



Monetary Policy Report—October 2025

Overview

The Canadian economy is adjusting to steep US tariffs on several industries and coping with elevated uncertainty. Tariffs have led to a fall in the demand for Canadian goods, affecting the broader economy. The reconfiguration of global trade and domestic production is also leading to higher costs. Total inflation has been around 2%, while underlying inflation has continued to be about 2½%.

With US tariffs and limited Canadian counter-tariffs in place, the effects of the trade conflict on growth and inflation in Canada are becoming clearer. Exports to the United States have fallen, and business investment has declined. The structural shift in the Canada-US trade relationship has put the economy on a lower path. At the same time, the reconfiguration of global trade and the restructuring of the Canadian economy are adding costs and putting upward pressure on inflation.

Considerable uncertainty remains around US tariffs and how changes to global trade relationships will affect economic growth and consumer prices in Canada. This uncertainty includes the review of the Canada-United States-Mexico Agreement.

How other major structural changes—such as shifting demographics and the adoption of artificial intelligence—will affect the Canadian economy is also unclear. The effects of these developments on output and inflation will play out over many years.

Monetary policy cannot offset the long-term implications of US tariffs or other sources of structural change. The primary focus of monetary policy is to maintain low and stable inflation.

A return to a base-case projection

In the first half of 2025, the trade conflict with the United States led to a sharp rise in uncertainty. Faced with an unpredictable environment, the Bank of Canada used scenarios rather than base-case projections in both the April Report and the July Report. These scenarios illustrated different paths for US trade policy and provided a range of possible outcomes for the Canadian economy.

Since the extreme uncertainty of the spring, the United States' intention to impose universal tariffs on many countries and steep tariffs on specific sectors has become apparent, as have the responses of other countries. Tariffs have now been in place for many months, and their impact on the Canadian economy has become clearer. Therefore, this Report returns to the usual practice of providing a base-case projection. The current projection is presented relative to January, which was the last Report with a base-case projection.

However, considering a wider-than-usual range of risks to the outlook remains important. The United States continues to broaden the set of goods subject to tariffs, and, more generally, tariffs could both escalate and de-escalate. In addition, the pace and scope of the restructuring of global trade routes and supply chains will play out over time and have a significant effect on economic developments going forward.

A summary of economic conditions

After being close to 2% for several months, consumer price index (CPI) inflation was 2.4% in September. Inflation excluding taxes was 2.9%, up from just over 2% in recent months. The preferred measures of core inflation have been sticky at around 3%, while a broader set of indicators suggest underlying inflation has persisted around 2½%.

The Canadian economy contracted in the second quarter, with growth in gross domestic product (GDP) at -1.6%. The contraction was largely due to the disruptive impact of tariffs on exports and the effect of heightened uncertainty on business investment. Growth is estimated to be weak in the second half of 2025, averaging about 0.75%. While exports and business investment will likely decline further, household and government spending are supporting growth.

Canada's GDP growth is projected to then strengthen gradually, with annual growth averaging 1.4% over 2026 and 2027. This recovery is slow because Canadian businesses need time to adjust to the new trade reality and a weak labour market is weighing on household spending. In addition, population growth is assumed to remain low. CPI inflation remains close to 2% throughout the projection horizon.

The global economy has been resilient to the historic rise in US tariffs, but it is showing signs of slowing. Trade volumes are being rerouted away from the United States as global exporters look for ways to avoid tariffs. The trade conflict is also affecting investment decisions in many countries.

Current conditions

Canadian economic growth has slowed, reflecting the disruptive effects of US tariffs and a decline in population growth. Exports and business investment have slumped. After being close to 2% for several months, CPI inflation was 2.4% in September.

At the onset of the trade conflict, tariffs were expected to reduce exports. Spillovers to the rest of the economy and heightened uncertainty were anticipated to slow growth in private domestic demand. The imposition of Canadian counter-tariffs, the rise in global production costs and the restructuring of supply chains and business operations in Canada were expected to exert upward pressure on inflation. All told, the scope and impact of tariffs and their broader economic effects were highly uncertain.

With tariffs now in place and US protectionism entrenched, the impact on Canada has become clearer, even as the level and scope of future tariffs remain uncertain. Exports and business investment fell sharply in the second quarter of 2025, and the unemployment rate rose as businesses deferred hiring. Nevertheless, consumption spending proved resilient, buoyed by easing financial conditions.

Consumer price index (CPI) inflation was 2.4% in September, after being close to 2% for several months. The preferred measures of core inflation have been sticky at around 3%, while a broader set of indicators suggest underlying inflation has persisted at around 2½%.

