

MNI Bank Of Canada Review: Oct 2025

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MNI View: Pause Seen With Rates “About Right”

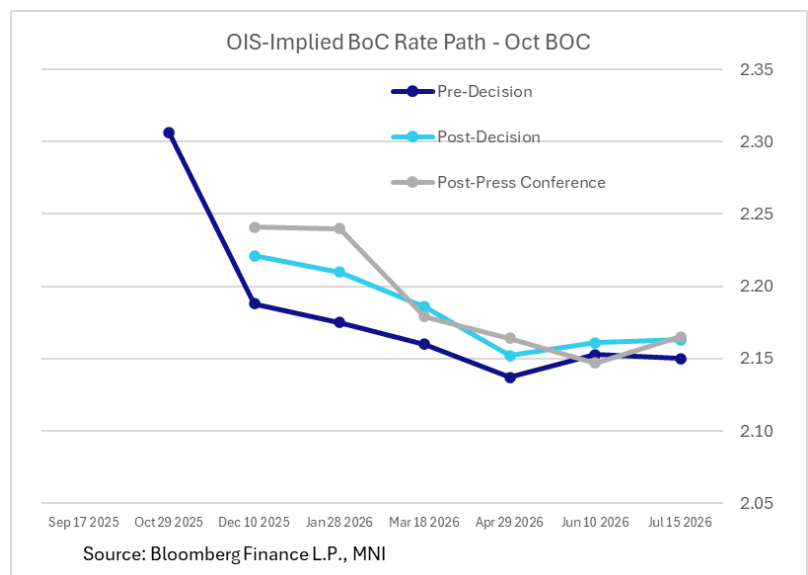
October 29, 2025 - By Tim Cooper

Along with the expected 25bp cut to an overnight rate of 2.25%, a key phrase from the BOC's October policy statement drove a mildly hawkish market reaction by signalling an intention to hold rates steady at upcoming meetings (vs market/analyst expectations split between a further 25bp cut or a post-October pause coming into this meeting). The key phrase in the statement was: *"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."* (bolding is MNI's).

- Though Governing Council didn't close the door to another cut ("If the outlook changes, we are prepared to respond. Governing Council will be assessing incoming data carefully relative to the Bank's forecast"), the language about rates being "about right" was repeated a few times in the post-meeting press conference, reinforcing the perception that the BOC envisages holding rates in future meetings in its base case, after having reduced policy rates by 275bp in this cycle.
- Terminal BOC overnight rate expectations concluded the press conference at around 2.15%, versus 2.12-2.13% coming into the meeting – suggesting expectations are now leaning more toward an indefinite hold rather than another cut in the cycle (perhaps by Q2 2026).
- The Canadian dollar benefited as well, with USDCAD extending losses through the press conference to move through the 1.3900 handle.
- We haven't seen any Canada bank analyst view changes as yet. Coming into the meeting, 7 Canadian banks had been split 3/4 in favour of another cut in this cycle beyond October; BMO analysts wrote after the decision they still anticipate another 25bp reduction though we await Desjardins' and National's verdicts.

Asked in the presser whether the BOC is signalling that its job is now done and it is now in the hands of fiscal authorities to help Canada in its structural economic transition, Gov Macklem reiterated the statement language:

- "Our job is never done... there's still a fair amount of uncertainty...we're going to be assessing incoming data relative to this outlook that we have published and look, if the outlook changes materially, we're prepared to respond... our message today is that with the cut we've made today, and if things evolve broadly in line with this outlook, **we think the current policy rate is about right** to support the economy and maintain low inflation."



Asked what constitutes a "material change" in the outlook that would warrant a BOC policy response, Macklem said that one of the advantages in returning to a base-case outlook in the MPR is that they can assess incoming data

relative to that outlook and adjust policy accordingly if necessary. Overall he hinted that there was a reasonably high bar to make another rate cut:

- "What do I mean by material? You know, it's not one month of data that shows some shift you need to see. You need to see some accumulation of evidence that you're coming in below that forecast, or above that forecast, enough that it actually changes your outlook of the future. If something comes up a little above, but we think it's just going to come back roughly to the forecast, that's not a material change. But if the outlook really changes, yes, you know, we're certainly prepared to respond. I hope our message is fairly clear today that, with this cut and based on this outlook, **we think the current policy rate is about right**. But you know, we recognize there's a lot of uncertainty out there."

