Tiff Macklem: Monetary Policy Decision

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, 30 July 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, Governing Council held the policy interest rate at 2.75%. This decision reflects three main considerations.

First, uncertainty about US tariffs on Canada is still high. Discussions between Canada and the United States are ongoing, and US policy remains unpredictable.

Second, while US tariffs are disrupting trade, Canada's economy is showing some resilience so far.

Third, inflation is close to our 2% target, but we see evidence of underlying inflation pressures.

Today's interest rate decision is accompanied by our July *Monetary Policy Report* (MPR). As in April, we have decided not to present a conventional forecast for growth and inflation. US tariffs are still too unpredictable to be able to provide a single forecast for the Canadian economy. So, we present three scenarios. The first is what we're calling our *current tariff scenario*-it presents a view of how growth and inflation would evolve if the trade arrangements currently in place or agreed were to remain. The other two scenarios examine how things could play out if tariffs escalate, or if they de-escalate from where they are now. These three scenarios are designed to capture the uncertainty about US trade policy.

There is also uncertainty about how businesses and individuals in Canada and the United States will adapt to the new trade environment. The increases we have seen in US effective tariff rates are less than were threatened. But they are still outside post-war historical experience.

So, in addition to using scenarios to help guide monetary policy, we've stepped up our regional outreach to help understand the impact of tariffs and trade uncertainty across the country. And we are adding new questions to our surveys of Canadian households and businesses.

I want to underline that the lack of a conventional forecast does not impede our ability to take monetary policy decisions. But the unusual degree of uncertainty does mean we have to put more weight on 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 June.

Some tariff agreements have been negotiated between the United States and its trading partners, and that has reduced the risk of a severe and escalating global trade war. Unfortunately, the tariffs in those agreements also suggest the United States is not returning to open trade.

So far, the global economic consequences of US trade policy have been less severe than feared. US tariffs have disrupted trade in major economies, and this is slowing global growth but by less than many anticipated. While growth in the US economy looks to be moderating, the labour market has remained solid. And in China, lower exports to the United States have largely been replaced with stronger exports to other countries.

In Canada, we had robust growth in the first quarter of 2025, mostly because firms were rushing to get ahead of tariffs. In the second quarter, the economy looks to have contracted, as exports to the United States fell sharply-both as payback for the pull-forward and because tariffs are dampening US demand.

Growth in spending by Canadian businesses and households is being restrained by uncertainty. And new US tariffs are having profound impacts on directly affected sectors. A number of economic indicators suggest excess supply in the economy has increased since January.

Nevertheless, the Canadian economy is showing some resilience so far. A number of surveys suggest consumer and business sentiment is still low, but has improved. In the labour market, we are seeing job losses in the sectors that rely on US trade, but employment has kept growing in other parts of the economy. The unemployment rate has moved up modestly to 6.9%.

In our *current tariff scenario*, growth resumes following the second-quarter contraction. GDP growth is about 1% in the second half of this year as exports stabilize and household spending increases gradually. The scenario then has growth picking up further in 2026 and reaching about 2% in 2027, although GDP is on a permanently lower path owing to tariffs.

Turning to inflation, CPI inflation has been pulled down by the elimination of the carbon tax and is just below 2%. However, a range of indicators suggest underlying inflation has increased from around 2% in the second half of last year to around 2½% more recently. This largely reflects an increase in prices for goods other than energy. Shelter cost inflation remains the biggest contributor to CPI inflation, but it continues to ease. Surveys indicate businesses' inflation expectations have fallen back after rising in the first quarter, while consumers' expectations have not come down.

In the *current tariff scenario*, there are offsetting upward and downward forces at play, which we outline in the MPR. Boiling it all down, there are reasons to think that the recent increase in underlying inflation will gradually unwind. The Canadian dollar has appreciated, which reduces import costs. Growth in unit labour costs has moderated, and the economy is in excess supply. At the same time, tariffs impose new direct costs, which will be gradually passed through to consumers. In the current tariff scenario, upside and downside pressures roughly balance out, so inflation remains close to 2%.

The picture is somewhat different when we look at the alternative scenarios. In the *de-escalation scenario*, lower tariffs improve the growth outlook and reduce the direct cost pressures on inflation. In the *escalation scenario*, higher tariffs weaken the economy and increase direct cost pressures.

There is also uncertainty about the impact of tariffs. Many businesses report they are facing costs related to finding new suppliers and developing new markets. These costs are difficult to evaluate and could add upward pressure to consumer prices.

We will be following tariff developments closely and assessing indicators of underlying inflation.

At this rate decision, there was clear consensus to hold our policy rate unchanged. We also agreed that we need to proceed 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.

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.

We are focused on ensuring that Canadians continue to have confidence in price stability through this period of global upheaval. We will continue to support economic growth while ensuring inflation remains well controlled.

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