MNI Bank Of Canada Review: Sept 2025

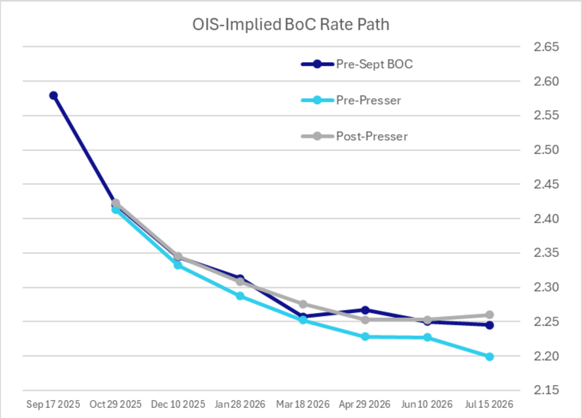
CONTENTS (CLICK TO VIEW)

MNI View: Balancing Risks, Open To Cut Further

September 17, 2025 - By Tim Cooper

The Bank of Canada resumed easing on September 17 after a 3-meeting hold, with a 25bp rate cut to the overnight rate to 2.50%. There was limited market reaction on net to the decision and press conference, with the BOC as expected keeping the door open to further easing as soon as the next meeting in October, but falling short of any firm guidance to that effect.

- The future path of rates repriced slightly to reflect the implemented cut (which had not quite been fully priced going into the meeting, reflecting a slightly hawkish move going into the release).
- While rate cut expectations diminished slightly early in the press conference after headlines reported Gov Macklem saying that they considered holding rates, this didn't appear to be a signal as he was merely citing a formality ("I there was a clear consensus to cut our policy rate by 25 basis points. You know we as we have for the last couple of meetings, we considered two alternatives, hold the policy rate where we are, or cut the policy rate.")
- Otherwise, attention was on whether the BOC would signal further cuts. July's guidance suggesting that there may be a "need" to cut rates in future was removed, but overall the BOC maintained its easing bias.
- Macklem entertained press questions about what would trigger a further cut, and the overall communications highlighted risks to growth and employment alongside what the BOC sees as better-contained inflationary pressures than had been feared in the summer.
- He continually mentioned the need for a balanced approach to future rate-setting, moving meeting-by-meeting and keeping the next decision in October live.
- This was summed up by his comment: "what we can do is help the economy adjust while maintaining well-controlled inflation. That's what we're focused on... it's going to be about balancing those risks. If the risks tilt, if the risks shift, we're prepared to take action, and if the risks tilt further, we're prepared to take more action, but we're going to take it one meeting at a time. We are taking a shorter horizon. We're being a little less forward looking than usual, and we'll make that risk assessment in October when we get there."
- There are 21bp of cuts priced through year-end, pretty much where pricing came into the rate decision, with the next cut only fully priced by around March – and no more than 2 cuts seen through the rest of the cycle.
- Key to the October decision will be one report each of labour force and inflation data (for September) and the quarterly BOC Business Outlook Survey in the interim. In the meantime, there's only about a one-in-three market implied probability of a follow-up cut.



Source: Bloomberg Finance L.P., MNI

Sell-Side Analyst Reaction: There was only one sell-side analyst view change that we saw after the meeting: RBC came in expecting the BOC's easing cycle to already be at an end (including a hold this week), but now appears to see an October cut: "unless there is a drastic turnaround in softening employment trends and easing core inflation in September, we think the likelihood for another cut in the October meeting is high." Otherwise analysts remain roughly split between whether there will be one or two further cuts – similar to market pricing.