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/>

Instant Answers For BOC Rate Decision

- Target for overnight rate: **Reduced by 25 basis points to 2.25%, as expected**
- Does the Bank signal it is prepared to lower rates in the future? **Yes**
- Does the Bank say lower interest rates will likely be needed in the future? **No**
- Does the Bank signal it intends to leave rates on hold? **Yes**
- Does the Bank mention core or underlying inflation has been elevated? **Yes**
- Does the Bank say it may be less forward looking with policy? **No**

Changes In The Rate Decision Statement – Oct vs Sept

The Bank of Canada today reduced its target for the overnight rate by 25 basis points to 2.525%, with the Bank Rate at 2.755% and the deposit rate at 2.4520%.

After remaining resilient to sharply higher US tariffs and ongoing uncertainty, global economic growth is showing signs of slowing. In the United States, business investment has been strong but consumers are cautious and employment gains have slowed. US inflation has picked up in recent months as businesses appear to be passing on some tariff costs to consumer prices. Growth in the euro area has moderated as US tariffs affect trade. China's economy held up in the first half of the year but growth appears to be softening as investment weakens. Global oil prices are close to their levels assumed in the July Monetary Policy Report (MPR). Financial conditions have eased further, with higher equity prices and lower bond yields. Canada's exchange rate has been stable relative to the US dollar.

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 GDP declined by about 1½% in the second quarter, as expected, with tariffs and trade uncertainty weighing heavily on economic activity. Exports fell by 27% in the second quarter, a sharp reversal from first-quarter

gains when companies were rushing orders to get ahead of tariffs. Business investment also declined in the second quarter. Consumption and housing activity both grew at a healthy pace. In the months ahead, slow population growth and the weakness in the labour market will likely weigh on household spending.

remains soft. Employment has declined gains in the past September followed two months since the Bank's July MPR was published of sizeable losses. Job losses have largely been concentrated continue to build in trade-sensitive sectors, while 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 growth in the rest of the economy has slowed, reflecting weak hiring intentions. The unemployment rate has moved up since March, hitting 7.1% in August, and wage growth has continued to ease 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 4.92.4% in August, September, slightly higher than the same as at the time of the July MPR. Excluding Bank had anticipated. Inflation excluding taxes, inflation was 2.4%. Preferred 9%. The Bank's preferred measures of core inflation have been sticky around 3% in recent months, but on a monthly basis the upward momentum seen earlier this year has dissipated. A broader%. Expanding the range of indicators, including to include alternative measures of core inflation and the distribution of price changes across among CPI components, continue to suggest suggests underlying inflation is running remains around 2½%. The federal government's recent decision to remove most retaliatory tariffs on imported goods from Bank expects inflationary pressures to ease in the US will mean less upward pressure on months ahead and CPI inflation to remain near 2% over the prices of these goods going forward projection horizon.

With a weaker ongoing weakness in the economy and less upside risk to inflation expected to remain close to the 2% target, Governing Council judged that a reduction in decided to cut the policy rate was appropriate to better balance the risks. Looking ahead, the disruptive effects of shifts in trade will continue to add costs even as they weigh on by 25 basis points. If inflation and economic activity evolve broadly in line with the October projection, Governing Council is proceeding carefully, with particular attention to the risks and uncertainties 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 how exports evolve in the face of US tariffs and changing trade relationships; how much this spills over into business investment, employment, and household spending; how the cost effects of trade disruptions and reconfigured supply chains are passed on to consumer prices; and how inflation expectations evolve 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.

~~We will support economic growth while ensuring inflation remains well controlled.~~

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, the Bank lowered the policy interest rate a further 25 basis points, bringing it to 2¼%. This was our second straight cut, and reflects ongoing weakness in the economy and contained inflationary pressures.

Today we also published our outlook for the Canadian economy.

We have four main messages.

First, US tariffs and trade uncertainty have weakened the Canadian economy. We expect very modest growth through the rest of the year, with some pickup in 2026.

Second, while this weakness is restraining price increases, the trade conflict is also adding costs for many businesses, putting upward pressure on inflation. We expect these opposing forces to roughly offset, keeping inflation close to the 2% target.

