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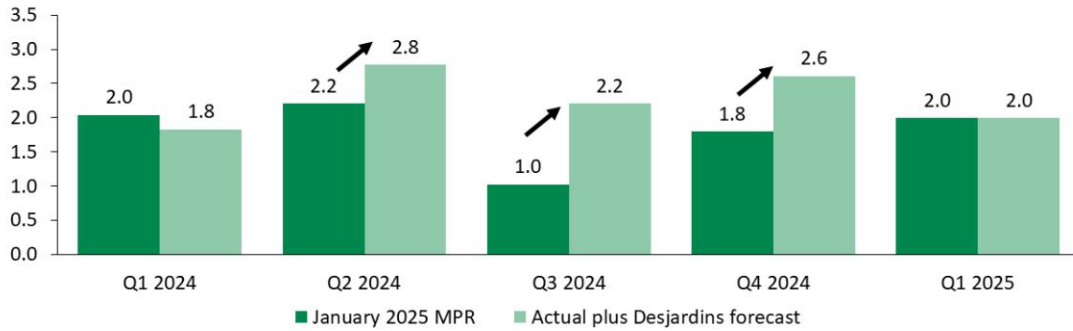
- In line with the widely held view of economists and markets, the Bank of Canada (BoC) cut the overnight policy rate by 25 basis points to 2.75% today. This is the seventh consecutive rate cut since June of last year, after the overnight rate reached a peak of 5.00% in July 2023. The new level represents the midpoint of the institution's estimated neutral rate range, meaning it's neither stimulative nor restrictive.
- In the [press release External link.](#), Governing Council recognized the solid performance of the Canadian economy at the end of 2024, besting the Bank's expectations (graph 1). Solid domestic demand underpinned by past rate cuts played an important role. "However, economic growth in the first quarter of 2025 will likely slow as the intensifying trade conflict weighs on sentiment and activity. Recent surveys suggest a sharp drop in consumer confidence and a slowdown in business spending as companies postpone or cancel investments." While surging exports ahead of tariffs will provide an offset to weaker domestic demand in Q1, the BoC doesn't expect it to last. The Bank also chalked up the softening labour market in February to the uncertainty caused by the trade tensions.

## Graph 1

### Substantial Upward Revisions to 2024 are Ancient History in the Face of Tariff Uncertainty

#### Canada real GDP growth

%, annualized quarterly growth



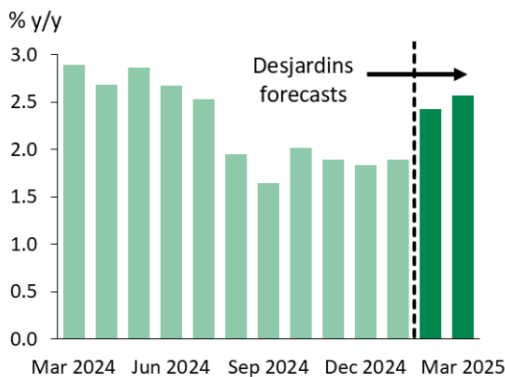
MPR: Monetary Policy Report  
Bank of Canada and Desjardins Economic Studies

- In contrast to weakening economic indicators, the Bank’s preferred measures of core inflation all topped 2% at last reading. Inflation would be above the 1.9% print in January as well if it weren’t for the GST/HST holiday, and should increase to about 2.5% at the end of the tax break, per the Bank’s estimate. Our analysis suggests the same (graph 2).

## Graph 2

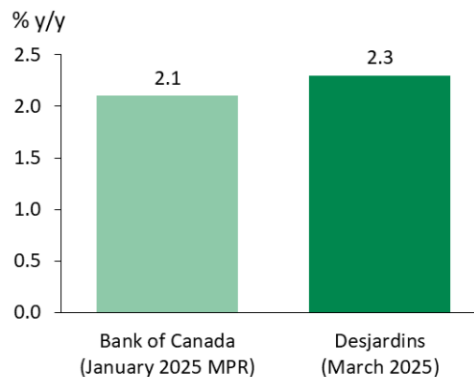
### Inflation Is Set to Accelerate as the GST Holiday Comes to an End

#### Monthly CPI inflation and forecasts



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#### Q1 2025 total CPI inflation forecasts



- Bank of Canada Governor Tiff Macklem in his [press conference opening statement External link.](#), made clear what many Canadians already know—that the impacts of uncertainty and tariffs on inflation are difficult to assess. However, in trying to understand the implications of uncertainty related to trade tensions, the Bank published [new survey data External link.](#) on what they’re hearing from businesses and households. According to Governor Macklem, “While it is too early to see much impact of new tariffs on economic activity, our surveys suggest that threats of new tariffs and uncertainty about the Canada-US trade relationship are already having a big impact on business and consumer intentions... Canadians are more worried about their job security and financial health as a result of the trade tensions, and they intend to spend more cautiously... Businesses have lowered their sales outlooks, notably in manufacturing and in sectors that depend on discretionary spending by households... Our surveys also suggest business intentions to raise prices have increased as they cope with higher costs related to both uncertainty and tariffs. At the same time, inflation expectations have moved up as Canadians brace for the possibility of higher prices.”

