Tiff Macklem: Release of the Monetary Policy Report

Opening statement by Mr Tiff Macklem, Governor of the Bank of Canada and Ms Carolyn Rogers, Senior Deputy Governor of the Bank of Canada, at the press conference following the monetary policy decision, Ottawa, Ontario, 29 October 2025.

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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.