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.~~5~~25%, with the Bank Rate at 2.~~75~~5% and the deposit rate at 2.~~45~~20%.

~~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 ~~1.9~~2.4% 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.~~