Third, to support the economy through this period of adjustment, we have lowered our policy rate by 50 basis points over our last two meetings and by 100 basis points since the start of the year.

And finally, the weakness we're seeing in the Canadian economy is more than a cyclical downturn. It is also a structural transition. The US trade conflict has diminished Canada's economic prospects. The structural damage caused by tariffs is reducing our productive capacity and adding costs. This limits the ability of monetary policy to boost demand while maintaining low inflation.

For the first time since January and the start of the trade conflict, the Bank is publishing a baseline outlook for economic growth and inflation, rather than alternative scenarios. It has now been more than six months since we have been living with US tariffs. And while US trade policy remains unpredictable, its impacts are becoming clearer.

Let me expand on what we're seeing in the economy, and how that played into our deliberations.

While the global economy has been resilient to the rise in US tariffs and increased uncertainty, the impacts are becoming more evident. Trade relationships are being reconfigured and uncertainty is dampening investment in many countries.

In Canada, the impacts of US trade policy are already clearly apparent. GDP contracted 1.6% in the second quarter as tariffs and uncertainty reduced exports and business investment. US trade actions are having severe effects on targeted sectors including autos, steel, aluminum and lumber. Household spending was resilient in the second quarter, with strong consumer spending and a pickup in residential investment.

The labour market is soft. Employment gains in September followed two months of sizeable losses. Job losses have been concentrated 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.

In the second half of this year, GDP growth is expected to resume, but remain weak, averaging about ¾%. It should then pick up on a quarterly basis in 2026 as exports and investment recover, and average about 1½% by 2027. This implies excess supply is only taken up gradually.

Even as growth recovers, the entire path for GDP is lower than it was before the shift in US trade policy. By the end of 2026, the level of GDP is about 1½% lower than forecast in January. About half of this downward revision reflects lost capacity as a result of the trade disruption. The other half is due to weaker demand.

CPI inflation was 2.4% in September, slightly higher than the Bank had anticipated. The Bank's preferred measures of core inflation have been sticky around 3% but upward momentum has dissipated. Looking at a broader range of indicators, underlying inflation looks to be around 2½%. The Bank expects inflationary pressures to ease in the months ahead and CPI inflation to remain near 2% over the projection horizon.

If the economy evolves roughly in line with the outlook in our MPR, 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. We will be assessing incoming data carefully relative to the Bank's outlook.

US trade policy remains unpredictable, as events over the weekend reminded us. There continues to be considerable uncertainty, both about US tariffs and their impacts. The range of possible outcomes is wider than usual—we need to be humble about our forecast. If the outlook changes, we are prepared to respond.

Canadian businesses and households are feeling the consequences of increased US protectionism. It is difficult, and ongoing uncertainty is compounding the difficulty. For many months, we have been stressing that monetary policy cannot undo the damage caused by tariffs. Increased trade friction with the United States means our economy will work less efficiently, with higher costs and less income. Monetary policy can help the economy adjust as long as inflation is well-controlled, but it cannot restore the economy to its pre-tariff path.

The Bank of Canada is focused on ensuring Canadians continue to have confidence in price stability through this period of global upheaval.

With that, the Senior Deputy Governor and I would be pleased to take your questions.

Press Conference Transcript (Unedited, Check Against Delivery)

https://media.marketnews.com/BOC_Press_Conference_Transcript_Oct_29_2025_ce8c66fecc.pdf

Other Press Conference Highlights

MNI's Greg Quinn asks about how the BOC currently views the Canadian dollar's role as an economic shock absorber:

- Deputy Gov Rogers responds: "We don't target the Canadian dollar. We put a number in as part of our forecast. I mean, in the type of shock we're dealing with, a trade shock, the Canadian dollar is a key factor. It's a key input to how we think about what's going on in the economy. It's still playing its shock absorber role. I mean, the things that are moving the Canadian dollar are the same things that always do. So there's the price of oil, there's expectations around monetary policy, and then there's just sort of the sentiment around global risk. Some of those correlations have been a bit less tight than they've been historically, but basically, the Canadian dollar is behaving the way it usually does, in the way it's meant to, inside of our monetary policy framework. So not much more to say than that."

