

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, 17 September 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, 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.