BOC Links:

- [Rate announcement]
- [Press conference opening statement]

Instant Answers For BOC Rate Decision

- Target for overnight rate: **2.5%, AS EXPECTED.**
- Does the Bank signal it is prepared to LOWER rates in the future? **NOT ANSWERED.**
- Does the Bank say the case for further rate reductions is strong? **NO.**
- Does the Bank reiterate it could LOWER rates if the economy weakens and inflation is contained? **NO.**
- Does the Bank mention core inflation has been elevated? **YES.**
- Does the Bank say growth or job market prospects have weakened? **YES.**
- Does the Bank say it may be less forward looking with policy? **YES.**

Statements Still Show Policymakers "Proceeding Carefully": The statements accompanying the rate cut show increasing concerns about growth and the labor market, with inflation is seen as a lesser concern. In short, the BOC says, since July's meeting there is evidence of "a weaker economy and less upside risk to inflation", compared at that time when there was still "some resilience" in the economy, with "ongoing pressures on underlying inflation". This shift of course mirrors the developments in the data since the July meeting on all fronts.

- The last few meetings, the BOC has held rates while saying they deliberated a cut. This time, Gov Macklem makes it clear in the press conference opening statement that it wasn't a close call: "At this rate decision, there was clear consensus to lower our policy rate for the first time since March." Even so, the new statement also doesn't directly suggest that further cuts may be required (the prior one said "there may be a need for a reduction in the policy interest rate" depending on how conditions evolve), and in the meantime Governing Council reiterates it is "proceeding carefully".
- **The new rate statement says:** *"With a weaker economy and less upside risk to inflation, Governing Council judged that a reduction in 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 economic activity. Governing Council is **proceeding carefully**, with particular attention to the risks and uncertainties. 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."*
- **The prior statement said:** *"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."*
- **On the labour market:** In July, the statement said: "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. " Now: "Employment has declined in the past two months since the Bank's July MPR was published. Job losses have largely been concentrated in trade-sensitive sectors, while 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."

- **On inflation:** The description of current inflation is not particularly dovish, but does suggest that concerns are abating: in July the conclusion was that "Based on a range of indicators, underlying inflation is assessed to be around 2½%", a sentiment repeated this time, though now they add "on a monthly basis the upward momentum seen earlier this year has dissipated" in core inflation. Noting that the Canadian government has removed most retaliatory tariffs on US imports would mean "less upward pressure on" import inflation, they also tweak a reference to assessing "how much and how quickly cost increases from tariffs and trade disruptions are passed on to consumer prices", changing to "how the cost effects of trade disruptions and reconfigured supply chains are passed on to consumer prices".

Changes In The Rate Decision Statement

The Bank of Canada today ~~maintained~~reduced its target for the overnight rate ~~at~~by 25 basis points to 2.~~75~~5%, with the Bank Rate at ~~3~~2.75% and the deposit rate at 2.~~70~~45%.

~~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~~After remaining resilient~~.~~ to sharply higher US tariffs and ongoing uncertainty, global economic growth is showing signs of slowing. In the United States, ~~the pace of growth moderated in the first half of 2025,~~business investment has been strong but ~~the labour market~~ consumers are cautious and employment gains have slowed. US inflation has ~~remained solid. US CPI inflation ticked~~picked up in ~~June with some evidence that tariffs are starting~~recent months as businesses appear to be ~~passed on~~passing on some tariff costs to consumer prices. Growth in the euro area ~~economy grew modestly~~has moderated as US tariffs affect trade. China's economy held up 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.~~ but growth appears to be softening as investment weakens. Global oil prices are close to their levels ~~in April despite some volatility. Global~~assumed in the July *Monetary Policy Report* (MPR). Financial conditions have eased further, with higher equity ~~markets have risen, and corporate credit spreads have narrowed. Longer-term government~~prices and lower bond yields~~ have moved up.~~. Canada's exchange rate has ~~appreciated against a broadly weaker~~ been stable relative to the 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~~ Canada's GDP declined by about 1~~.5~~½% in the second quarter, as expected, with tariffs and trade uncertainty weighing heavily on economic activity. Exports fell by 27% 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~~from first-quarter gains when companies were rushing orders to get ahead of tariffs. ~~Growth in business~~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~~ is being restrained by uncertainty. Labour market conditions~~.