Asked why the BOC isn't providing more monetary stimulus (with rates now at the lower end of the neutral range) despite a weak economic outlook amid the US-Canada trade conflict, Gov Macklem said:

- "The role of monetary policy in the current situation is somewhat limited. What we're going through is not just a cyclical downturn... the fact that this is partly structural, and the fact that it's adding costs, limits the ability of or limits the role of monetary policy in boosting demand while keeping inflation low."

Deputy Gov Rogers says that the BOC's plan to restart purchases of Treasury bills in Q4 remains "on track": "Our plan hasn't changed, and if it changes, we would provide advance notice. We would be very transparent and upfront about that. But the plan that that Deputy Governor Gravelle laid out some months ago remains on track, and we're getting pretty close to the end of normalizing our balance sheet. So everything remains on track."

- Recall Gravelle said back in January in laying out the BOC's post-QT plans: "T-bill purchases will take place in the primary market. We expect them to resume in the fourth quarter of this year, initially with relatively small amounts through each bi-weekly GoC debt auction. GoC bond purchases will likely not start until toward the end of 2026—at the earliest. But, as we get closer to purchasing bonds, we will announce the timing well in advance."

Re whether the BOC still thinks Canada will avoid a recession in 2025, Gov Macklem notes the 1.6% Q/Q SAAR contraction in Q2 and with the MPR's +0.5% projection for Q3, saying "you can't rule out that there could be a small negative, so, yes, we could get two negative quarters. That's not our forecast. We're forecasting modest growth, but we could get a couple of negative quarters, I guess... what we're not forecasting is a sharp downdraft in the Canadian economy with a big rise in the unemployment rate, which is what is typical of recessions."

Monetary Policy Report Returns To Base-Case Forecast

As expected, the BOC's quarterly Monetary Policy Report (MPR) returns to a base-case forecast, after the scenario-based April and July reports. Even so as we cautioned in our meeting preview, we wouldn't put much stock in the new central projections because it was unlikely that the BOC itself would have a high degree of confidence in them (and indeed, the rate decision statement notes of the 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.")

- October's forecasts are presented relative to January's, so obviously a lot has changed.
- Versus that report, 2025 GDP is seen slower (1.2% vs 1.8%) as is 2026's (1.1% vs 1.8%), but compared with July's base-case tariff projections the GDP downgrades are minimal (was 1.3% 2025/1.1% 2026 in July). Potential output is seen as substantially lower vs January (2026 between 0.4-1.4%, vs 0.9-2.2% then).
- Inflation forecasts vs July's current tariff scenario are also a little higher, now 2.0% for 2025 (vs 2.3% Jan projection, 1.9% Jul) with 2026 2.1% (2.1% Jan, 2.0% Jul)
- Real GDP is seen picking up from -1.6% Q/Q SAAR in Q2, to +0.5% in Q3 and 1.0% in Q4, the Q3 figure being weaker than in July's current tariff scenario (1.0%), while core inflation is seen steadying out - from 3.1% Y/Y in Q2, to 3.2% in Q3 and 2.9% in Q4 (falling to 2.3% in Q4 2026), a slightly higher profile than seen in July's projections (3.1% in both Q2 and Q3, falling to 2.4% by Q4 2026).

Table 4: Summary of the quarterly projection for Canada*

	2025				2024	2025	2026	2027
	Q1	Q2	Q3	Q4	Q4	Q4	Q4	Q4
CPI inflation (year-over-year percentage change)	2.3 (2.1)	1.7	2.0	2.0	1.9 (1.9)	2.0 (2.4)	2.2 (2.1)	2.1
Core inflation (year-over-year percentage change)†	2.8 (2.5)	3.1	3.2	2.9	2.6 (2.6)	2.9 (2.1)	2.3 (2.1)	2.1
Real GDP (year-over-year percentage change)	2.3 (1.7)	1.2	0.7	0.5	2.3 (1.8)	0.5 (1.9)	1.6 (1.7)	1.6
Real GDP (quarter-over-quarter percentage change at annual rates)‡	2.0 (2.0)	-1.6	0.5	1.0				

* See details on the [key inputs to the projection](#). Numbers in parentheses are from the January Report.

† Core inflation is the average of CPI-trim and CPI-median.

