# Capital Insights

AS OF WEDNESDAY, MARCH 12, 2025

## BANK OF CANADA: FURTHER CUTS LIKELY, BUT LIMITATIONS EXIST

Insights from Neil Shankar, Economist, CI GAM

### KEY SUMMARY POINTS

- The Bank of Canada (BoC) cut its overnight rate by 25 bps to 2.75%.
- The BoC's decision to cut today was driven by the "pervasive uncertainty" stemming from tariff threats.
- Future decisions will be largely guided by trade policy developments and the net impact of weaker demand and higher costs on overall inflation.

### WHAT HAPPENED?

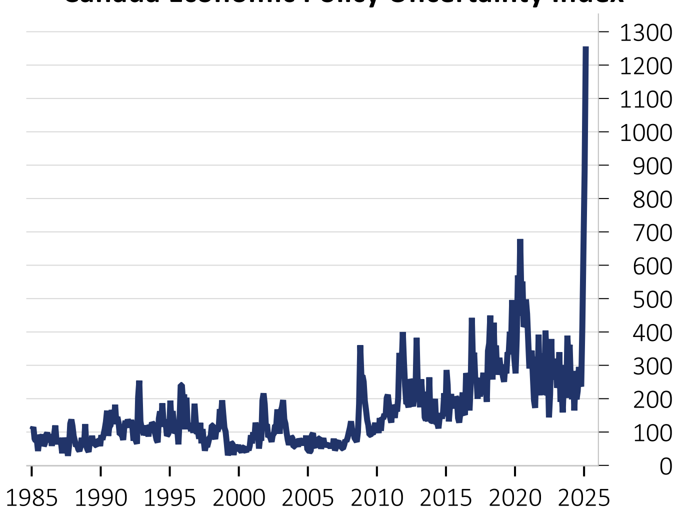
The BoC lowered its overnight rate by 25 bps, bringing the policy rate to 2.75%, the midpoint of the estimated neutral rate range. This adjustment signals a policy stance that is neither simulative nor restrictive. Today's cut marks a total reduction of 225 bps since June of last year.

Governor Macklem justified the cut citing the "*pervasive uncertainty*" stemming from continuously changing U.S. tariff threats and suggested that this is already having a big impact on business and consumer sentiment.

This was consistent with the survey that the BoC unveiled today which revealed a decline in both household spending intentions and business expectations for sales and hiring.

The BoC characterized the U.S. tariff threat as a "*new crisis*", but made clear several times in its communications that "*monetary policy cannot offset the impact of a trade war*".

**Canada Economic Policy Uncertainty Index**




Source: Bloomberg Finance LP, Macrobond
As of February 28, 2025

### CANADA'S ECONOMIC OUTLOOK

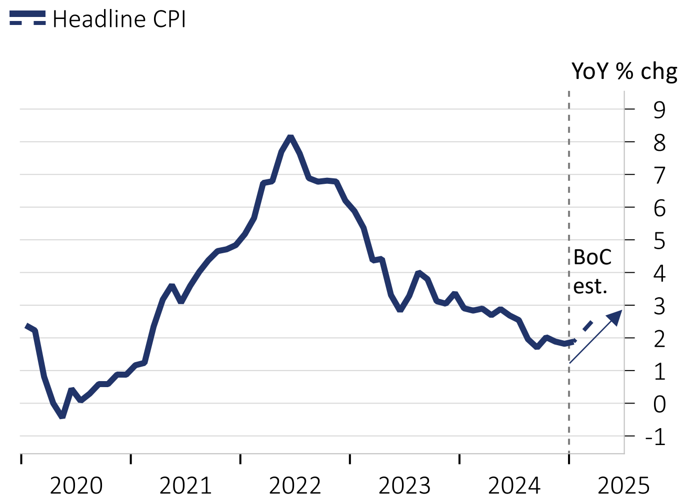
Immense uncertainty is clouding Canada's economic outlook, which is now highly dependent on trade policy developments.

The BoC acknowledged that the "*economy ended 2024 on a stronger footing than expected*" although suggested that the recent shift in sentiment apparent in their survey is expected to translate into a "*marked slowing in domestic demand*".

While the pull-forward in exports will support GDP growth in 1Q 2025, the combination of weaker exports and softer domestic demand will weigh on economic activity in 2Q and could certainly result in a recessionary outcome if tariffs stick.

This could coincide with rising domestic inflationary pressures on the back of retaliatory tariffs and a weaker CAD which may leave monetary policy somewhat constrained.

**Canada CPI Inflation**




Source: Statistics Canada, Macrobond
As of February 18, 2025

### WHAT'S NEXT?

Like Canada's economic outlook, the path forward for monetary policy and future interest rate decisions will also be guided by trade policy developments.

Governor Macklem made clear in the press conference opening statement that "*Governing Council will proceed carefully with any further changes to the policy rate*".

While further cuts can be expected, timing is highly uncertain and limitations exist, as the BoC will need to assess both "*the upward pressures on inflation from higher costs and the downward pressure on inflation from a weaker economy*".

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