Recent developments in inflation reflect competing forces. On the upside, inflation in shelter prices remains elevated. Moreover, tariffs and the restructuring of global trade and domestic production are pushing costs up. On the downside, excess supply is dampening inflationary pressures. The removal of the carbon tax has also temporarily reduced inflation.

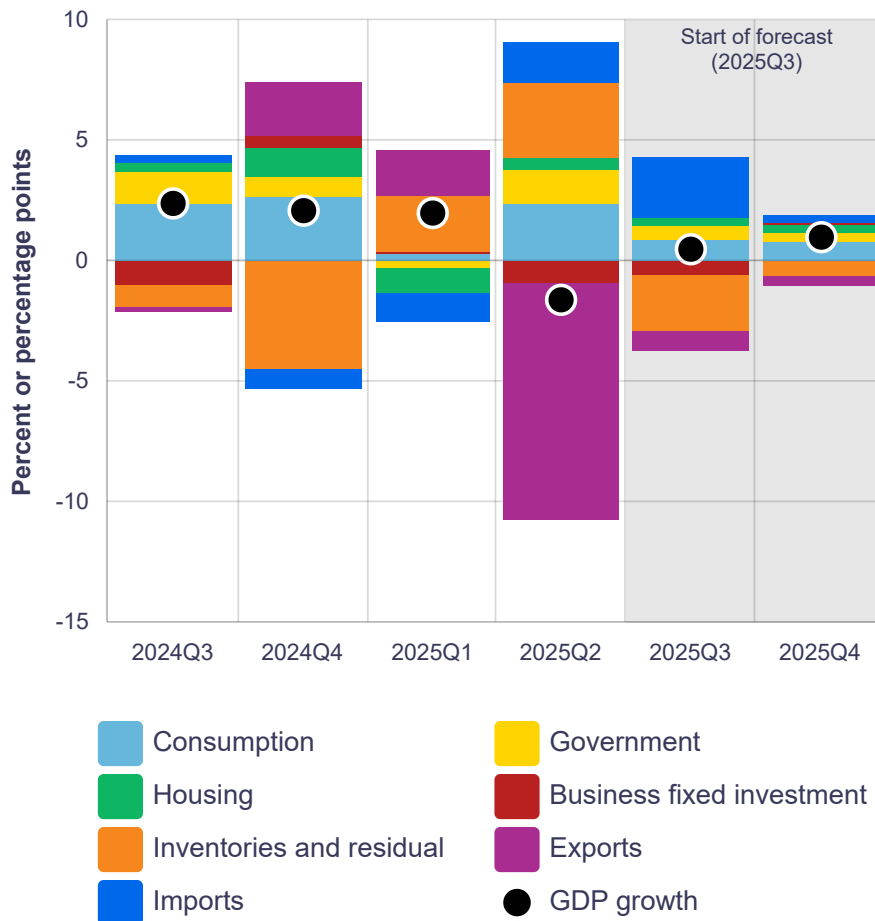
Economic activity

GDP fell in the second quarter as exports slumped

Real gross domestic product (GDP) contracted by 1.6% in the second quarter of 2025, as expected in the July Report (**Chart 1**). This decline reflects the disruptive effects of US tariffs on exports as well as heightened uncertainty. Rising equity prices and declining borrowing costs helped mitigate the drag on GDP.

Chart 1: The decline in exports pulled GDP down in the second quarter of 2025

Contributions to real GDP growth, annualized, quarterly data



Note: Numbers may not add up due to rounding.

