Economic Commentary

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central 1 Economics

Bank of Canada holds policy rate ahead of holiday season

There was neither a gift nor lump of coal from the Bank of Canada today as it maintained its policy rate at 2.25 per cent today, matching the near universal market expectations for a rate hold. A series of stronger economic data prints, and the Bank's prior statements that the current rate was likely at the right level, made this a foregone conclusion. The Bank rate was kept at 2.5 per cent, and the deposit rate at 2.2 per cent.

The Bank's statement highlighted both the resilience in the economy and the trade policy-related uncertainty that is omnipresent. It saw the global economy as being relatively resilient, with the U.S. led by AI related investment, but tariff induced inflation popping up. Meanwhile, the euro area is growing, but China is softening on weaker domestic demand.

Canadian data has surprised on the upside, and the Bank noted the strong GDP print, but also tempered the statement highlighting trade driven volatility, and expectations for a weaker Q4 performance. Similarly, it countered stronger labour market readings by noting that trade sensitive sectors remain weak, and hiring intentions subdued. On inflation, the Bank re-iterated that it saw underlying trend as sitting near 2.5 per cent, and while choppy due to several factors, it *"expects ongoing economic slack to roughly offset cost pressures associated with the reconfiguration of trade, keeping CPI inflation close to the 2% target"*.

We see these counterpoints as potential dovish messaging to limit rising expectations for significant rate hikes in 2026.

For now, the Bank is set to hold the rate for the foreseeable future. From its statement, *"If inflation and economic activity evolve broadly in line with the October projection, Governing Council sees the current policy rate at about the right level to keep inflation close to 2% while helping the economy through this period of structural adjustment"*. At the same time, it kept the door open to adjustment if the outlook changes. We remain of the view that a rate hike during the second half of 2026 is the next move.

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