## **Implications**

While today’s rate cut was in line with market expectations, the tone of the press release gave little indication of what to expect in April. As both [Desjardins Economic Studies External link.](#) and the [Bank of Canada External link.](#) have previously determined, the trade war with the US is likely to have a stagflationary impact on the Canadian economy, characterized by a combination of higher inflation and lower real GDP growth at least temporarily. The Bank will need to balance these impacts along with any increase in Canadians’ inflation expectations.

To that end, as the Governing Council concluded at the end of its press release, “Monetary policy cannot offset the impacts of a trade war. What it can and must do is ensure that higher prices do not lead to ongoing inflation. Governing Council will be carefully assessing the timing and strength of both the downward pressures on inflation from a weaker economy and the upward pressures on inflation from higher costs. The Council will also be closely monitoring inflation expectations. The Bank is committed to maintaining price stability for Canadians.”

The market reaction following the announcement suggests investors are acknowledging that a follow-up rate cut in April is no slam dunk. Clearly, the Bank of Canada is mindful of its inflation-fighting credibility, which has been bruised by the pandemic experience and the Bank's tendency to brush off that spike as transitory. Our forecast has embedded a more gradual rate cut profile than would be expected absent the upward pressures on inflation, but clearly the BoC will want to assess the early evidence, both on growth and inflation, before offering more accommodation. Key to watch for market participants will be the Bank's next business and consumer surveys, out on April 7, which should provide another update on how hiring, investment and inflation expectations are evolving.

## 2025 Schedule of Central Bank Meetings

Central bank	Decision	Rate	Central bank	Decision	Rate
<b>January</b>			<b>July</b>		
15 Bank of Korea	unchanged	3.00	8 Reserve Bank of Australia		
23 Bank of Norway	unchanged	4.50	8 Reserve Bank of New Zealand		
23 Bank of Japan	+25 b.p.	0.50	9 Bank of Korea		
29 Bank of Sweden	-25 b.p.	2.25	24 European Central Bank		
19 Bank of Brazil	+100 b.p.	13.25	30 Bank of Brazil		
29 Bank of Canada*	-25 b.p.	3.00	30 Bank of Canada*		
29 Federal Reserve	unchanged	4.50	30 Bank of Japan		
30 European Central Bank	-25 b.p.	2.75	30 Federal Reserve		
<b>February</b>			<b>August</b>		
6 Bank of England	-25 b.p.	4.50	7 Bank of England		
6 Bank of Mexico	-50 b.p.	9.50	7 Bank of Mexico		
17 Reserve Bank of Australia	-25 b.p.	4.10	12 Reserve Bank of Australia		
18 Reserve Bank of New Zealand	-50 b.p.	3.75	14 Bank of Norway		
24 Bank of Korea	-25 b.p.	2.75	20 Reserve Bank of New Zealand		
<b>March</b>			20 Bank of Sweden		
6 European Central Bank	-25 b.p.	2.50	27 Bank of Korea		
12 Bank of Canada	-25 b.p.	2.75	<b>September</b>		
18 Bank of Japan			11 European Central Bank		
19 Bank of Brazil			17 Bank of Brazil		
19 Federal Reserve			17 Bank of Canada		
20 Bank of England			17 Federal Reserve		
20 Bank of Sweden			18 Bank of England		
20 Swiss National Bank			18 Bank of Norway		
27 Bank of Norway			18 Bank of Japan		
27 Bank of Mexico			23 Bank of Sweden		
31 Reserve Bank of Australia			25 Bank of Mexico		
<b>April</b>			25 Swiss National Bank		
8 Reserve Bank of New Zealand			30 Reserve Bank of Australia		
16 Bank of Canada*			<b>October</b>		
17 European Central Bank			7 Reserve Bank of New Zealand		
16 Bank of Korea			24 Bank of Korea		
30 Bank of Japan			29 Bank of Canada*		
<b>May</b>			29 Bank of Japan		
7 Bank of Brazil			29 Federal Reserve		
7 Federal Reserve			30 European Central Bank		
8 Bank of England			<b>November</b>		
8 Bank of Norway			3 Reserve Bank of Australia		
8 Bank of Sweden			5 Bank of Sweden		
15 Bank of Mexico			5 Bank of Brazil		
20 Reserve Bank of Australia			6 Bank of England		
28 Bank of Korea			6 Bank of Norway		
28 Reserve Bank of New Zealand			6 Bank of Mexico		
<b>June</b>			25 Reserve Bank of New Zealand		
4 Bank of Canada			26 Bank of Korea		
5 European Central Bank			<b>December</b>		
16 Bank of Japan			8 Reserve Bank of Australia		
18 Bank of Sweden			10 Bank of Brazil		
18 Bank of Brazil			10 Bank of Canada		
18 Federal Reserve			10 Federal Reserve		
19 Bank of England			11 Swiss National Bank		
19 Bank of Norway			18 European Central Bank		
19 Swiss National Bank			18 Bank of England		
26 Bank of Mexico			18 Bank of Sweden		
			18 Bank of Japan		
			18 Bank of Mexico		

NOTE: Central banks may decide to change rates between the scheduled meetings. The abbreviation b.p. stands for basis points; \* Monetary Policy Report published.