Sources: Statistics Canada and Bank of Canada calculations and estimates

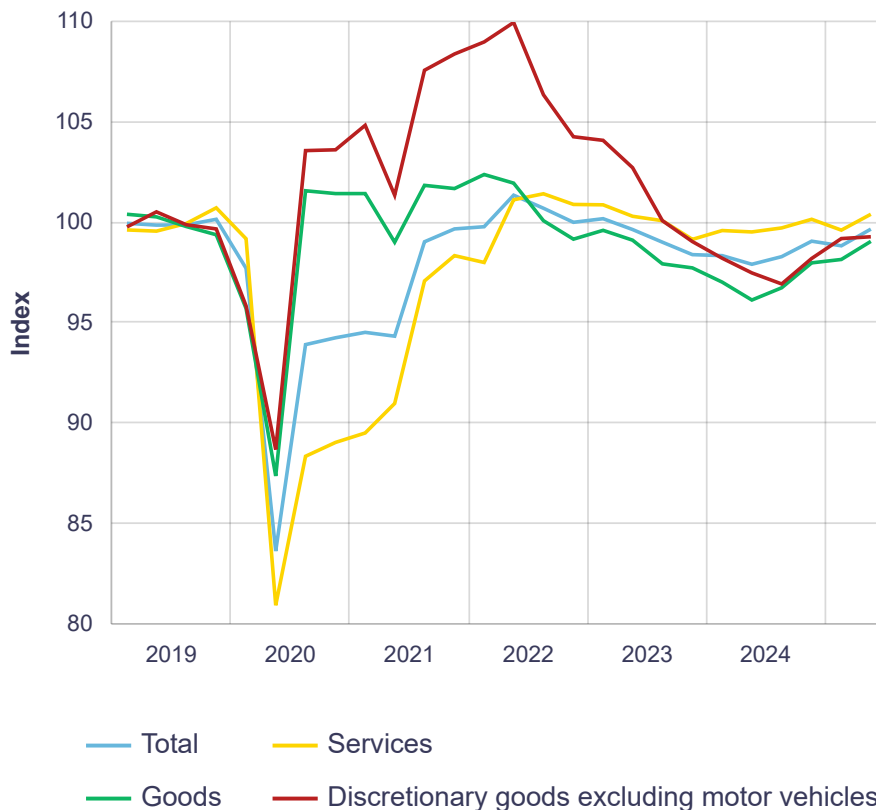
Last data plotted: 2025Q4

Export volumes fell sharply in the second quarter. Trade activity that had been brought forward in previous quarters was reversed, and newly imposed tariffs began to weigh directly on exports. For example, steel and aluminum exports declined by about 25% from a year earlier. Overall, exports were about 5% lower in the second quarter than they were 12 months ago. Business investment also decreased in response to trade developments and elevated uncertainty. The biggest drop was seen in spending on industrial machinery and equipment.

Other components of domestic demand supported GDP in the second quarter. Consumer spending growth picked up, boosted by a spike in motor vehicle purchases. Spending per person was strong, rising by 3.4% (**Chart 2**). The recent strength in consumption exceeded income growth, pushing the savings rate down from 7.2% in the third quarter of 2024 to 5% in the second quarter of 2025.

Chart 2: Consumer spending per person continued to increase despite trade headwinds

Index: 2019 = 100, quarterly data



Note: Data for the population aged 15 and older are from Statistics Canada's quarterly population estimates. Discretionary goods include alcoholic beverages and tobacco, clothing and footwear, furnishings and household items, recreation and culture goods, and jewellery and other personal effects.

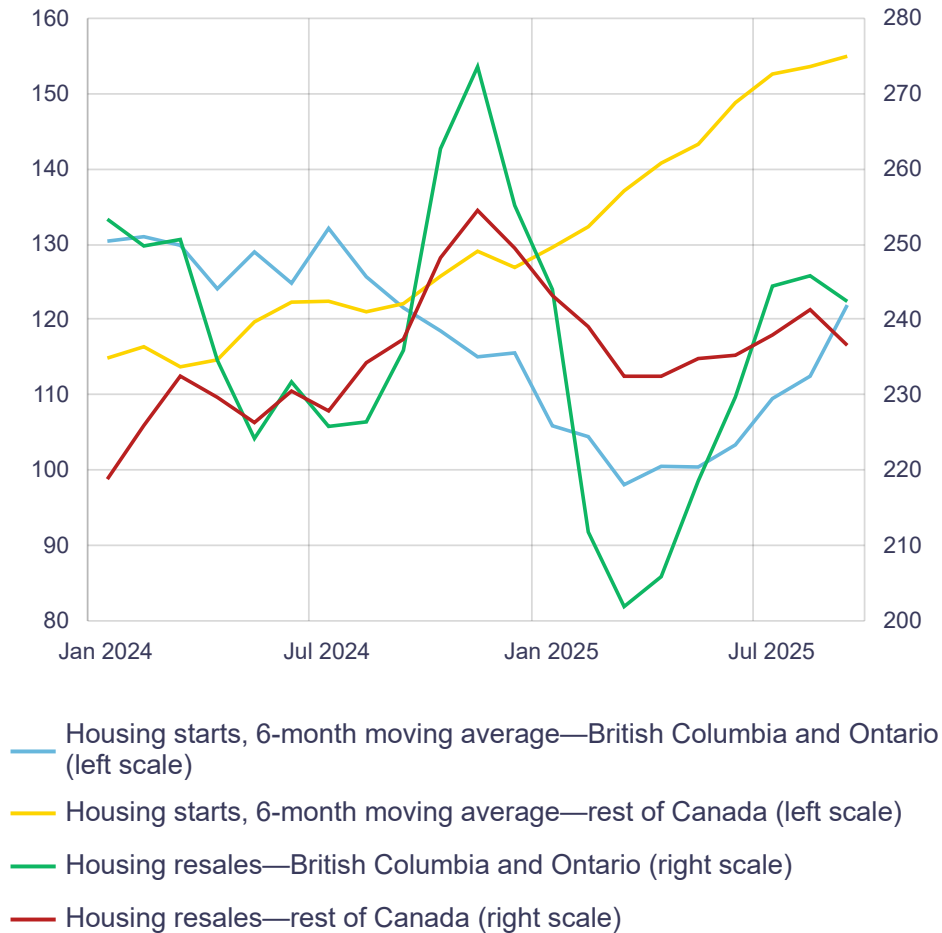
Sources: Statistics Canada and Bank of Canada calculations