Employment has declined in the past two months since the Bank's July MPR was published. Job losses have ~~weakened in~~ largely been concentrated in trade-sensitive sectors~~ affected by trade, but~~, while employment ~~has held up~~growth in ~~other parts~~the rest of the economy has slowed, reflecting weak hiring intentions. The unemployment rate has moved up ~~gradually~~ since ~~the beginning of the year to 6.9~~March, hitting 7.1% in ~~June~~August, 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.~~August, the same as at the time of the July MPR. 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~~was 2.4%. Preferred measures of core inflation have been around 3% in recent months, but on a monthly basis the upward momentum seen earlier this year has dissipated. A broader range of indicators, including alternative measures of core inflation and the distribution of price changes across CPI components, continue to suggest underlying inflation is ~~assessed to be~~running 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~~ The federal government's recent decision to remove most retaliatory tariffs ~~would reduce the direct~~on imported goods from the US will mean less 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~~the prices of these goods going forward.

With ~~still high uncertainty, the Canadian economy showing some resilience, and ongoing pressures on underlying~~ a weaker economy and less upside risk to 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~~ judged that a reduction in the policy ~~interest rate.~~

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 economic activity. Governing Council is proceeding carefully, with particular attention to the risks and uncertainties ~~facing~~. Governing Council will be assessing how exports evolve in the ~~Canadian economy. These include: the extent to which higher~~face of US tariffs ~~reduce demand for Canadian exports~~and changing trade relationships; how much this spills over into business investment, employment, and household spending; ~~how much and~~ how ~~quickly~~the cost ~~increases from tariffs and~~ effects of trade disruptions and reconfigured supply chains are passed on to consumer prices; and how inflation expectations evolve.

~~We are~~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, we lowered the policy interest rate by 25 basis points, bringing it to 2.5%.

Through the recent period of trade upheaval, Governing Council has been proceeding carefully, paying particular attention to the risks and uncertainties facing the Canadian economy. Three developments have shifted the balance of risks since our July decision.

First, Canada's labour market has softened further.

Second, although there are still some mixed signals, on balance, recent data suggest the upward pressures on underlying inflation have diminished.

Third, with the removal of most retaliatory tariffs by Canada, there is less upside risk to future inflation.

Considerable uncertainty remains. But with a weaker economy and less upside risk to inflation, Governing Council judged that a reduction in the policy rate was appropriate to better balance the risks going forward.

The Bank will continue to assess the risks, look over a shorter horizon than usual, and be ready to respond to new information.

Let me provide some details on what we've seen since July.

After remaining resilient to sharply higher US tariffs, global growth is now showing signs of slowing. US 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. In China, GDP growth was resilient in the first half of the year but appears to be softening as investment weakens.

The Canadian economy is being affected by both US tariffs and the unpredictability of US trade policy.

GDP declined by 1.6% in the second quarter, largely as expected. Exports to the United States fell sharply—both as payback for the pull-forward of activity in the first quarter and because tariffs are dampening US demand.

Tariffs are having a profound effect on several key sectors, including the auto, steel and aluminum industries. Chinese tariffs on canola, pork and seafood, new US tariffs on copper, and higher US tariffs on softwood lumber will spread the direct impacts further.

Uncertainty is also weighing on the economy. Business investment contracted in the second quarter. Many businesses have told us they have paused investment plans given elevated uncertainty about US trade policy. Businesses are also concerned that demand in Canada will weaken as the economic fallout broadens.

There were some signs of resilience: consumption was stronger than expected in the second quarter and housing activity increased. But in the months ahead, low population growth and weakness in the labour market will likely weigh on household spending.

Employment has declined in the past two months, increasing the unemployment rate to 7.1%. In addition to significant job losses in sectors that rely on US trade, employment growth in other parts of the economy has slowed as businesses have scaled back their hiring intentions. Wage growth has continued to ease.