‡ At the time of the projection, 2025Q3 and 2025Q4 are the only quarters for which some information about real GDP growth was available. For longer horizons, fourth-quarter-over-fourth-quarter percentage changes are presented. They show the Bank of Canada's projected growth rates of CPI and real GDP within a given year. They can therefore differ from the growth rates of annual averages shown in [Table 3](#).

Sources: Statistics Canada and Bank of Canada calculations, estimates and projections

Source: BOC October MPR

- Among other findings - the average tariff rates overall have obviously risen since pre-2025 amid the US-Canada trade conflict, but "only slightly since the July Report" with Canadian counter-tariffs on the US

having been lowered since the July report. - see table. Echoing other estimates we've seen, "If steel, aluminum, motor vehicles and energy are excluded, then 94% of the value of goods entered the United States tariff-free."

Table 1: Average tariff rates on exports and imports of goods embedded in the outlook (%)

	Before 2025	July*	October
US tariff rate on Canada	0.1	4.4 (4.8)	5.9
Canadian tariff rate on the United States†	0.0	2.6 (2.1)	1.0

* Numbers in parentheses are the average tariff rates published in the July Report. The assumptions have been revised based on new data and methods.

† These tariff rates include the impact of Canadian tariff remissions.

Source: BOC October MPR

MNI POLICY TEAM

MNI BOC WATCH: Pause Signaled After 2nd Cut, CPI Seen On Target

By Greg Quinn (Oct 29, 2025)

OTTAWA - Bank of Canada Governor Tiff Macklem signaled he's about done lowering interest rates after moving for the second meeting in a row Wednesday, citing evidence inflation is settling around target as the U.S. trade war hurts jobs and growth.

"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," according to a statement from Ottawa. The policy rate was lowered a quarter point to 2.25% as expected by economists surveyed by MNI, though many have said another cut is needed in coming months.

The decision comes days after General Motors and Stellantis cut production at Canadian factories and Donald Trump broke off talks with Prime Minister Mark Carney, underlining the trade war's hit. The Bank predicts "weak" annualized growth around 0.75% in the third and fourth quarters of this year, and 1.1% in 2026, which officials say will lead to persistent slack.

That will hold down prices and offset costs associated with supply networks disrupted by the trade war, which Macklem said monetary policy isn't well equipped to tackle. That comment comes ahead of Carney's Nov. 4 budget where he's signaled a record deficit excluding the pandemic to foster what he's called the widest retooling of Canada's economy since World War II.

Cutting rates risks another inflation uptick with Canadians still angry about the surge to 8% in the Covid rebound. The scale is less intense but Macklem noted core indexes remain "sticky" around 3% though he said upward pressure is fading. The Governor reiterated underlying inflation is more like 2.5%, and he said overall price pressures should fade in coming months.

Canada dropped some retaliatory tariffs in September and along with other signs of more modest global trade penalties, the Bank halved its estimated boost to the level of the CPI from tariffs to 0.4%.

Still, the Bank's latest quarterly surveys show the majority of business leaders see inflation above 2% target over the next two years and consumer views of CPI are all above 3%. Consumer spending has also held up this year even as the economy weakens.

With unemployment at the highest in a decade outside the pandemic the Bank said U.S. trade actions and related uncertainty are having "severe effects on targeted sectors including autos, steel, aluminum, and lumber." Macklem also noted the Bank has cut rates not just twice in a row but four times this year. The policy rate has declined from a peak of 5% and is now at the bottom of the Bank's estimated neutral range.

While the Bank switched back to a regular forecast Wednesday after several outlooks based on scenarios of the trade war officials stressed the backdrop could change again. "The range of possible outcomes is wider than usual -- we need to be humble about our forecast. If the outlook changes, we are prepared to respond," Macklem said.

Beyond the trade war Bank staff identified a potential tightening of global financial conditions as a downside inflation risk, pointing to the boom in artificial intelligence and danger from big government borrowing. "Long-term government bond yields could rise in response to the rapid increase in government debt around the world. This would lead to higher borrowing costs for Canadian households and businesses."

Canada's dollar, which has been strong against the U.S. currency this year, was also cited in the Monetary Policy Report as an upside inflation risk because "a depreciation of the Canadian dollar would increase the price of imports, adding to business costs and consumer prices."