Last observation: 2025Q2

Residential investment also increased. Housing starts and housing resales have both increased since the spring, although the strength in activity has been uneven across regions (**Chart 3**). In some markets, such as Toronto and Vancouver, households continue to face acute affordability challenges.

Chart 3: Housing activity has edged up from recent lows

Thousands of units, seasonally adjusted at annual rates, monthly data



Sources: Canada Mortgage and Housing Corporation, Canadian Real Estate Association and Bank of Canada calculations
Last observation: September 2025

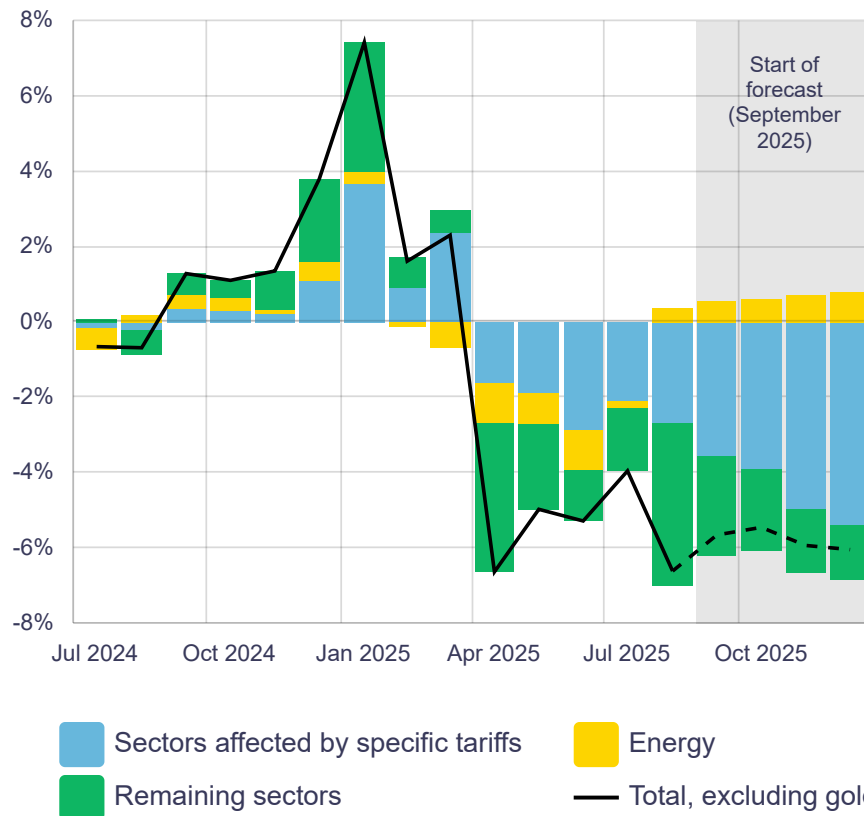
Weak growth is likely in the second half of 2025

After contracting in the second quarter, GDP growth is estimated to be about 0.75% on average in the second half of the year. Evidence suggests that the impact of the trade conflict is broadening.

Export volumes are expected to have remained weak in the second half of 2025. US tariffs continue to weigh on exports of motor vehicles, steel and aluminum, while new tariffs—such as those on copper, furniture and softwood lumber—are expected to add further strain. Chinese tariffs on canola, peas, pork and seafood are compounding these challenges (**Chart 4**).