Turning to inflation, CPI inflation was 1.9% in August, the same as at the time of the July Monetary Policy Report. Excluding taxes, inflation was 2.4%. Preferred measures of core inflation have been around 3% in recent months, but on a monthly basis, the upward momentum seen earlier this year has dissipated. A broader range of indicators, including the alternative measures of core inflation and the distribution of price changes across CPI components, continue to suggest underlying inflation is running around 2½%.

The federal government’s recent decision to remove most retaliatory tariffs on imported goods from the United States will mean less upward pressure on the prices of these goods going forward.

Still, the disruptive effects of shifts in trade will add costs even as they weigh on economic activity. It is difficult to predict the extent of cost increases, where they will show up, and how they could be passed through to consumer prices.

With some stability in US tariffs in recent weeks, near-term uncertainty may have come down a little. But the focus is shifting to the upcoming review of the Canada-United States-Mexico Agreement. New US threats to use tariffs as an instrument of geopolitical pressure are also contributing to global uncertainty.

At this rate decision, there was clear consensus to lower our policy rate for the first time since March. We will continue to assess the impacts of tariffs and uncertainty on economic activity and inflation. We are paying close attention to how exports evolve given the impact 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.

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.

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

Press Conference Transcript (Unedited)

https://media.marketnews.com/BOC_Transcript_Sep_17_2025_9239da7456.pdf

Other Press Conference Highlights

Asked at the opening of the post-decision press conference whether the new rate policy guidance was "rather cagey" because of a lack of conviction among BOC policymakers whether the easing in inflationary pressures is sustainable, Gov Macklem chuckles and says:

- "You're reading a lot into that...[while both a hold and a cut were considered] there was a clear consensus to cut our policy rate by 25 basis points... what tipped the balance really in favor of a cut this time was there was a clear sense that the balance of risk has shifted...the inflation picture hasn't really changed a great deal since where we were last January...earlier in the year, we saw some upward momentum in those core measures. If you look at the more recent monthly readings on the core measures, that that momentum has has come off. So yes, you know, if you look at the inflation data, there is some more comfort that some of those upward pressures we saw in underlying inflation are easing off."
- "The guidance really is we're not being as forward looking as normal, and we're paying close attention to the risks and uncertainties we demonstrated today. If those shift, we're prepared to take action."

MNI's Greg Quinn asks Gov Macklem whether the BOC is taking a risk cutting rates given elevated core inflation - Macklem repeats his earlier message:

- "our primary mandate is to maintain low, stable inflation, and we are very focused on that....when we look at it, we see underlying headline inflation is 1.9%, underlying is running about 2.5%, some of that upward momentum we saw has eased off. So yes, we do need to consider where inflation is going at this point, inflationary pressures look a little more contained and against that background and the background of a weakening economy that will put additional downward pressure on inflation that tipped the balance of risks in favor of cutting our policy rate today. But we are proceeding carefully, we are going to be balancing those risks."

Asked what it would take to cut again in the fall, Macklem notes that "tariffs are weakening the Canadian economy "as evidenced by weakness in sectors directly-impacted by trade. And "Employment growth in the rest of the economy has now slowed. "

- "The reality is tariffs are increasing trade friction with our biggest trading partner - that has efficiency costs. Monetary policy can't undo that... what we can do is help the economy adjust while maintaining, while maintaining well controlled inflation. That's what we're focused on... it's going to be about balancing those risks. If the risks tilt, if the risks shift, we're prepared to take action, and if the risks tilt further, we're prepared to take more action, but we're going to take it one meeting at a time. We are taking a shorter horizon. We're being a little less forward looking than usual, and we'll make that risk assessment in October when we get there."

