# Economic Commentary

July 30 2025

## Bank of Canada holds again, but door still open for future cuts

As expected, the Bank of Canada kept its policy rate steady today for a third consecutive meeting, holding at 2.75 per cent. The Bank Rate was set at 3 per cent, and the deposit rate at 2.7 per cent. The Bank had last cut a quarter point on March 12. Today's decision was consistent with market pricing and reflected an environment of firm Canadian core inflation and a relatively resilient economy despite the drag from the U.S. tariff shock. That said, the outlook remains highly uncertain, with both upside and downside risks to the economy and inflation. The Bank has kept the door to future rate reductions if conditions are met.

The Bank's statement and accompanying Monetary Policy Report (MPR) highlighted what has been some surprising resilience in the economy but also highlighted uncertainty with three rather than two scenarios (current, de-escalation, escalation).

On the economy, growth was modest in the Euro and in the U.S., and even amidst major trade upheaval from U.S. tariffs, China has pivoted exports to other countries. Tariffs are showing up in U.S. CPI data. In Canada, the economy has remained resilient as noted, including in the labor market, although pull forward in exports in Q1, tariff impacts and restrained uncertainty contributed to an expected 1.5 per cent annualized decline in Q2 (this is weaker than our Central 1 forecast). Labour market conditions have held steady, although weakened in tariff sensitive sectors, while slack has risen. It noted that *"a number of economic indicators suggest excess supply in the economy has increased since January."*

On the inflation front, the Bank noted that June levels came in at 1.9 per cent, but 2.5 per cent excluding taxes, reflecting removal of the carbon tax. Noteworthy, in our view was the omission of core (trim- and median-) inflation measures in the statement (which have been trending close to 3 per cent), and its assessment that underlying inflation was closer to 2.5 per cent based on a range of measures including breadth of price inflation among products. This is below the current policy rate and suggests that there is room for further rate cuts provided inflation remains steady or falls.

Like its previous Monetary Policy Report, the Bank did not provide a "baseline" outlook but rather provided alternative tariff scenarios. Its primary outlook was based on the current tariff environment (as of July 27). Conditions are weaker than the January current tariff scenario. The Bank's GDP outlook is for growth to turn positive in H2 of this year to about 1 per cent. Based on the MPR, full-year growth is 1.3 per cent this year and 1.1 per cent next year, which is lower than previously forecast. However, while inflation is forecast to hold near 2 per cent (including 1.7 and 1.8 per cent in Q2 and Q3 this year), core measures are and will remain higher than previously forecast, at 3.1 per cent y/y in Q4 2025, and 2.4 per cent in Q4 2026. Headline inflation is lower than prior forecasts due to removal of the carbon tax.

Highlighting the influence of uncertainty was inclusion of alternative trade war de-escalation and escalation scenario, although the former seems less plausible these days. We deem the status quo as most likely. The former leads to a faster economic rebound, and lower inflation. The latter could drive both lower growth and higher tariff induced inflation.

Our takeaway from today's decision and MPR is that trade uncertainty continues to dominate. There remain upside and downside risks to economic growth and inflation. There is room for further cuts in our view given the assessment of underlying inflation, labour market slack and the Bank's communique, but we will need to see both deteriorating economic conditions and further inflation progress to cut. As the statement notes, *"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."*

**Bryan Yu**
Chief Economist
Central 1 Credit Union
byu@central1.com