

The Bank of Canada today ~~maintained~~reduced its target for the overnight rate ~~at~~by 25 basis points to 2.75%, with the Bank Rate at 3.25% and the deposit rate at 2.45%.

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~~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 1.5½% 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 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% 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 ~~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 higherface of US tariffs reduce demand for Canadian exportsand changing trade relationships; how much this spills over into business investment, employment, and household spending; how much and how quicklythe 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 areThe 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.