Chart 4: Tariffs continue to weigh on exports of goods

Percentage change from 2024Q3, monthly data



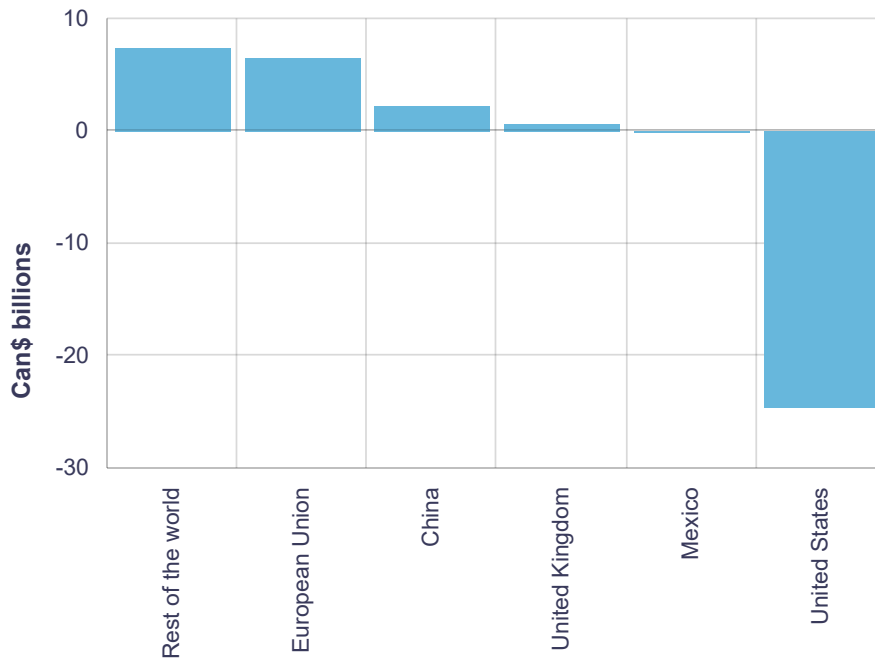
Note: Exports of goods exclude precious metals products because shipments of gold are highly volatile and often reflect inventory management. Shipments of gold do not reflect underlying production levels or demand because gold is frequently re-exported, stored or shipped for financial or custodial reasons. Sectors directly affected by specific tariffs include motor vehicles, steel and aluminum products, copper, softwood lumber and furniture. Sources: Statistics Canada and Bank of Canada calculations and estimates. Last data plotted: December 2025

Exports to the United States will be weighed down by tariffs and sluggish growth in industrial demand. Services exports also face pressure because the number of tourists visiting Canada from the United States remains below 2024 levels. Energy exports are estimated to have risen.

Exports to non-US markets are expected to have increased, reflecting businesses' efforts to diversify into new markets. However, these gains only partially offset weak exports to the United States ([Chart 5](#)).

Chart 5: Exports to markets outside the United States have increased

Change in Canada's exports of goods since 2024, by destination, annualized



Note: Exports of goods exclude those originating from the gold and silver ore mining industry because shipments of gold are highly volatile and often reflect inventory management. Shipments of gold do not reflect underlying production levels or demand because gold is frequently re-exported, stored or shipped for financial or custodial reasons. Annual averages are calculated using 2024 and 2025 data from January to August of each year.

Sources: Statistics Canada and Bank of Canada calculations

Imports also declined partly because businesses imported fewer inputs needed to produce their goods for export. In addition, fewer Canadians travelled to the United States.

Business investment is estimated to have fallen again in the second half of the year. This partly reflects the effects of ongoing uncertainty related to trade.

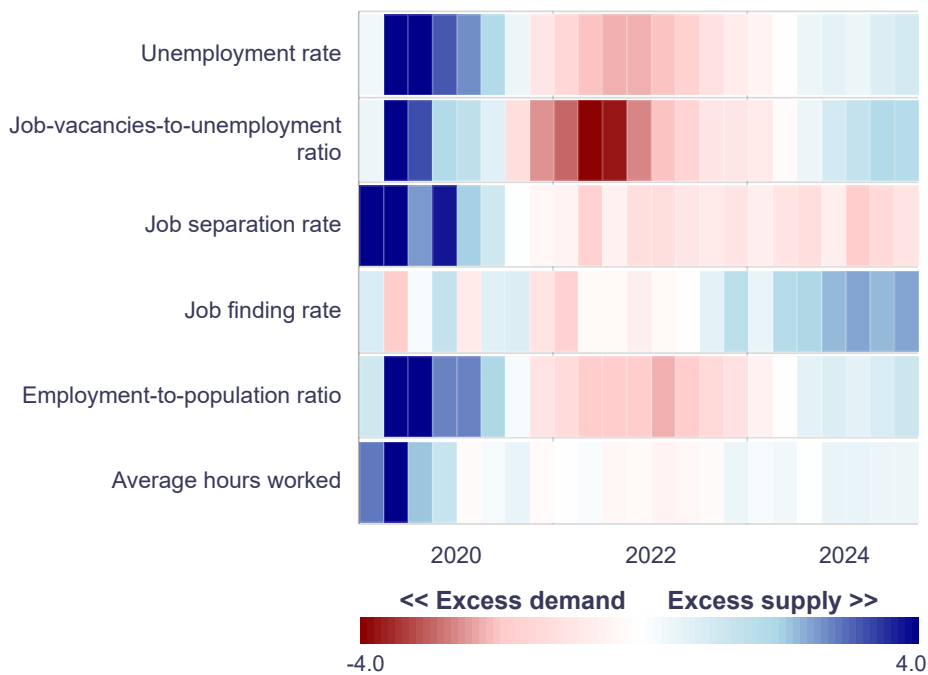
Despite lower interest rates, consumption growth will likely be modest, constrained by weak population growth and softness in the labour market. Housing activity is expected to increase further but remain uneven across regions.

