



BANK OF CANADA
BANQUE DU CANADA

Remarks by Tiff Macklem
Bank of Canada Governor
Opening Statement to the Senate Standing
Committee on Banking, Commerce and the Economy
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Ottawa

Good morning. I'm pleased to be here with Senior Deputy Governor Carolyn Rogers to discuss our recent policy announcement and the Bank of Canada's *Monetary Policy Report*.

Last week, we lowered the policy interest rate 25 basis points, bringing it to 2¼%. This was our second straight cut and reflects ongoing weakness in the economy and contained inflationary pressures. We also published our outlook for the Canadian economy.

In this context, we have four main messages.

First, US tariffs and trade uncertainty have weakened the Canadian economy. We expect very modest growth through the rest of the year, with some pickup in 2026.

Second, while this weakness is restraining price increases, the trade conflict is also adding costs for many businesses, putting upward pressure on inflation. We expect these opposing forces to roughly offset, keeping inflation close to the 2% target.

Third, to support the economy through this period of adjustment, we have lowered our policy rate by 100 basis points since the start of the year.

And finally, the weakness we're seeing in the Canadian economy is more than a cyclical downturn. It is also a structural transition. The US trade conflict has diminished Canada's economic prospects. The structural damage caused by tariffs is reducing our productive capacity and adding costs. This limits the ability of monetary policy to boost demand while maintaining low inflation.

Let me turn now to economic conditions. While US trade policy remains unpredictable, its impacts are becoming clearer.

Canada's GDP contracted 1.6% in the second quarter as tariffs and uncertainty reduced exports and business investment. US trade actions are having severe effects on targeted sectors including autos, steel, aluminum and lumber. Household spending was resilient in the second quarter, with strong consumer spending and a pickup in residential investment.

The labour market is soft. Employment gains in September followed two months of sizeable losses. Job losses have been concentrated in trade-sensitive sectors and hiring has been weak across the economy. The unemployment rate remained at 7.1% in September, and wage growth has slowed.

In the second half of this year, GDP growth is expected to resume, but remain weak, averaging about $\frac{3}{4}\%$. It should then pick up on a quarterly basis in 2026 as exports and investment recover, and average about $1\frac{1}{2}\%$ by 2027. This implies excess supply is only taken up gradually.

CPI inflation was 2.4% in September, slightly higher than the Bank had anticipated. The Bank's preferred measures of core inflation have been sticky around 3% but upward momentum has dissipated. Looking at a broader range of indicators, underlying inflation looks to be around $2\frac{1}{2}\%$. The Bank expects inflationary pressures to ease in the months ahead and CPI inflation to remain near 2% over the projection horizon.

If the economy evolves roughly in line with our outlook, 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. We will be assessing incoming data carefully relative to the Bank's outlook. If the outlook changes, we are prepared to respond.

For many months, we have been stressing that monetary policy cannot undo the damage caused by tariffs. Trade friction means our economy will work less efficiently, with higher costs and less income. Even as economic growth recovers, the entire path for GDP is lower than it was before the shift in US trade policy. Monetary policy can help the economy adjust as long as inflation is well-controlled, but it cannot restore the economy to its pre-tariff path.

The Bank of Canada is focused on ensuring Canadians continue to have confidence in price stability through this period of global upheaval.

With that, the Senior Deputy Governor and I would be pleased to take your questions.