target for overnight rate: **Unchanged at 2.25%.**
- Does the Bank signal it is prepared to lower rates in the future? **Not answered.**
- Does the Bank signal it is prepared to raise rates in the future? **Not answered.**
- Does the Bank say the policy rate appears appropriate if its economic forecast is realized? **YES.**
- Does the Bank signal it intends to leave rates on hold? YES.

Changes In The Rate Decision Statement – Dec vs Oct

Bank of Canada ~~lowers~~maintains policy rate ~~to~~at 2¼%

~~October 29~~December 10, 2025

The Bank of Canada today ~~reduced~~held its target for the overnight rate ~~by 25 basis points to~~at 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~~

Major economies ~~in this *Monetary Policy Report* (MPR). Because US trade policy remains unpredictable and~~ around the world continue to show resilience to US trade protectionism, but 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.~~high. 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,~~ growth is being supported by ~~the boom~~strong consumption and a surge 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.~~ The US government shutdown caused volatility in quarterly growth and delayed the release of some key economic data. Tariffs are causing some upward pressure on US inflation. In the euro area, economic growth has been stronger than expected, with the services sector showing particular resilience. In China, soft domestic demand, including more weakness in the housing market, is weighing on growth. Global financial conditions ~~have eased further since July and,~~ oil prices ~~have been fairly stable. The~~, and the Canadian dollar ~~has depreciated slightly against the US dollar.~~are all roughly unchanged since the Bank's October Monetary Policy Report (MPR).

~~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 economy grew by a surprisingly strong 2.6% in the third quarter, even as final domestic demand was flat. The increase in GDP largely reflected volatility in trade. The Bank expects final domestic demand will grow in the fourth quarter, but with an anticipated decline in net exports, GDP will likely be weak. Growth is forecast to pick up in 2026, although uncertainty remains high and large swings in trade may continue to cause quarterly volatility.

Canada's labour market ~~remains soft.~~is showing some signs of improvement. Employment has shown solid gains in ~~September followed two~~the past three months ~~of sizeable losses. Job losses continue to build~~and the unemployment rate declined to 6.5% in November. Nevertheless, job markets in trade-sensitive sectors ~~and~~remain weak and economy-wide 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~~intentions continue 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~~subdued.

CPI inflation ~~was~~slowed to 2.~~4% in September, slightly higher than the Bank had anticipated. Inflation excluding taxes was 2.9%. The Bank's preferred measures of core~~ 2% in October, as gasoline prices fell and food prices rose more slowly. CPI inflation ~~have been sticky around 3%. Expanding the range of indicators to include alternative~~has been close to the 2% target for more than a year, while measures of core inflation ~~and the distribution of price changes among CPI components suggests~~remain in the range of 2½% to 3%. The Bank assesses that underlying inflation ~~remains~~is still around 2½%. ~~The Bank expects inflationary pressures to ease in the months ahead and~~In the near term, CPI inflation ~~to remain near 2% over the projection horizon.~~

~~With ongoing weakness in the economy and~~is likely to be higher due to the effects of last year's GST/HST holiday on the prices of some goods and services. Looking through this choppiness, the Bank expects ongoing economic slack to roughly offset cost pressures associated with the reconfiguration of trade, keeping CPI 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. Uncertainty remains elevated. 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.

Press Conference Opening Statement

Good morning. I'm pleased to be here with Senior Deputy Governor Carolyn Rogers to discuss today's monetary policy decision.

Today, Governing Council maintained the policy interest rate at 2.25%.

We have three main messages.

First, steep US tariffs on steel, aluminum, autos and lumber have hit these sectors hard, and uncertainty about US trade policy is weighing on business investment more broadly. But so far, the economy is proving resilient overall.

Second, inflationary pressures continue to be contained despite added costs related to the reconfiguration of trade. Total CPI inflation has been close to the 2% target for more than a year now, and we expect it to remain near the target.

Third, in the current situation, 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. Nevertheless, uncertainty remains high and the range of possible outcomes is wider than usual. If the outlook changes, we are prepared to respond.

Let me expand on how we're interpreting the new information we received since we published our October Monetary Policy Report.

In November, Statistics Canada published broad revisions to Canada's economic growth numbers for 2022, 2023 and 2024. The revisions suggest the Canadian economy was healthier than we previously thought before we were hit by the US trade conflict. In particular, they suggest both demand and economic capacity were higher coming into this year. This may explain some of the resilience we're seeing in more recent data.

After falling 1.8% in the second quarter due to sharply lower exports, Canadian GDP grew 2.6% in the third quarter. This was much stronger than we expected, but largely reflected volatility in trade. Final domestic demand was flat in the quarter. We expect growth in final domestic demand to resume, but with an anticipated decline in net exports, GDP growth is likely to be weak in the fourth quarter before picking up in 2026.