Capacity pressures

With the decline in GDP in the second quarter, excess supply in the economy increased. In the third quarter, GDP growth is estimated to have been slightly below potential, leaving the output gap broadly unchanged from the second quarter, within the -1.5% to -0.5% range.

Key labour market indicators are pointing to greater excess supply, with the unemployment rate rising and businesses' hiring slowing (**Chart 6**).

Chart 6: Slack in the labour market has increased



Note: The heatmap shows the distance of each labour market indicator from the midpoint of its benchmark range. The colour is white when the indicator is close to the midpoint of its benchmark range, a varying shade of red when the labour market is in excess demand and a varying shade of blue when the labour market is in excess supply. To make the indicators more comparable, each indicator is divided by its standard deviation. The standard deviation is calculated using data from April 2015 to December 2019 for the *Job-vacancies-to-unemployment ratio* and from 2003 to 2019 for all other indicators. The benchmark ranges are established using the methodology outlined in E. Ens, K. See and C. Luu, "Benchmarks for assessing labour market health: 2023 update," Bank of Canada Staff Analytical Note No. 2023-07 (May 2023).

Sources: Statistics Canada and Bank of Canada calculations
Last observation: 2025Q3

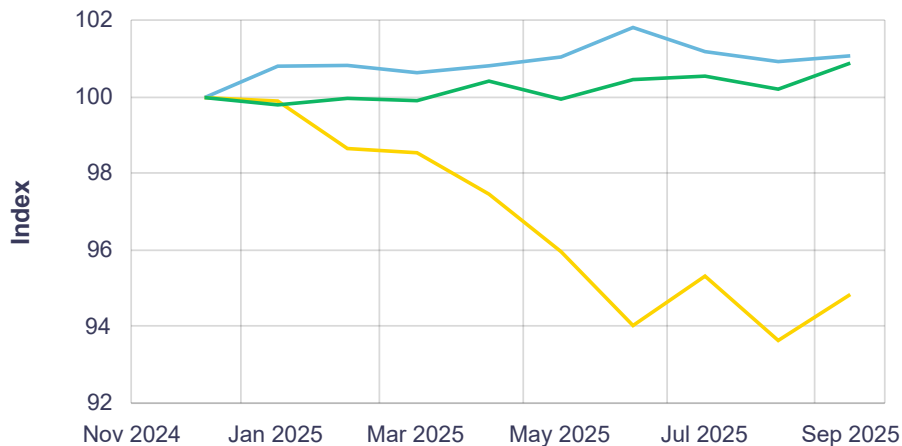
Labour market weakness continues

Employment gains in September were strong but followed two months of sizable losses. Overall, employment growth has been weak due to slowing demand and low population growth.

Industries sensitive to trade have been the primary source of weakness in employment growth since the beginning of the year (**Chart 7**). Layoffs have been reported in the aluminum, steel and auto industries. In other sectors, layoffs remain modest, which can be seen in the low job separation rate. Most businesses surveyed anticipate that their workforce will remain unchanged over the next 12 months, citing ongoing tariff uncertainty, soft demand and minimal capacity pressures.¹

Chart 7: Employment remains weak in sectors that rely on exports to the United States

Employment level, index: December 2024 = 100, seasonally adjusted, monthly data



- Private sectors with limited reliance on exports to the United States (70% of total employment)
- Private sectors with high reliance on exports to the United States (8% of total employment)
- Public sector (22% of total employment)

Note: A sector is considered to have significant reliance on exports to the United States if at least 35% of the sector's jobs depend on US demand. These include several manufacturing and transportation subsectors as well as commodities sectors, including energy and forestry.