Not Considering Adjusting Deposit Rates Or Balance Sheet: Asked whether the BOC is considering another technical adjustment to deposit rates given continued strains in funding markets, and how the BOC views moves in CORRA and liquidity in overnight repo markets, Deputy Gov Rogers says they have no plans to make adjustments or tweak balance sheet normalization plans:

- "The thing that's had sort of the most direct effect is we had a big maturity early in September, big bond maturity. And so there was a step down in the amount of liquidity in the markets that's put a bit of strain. I think the markets are still digesting that step down and adjusting we also, you'll recall, in our financial stability report, in May, we talked about a greater presence of foreign hedge funds in the market. They fund on the repo market. They fund government Canada securities on the basis trade. That trade goes, there's a bigger demand for that trade when there's an expected move in in policy rates, as there has been in the last few weeks. So so there's more than one thing affecting overnight markets. We've got a variety of tools that we can use."
- "We're not contemplating any change in the deposit rate right now... Our plan to normalize our balance sheet is still on track. It's the same as we've shared consistently all along. We do expect some of this turbulence as we get down to our steady state settlement balances, but we've got a variety of tools we can use before looking at the deposit rate."
- Asked if the BOC might implement QE if the Canadian economy fails to recover, Macklem says: "we're a long way from even contemplating that. We've got considerable room with our policy rate." He says that even in their recessionary scenario published in the July monetary policy report, "I still think we'd be a long way from quantitative easing."

MNI POLICY TEAM

MNI BOC WATCH: 25BP Cut On Weak Job Market, Guidance Dropped

By Greg Quinn (Sep 17, 2025)

OTTAWA - The Bank of Canada lowered its policy rate a quarter point to 2.5% after three meetings on hold citing weak hiring and less inflation pressure, dropping guidance about potential easing while keeping a phrase about being less forward looking during the trade war.

"Governing Council judged that a reduction in the policy rate was appropriate to better balance the risks," according to a statement Wednesday from officials led by Governor Tiff Macklem. "We will support economic growth while ensuring inflation remains well controlled." The decision was expected by 16 of 20 economists surveyed by MNI and some predict another cut in October or December.

Core inflation has remained around 3% but "upward momentum seen earlier this year has dissipated" and other measures suggest the trend is about 2.5%, officials said in a decision reflecting a "clear consensus" after halting a string of seven cuts in March. Unpredictable U.S. policy will continue to drag on the economy as focus turns to next year's negotiations for renewing a North American trade pact, the Bank said.

"The Bank will continue to assess the risks, look over a shorter horizon than usual, and be ready to respond to new information," Macklem said in remarks for a press conference at 1030am EST.

ECONOMIC FALLOUT BROADENS

Hiring has slowed outside industries hurt the most by U.S. tariffs such as makers of autos, steel and aluminum, the Bank said. At the last decision officials said hiring in other industries was holding up.

"Businesses are also concerned that demand in Canada will weaken as the economic fallout broadens," Macklem said. "New US threats to use tariffs as an instrument of geopolitical pressure are also contributing to global uncertainty."

Domestic spending is also set to fade on slowing population growth the Bank said, following the government's move to curb immigration after years of record increases.

Canada dropped retaliatory tariffs on some U.S. imports at the start of this month and the Bank said that would ease inflation pressure, though there was little evidence those levies drove inflation that was coming from food and shelter before Donald Trump's re-election.

KEEPING PRICES COOL

Weakness from the trade war triggered the highest jobless rate in almost a decade outside the pandemic and a record year-to-date trade deficit that shrank the economy in the second quarter. Before the trade dispute Canada sent three-quarters of exports to the U.S. accounting for one in ten jobs.

The Bank in April gave up on a precise economic forecast to give scenarios based on the intensity of the trade war. The July baseline scenario had growth of 1% in the third quarter while investors predict just half that pace.

Canada's central bank unlike the Federal Reserve has a single mandate to keep inflation in the middle of a 1% to 3% band. Rate cuts risk of another round of public anger if the cost of living remains in the spotlight though investors see little chance of returning to anything like 8% inflation seen following pandemic lock-downs.

"The Bank is focused on ensuring that Canadians continue to have confidence in price stability through this period of global upheaval," the Bank's statement said.