



The Bank of Canada decision -- 25bps cut to policy rate and the door is open for more to come...

As was expected, the Bank of Canada (BoC) decided to resume its easing cycle today after a six-month hiatus, cutting the overnight policy rate target by 25 basis points to 2.50%. Market response has so far been negligible given that the move was widely expected and that the U.S. Federal Reserve's decision is due later today.

The [statement accompanying today's decision](#)¹ by Canada's central bank (provided below for ease of access) stated that monetary policy easing was judged to be appropriate given "*a weaker economy and less upside risk to inflation.*" Pretty reasonable.

On growth, there was added caution over the outlook for the global economy ("*After remaining resilient to sharply higher US tariffs and ongoing uncertainty, global economic growth is showing signs of slowing*") which, combined with the impact of tariffs and related uncertainty, represents a headwind for Canada's small, open economy that is already seeing notable softening in its labour market (job losses "*have largely been concentrated in trade-sensitive sectors*", though growth is slowing elsewhere) and ever-important business investment.

With respect to price pressures, while the BoC's preferred measures of core inflation "*have been around 3% in recent months*", recent data have indicated that "*upward momentum seen earlier this year has dissipated*" and the [removal of most retaliatory tariffs](#)² suggests there will be "*less upward pressure on the prices of these goods going forward.*"

There was no repeat of the forward guidance from the [previous statement](#)³ that "*there may be need for a reduction in the policy interest rate*" if there is more evidence that a weakening economy puts downward pressure on inflation and tariff-related pressures are contained. Instead, the statement just reiterated that the policy-setting Governing Council is "*proceeding carefully, with particular attention to the risks and uncertainties*" and that the BoC remains focused on ensuring inflation "*remains well controlled.*"

All in, today's decision and communication are generally as expected and leave the door open for added cuts in the coming months. From my lens, the backdrop and the comment in the [opening statement](#)⁴ to Governor Macklem's post-decision press conference, that the BoC is focused on a "*shorter horizon than usual*" point to more cuts coming soon; with another 25 basis points cut to take the policy rate to the bottom-end of the Bank's 2.25% to 3.25% "[neutral](#)" [range](#)⁵, seeming likely on the October 29, 2025, fixed action date.

¹ Bank of Canada, Press Releases, *Bank of Canada lowers policy rate to 2½%*, September 17, 2025, <https://www.bankofcanada.ca/2025/09/fad-press-release-2025-09-17/>

² Government of Canada, Department of Finance Canada International trade and finance policy, *Canada's response to U.S. tariffs on Canadian goods*, September 1, 2025, <https://www.canada.ca/en/department-finance/programs/international-trade-finance-policy/canadas-response-us-tariffs.html>

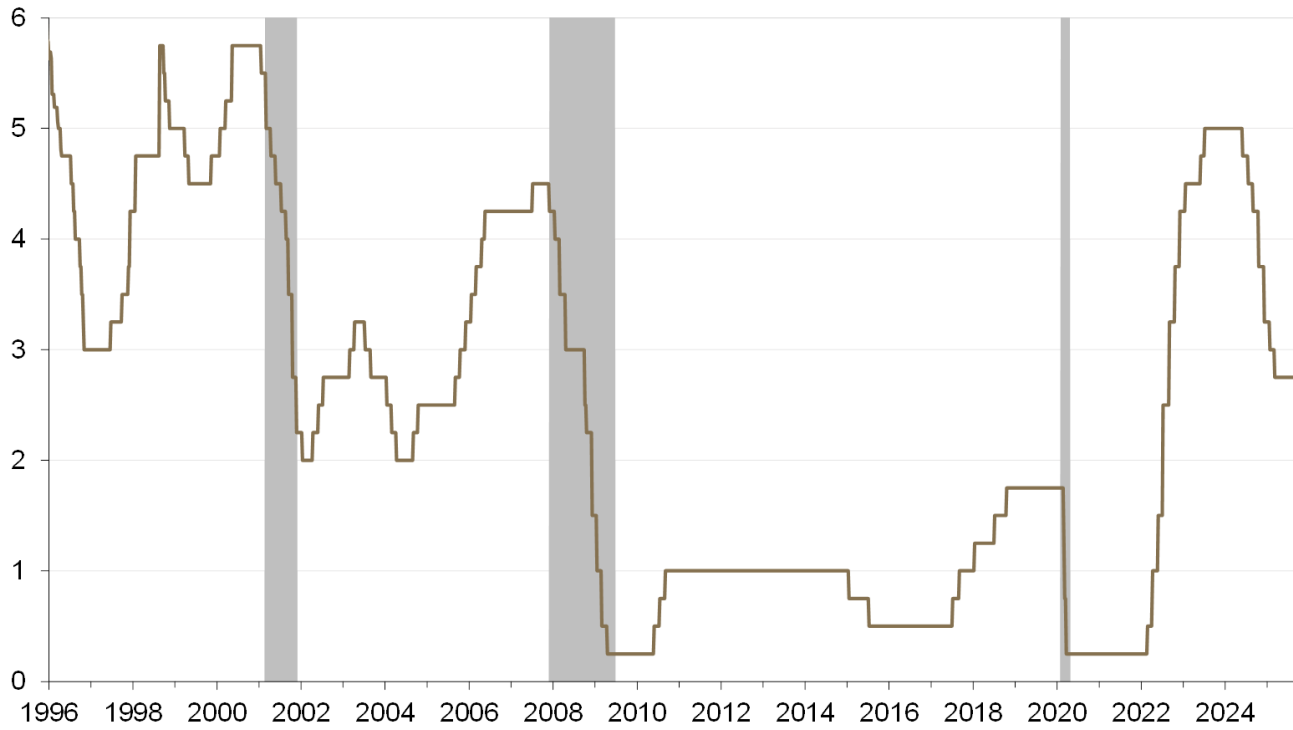
³ Bank of Canada, Press Releases, *Bank of Canada holds policy rate at 2¾%*, July 30, 2025, <https://www.bankofcanada.ca/2025/07/fad-press-release-2025-07-30/>

⁴ Bank of Canada, Press Speeches and appearances, *Monetary Policy Decision Press Conference Opening Statement*, September 17, 2025, <https://www.bankofcanada.ca/2025/09/opening-statement-2025-09-17/>

⁵ Bank of Canada, Publications, *Monetary Policy Report, Monetary Policy Report—July 2025, Scenario assumptions Monetary Policy Report—July 2025—Canadian economy*, July 30, 2025, <https://www.bankofcanada.ca/publications/mpr/mpr-2025-07-30/section-8/>

Bank of Canada overnight rate target

(percent)



Shaded regions represent periods of U.S. recession; source: Guardian Capital, based on data from the Bank of Canada to September 17, 2025

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Bank of Canada holds policy rate at 2½%

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September 17, 2025

The Bank of Canada today reduced its target for the overnight rate by 25 basis points to 2.5%, with the Bank Rate at 2.75% and the deposit rate at 2.45%.

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.

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.

Employment has declined in the past two months since the Bank's July MPR was published. Job losses have largely been concentrated in trade-sensitive sectors, while 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.

CPI inflation was 1.9% in August, the same as at the time of the July MPR. 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 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 US will mean less upward pressure on the prices of these goods going forward.

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. 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. 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.

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.

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Published: September 17, 2025