Sources: Statistics Canada and Bank of Canada calculations

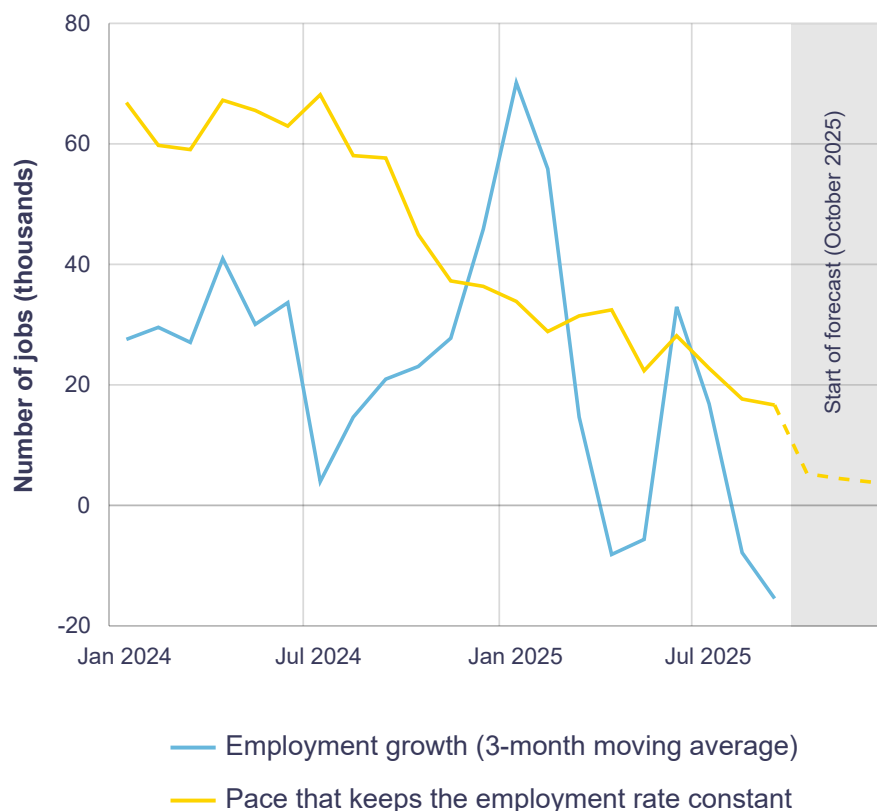
Last observation: September 2025

At the same time, the decline in population growth means fewer new jobs are needed to keep the employment rate steady (**Chart 8**). By the end of 2025, it is estimated that fewer than 5,000 jobs will need to be added each month to sustain the employment rate. This compares with an average of 18,000 new jobs needed each month between 2000 and 2019, and more than 60,000 new jobs per month needed in the first half of 2024, when population growth was much higher.

The unemployment rate was 7.1% in both August and September—its highest level since 2016, excluding the pandemic period—and the rate of long-term unemployment has risen.² Reflecting the soft labour market, wage growth has slowed, with most measures now close to 3% (**Chart 9**).

Chart 8: Employment growth is weakening

Seasonally adjusted, monthly data



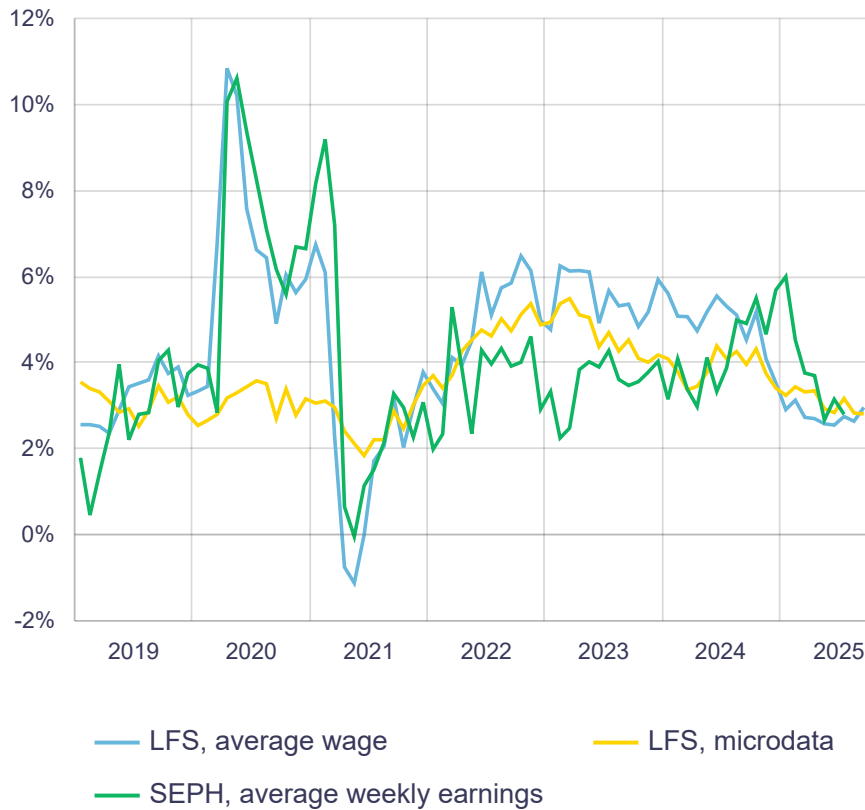
Note: Employment growth needed to keep the employment rate constant is calculated by multiplying the net monthly change in the size of the working-age population in the Labour Force Survey by the previous month's employment rate.