The labour market is showing some signs of improvement. After declining through the summer, employment has posted solid gains for the past three months and the unemployment rate has declined to 6.5% in November. Since the start of the year, there have been significant job losses in trade-sensitive sectors. But in recent months, employment in these sectors has been more stable, so gains in other sectors—particularly services—have boosted overall employment. Looking ahead, however, we're seeing muted hiring intentions across the economy.

Inflation has evolved largely as expected. CPI inflation was 2.2% in October, and measures of core inflation remained in the range of 2½% to 3%. In the months ahead, we will see some choppiness in headline inflation, reflecting the temporary GST/HST holiday on some goods and services a year ago. This is likely to push inflation temporarily higher in the near term. Seeing through this choppiness, we expect ongoing economic slack to roughly offset cost pressures associated with the reconfiguration of trade, keeping CPI inflation close to the 2% target.

The recent federal budget includes increases in government spending, particularly in defence, and measures to increase public and private sector investment. It will take some time for the impact of these measures to be fully realized, and we expect they will contribute to growth in both demand and supply in the economy. As usual, we will incorporate updated fiscal measures from federal and provincial budgets in our next economic projection in January.

Taking all these developments into consideration, Governing Council assessed the stance of monetary policy. After cutting the policy interest rate in September and October, Governing Council had indicated that if inflation and economic activity were to evolve broadly in line with the October projection, the policy rate would be about right. While information since the last decision has affected the near-term dynamics of GDP growth, it has not changed our view that GDP will expand at a moderate pace in 2026 and inflation will remain close to target. Governing Council therefore decided to hold the policy rate unchanged. We agreed that a policy rate at the lower end of the neutral range was appropriate to provide some support for the economy as it works through this structural transition while keeping inflationary pressures contained.

Finally, Governing Council acknowledged that uncertainty remains elevated. This includes the unpredictability of US trade policy. In particular, the upcoming review of the Canada-United States-Mexico Agreement is creating uncertainty for many businesses. There is also uncertainty about how the Canadian economy will adjust to higher tariffs. The volatility we're seeing in trade and quarterly GDP make it more difficult to assess the underlying momentum of the economy.

We will be assessing incoming data relative to our outlook. If a new shock or an accumulation of evidence materially change the outlook, we are prepared to respond.

Increased trade friction with the United States means our economy works less efficiently, with higher costs and less income. This is more than a cyclical downturn—it's a structural transition. Monetary policy cannot restore lost supply. But it can help the economy adjust as long as inflation is well controlled. The Bank of Canada is focused on ensuring Canadians continue to have confidence in price stability through this period of global upheaval.

Press Conference Transcript (Unedited, Check Against Delivery)

https://media.marketnews.com/Bank_of_Canada_December_10_2025_Press_Conference_21d3a8526e.pdf

MNI POLICY TEAM

MNI BOC WATCH: Macklem Sees Continued Hold If Forecast Is Met

By Greg Quinn (Dec 10, 2025)

OTTAWA - Canada's central bank held interest rates Wednesday after two prior cuts and officials affirmed they've done enough to cushion the blow of the U.S. trade war and keep inflation on target.

"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," the Bank of Canada's rate decision said, echoing its last statement. All 23 economists surveyed by MNI predicted a hold at 2.25%.

With investors debating if the next rate move is a near-term cut as Donald Trump threatens new tariffs or a hike later in 2026 as the economy recovers from the first round of penalties, Governor Tiff Macklem said "uncertainty remains high and the range of possible outcomes is wider than usual. If the outlook changes, we are prepared to respond."

Much of the the Bank's shorter-than-usual statement of 497 words outlined that even with strong job and GDP data in recent weeks Canada's economy remains on the path laid out in the last full forecast from October. That includes headline inflation staying around 2% and weak growth in the fourth quarter before some pickup in 2026.

Trend inflation remains around 2.5% the Bank said, one reason officials have ended a cutting cycle that began at 5% and leaves borrowing costs at the low end of the official neutral range.

"While information since the last decision has affected the near-term dynamics of GDP growth, it has not changed our view that GDP will expand at a moderate pace in 2026 and inflation will remain close to target. Governing Council therefore decided to hold the policy rate unchanged," Macklem's press conference statement said.

Officials again suggested the trade war creates an intense but narrow hit to industries like autos, steel and aluminum facing the highest levies, something monetary policy isn't best equipped to tackle. While there have been three months of solid job gains overall hiring intentions are subdued, the Bank said.

The decision wraps a year where the economy avoided the recession many economists said would follow U.S. tariffs, and headline inflation slowed to target while core prices remain elevated. Canada is vulnerable next year to threats Trump could abandon a free trade pact, comments which have slashed business investment and exports.

The Bank in October predicted annualized growth around 1% in the fourth quarter and in 2026, weakness holding down prices and offsetting costs associated with supply networks disrupted by the trade war. The Bank's recent public remarks have highlighted a broader concept of trend inflation and downplayed its preferred core measures around 3%.