Sources: Statistics Canada and Bank of Canada calculations and estimates

Last data plotted: December 2025

Chart 9: Wage growth is around 3%

Year-over-year percentage change, private sector, monthly data



Note: LFS is the Labour Force Survey; SEPH is the Survey of Employment, Payrolls and Hours. *LFS, microdata* measures wage growth using microdata from the LFS to abstract from changes in worker characteristics, extracting a quality-adjusted price for labour. For more details, see F. Bounajm, T. Devakos and G. Galassi, “Beyond the averages: Measuring underlying wage growth using Labour Force Survey microdata,” Bank of Canada Staff Analytical Note No. 2024-23 (October 2024). All wage series are measured as compensation per hour except for SEPH, which is measured in terms of average weekly earnings. Private sector in SEPH excludes wages from public administration, education, and health care and social assistance.

Sources: Statistics Canada and Bank of Canada calculations

Last observations: Labour Force Survey, September 2025; Survey of Employment, Payrolls and Hours, July 2025

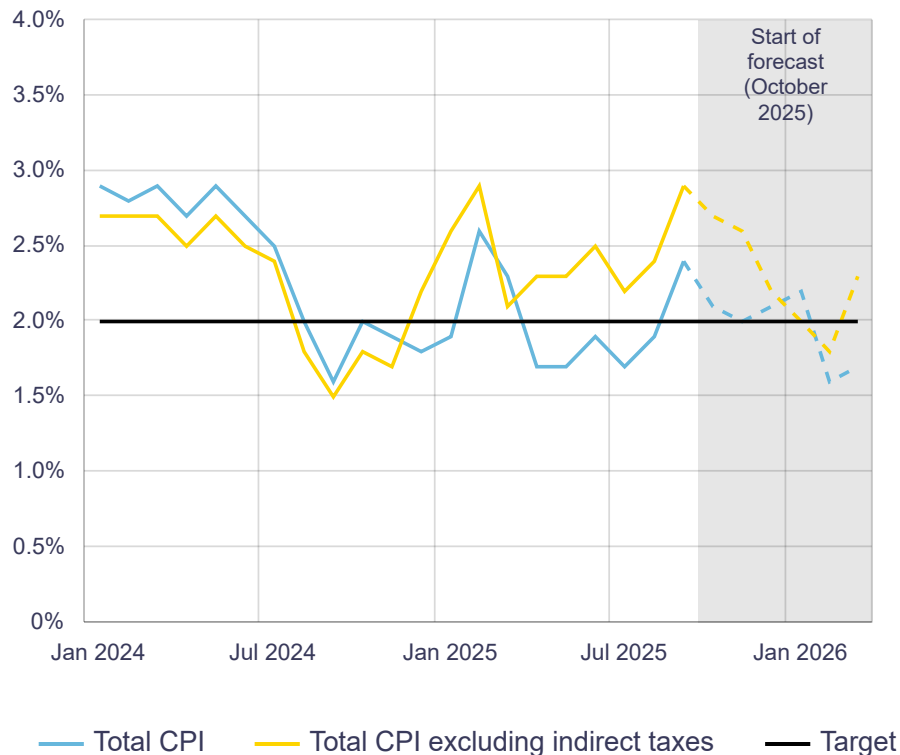
Inflation

CPI inflation rose to 2.4% in September as the drag from gasoline prices faded. Inflation excluding indirect taxes was 2.9% (**Chart 10**).

Inflation in goods excluding energy remains above its historical average at 2.3%, reflecting the strength of past cost pressures and counter-tariffs. Energy prices are dampening overall inflation following the removal of the consumer carbon tax in April, although higher refinery margins have partially offset this. In September, energy inflation was -2.6%.

Chart 10: CPI inflation rose in September as the drag from gasoline prices eased

Year-over-year percentage change, monthly data

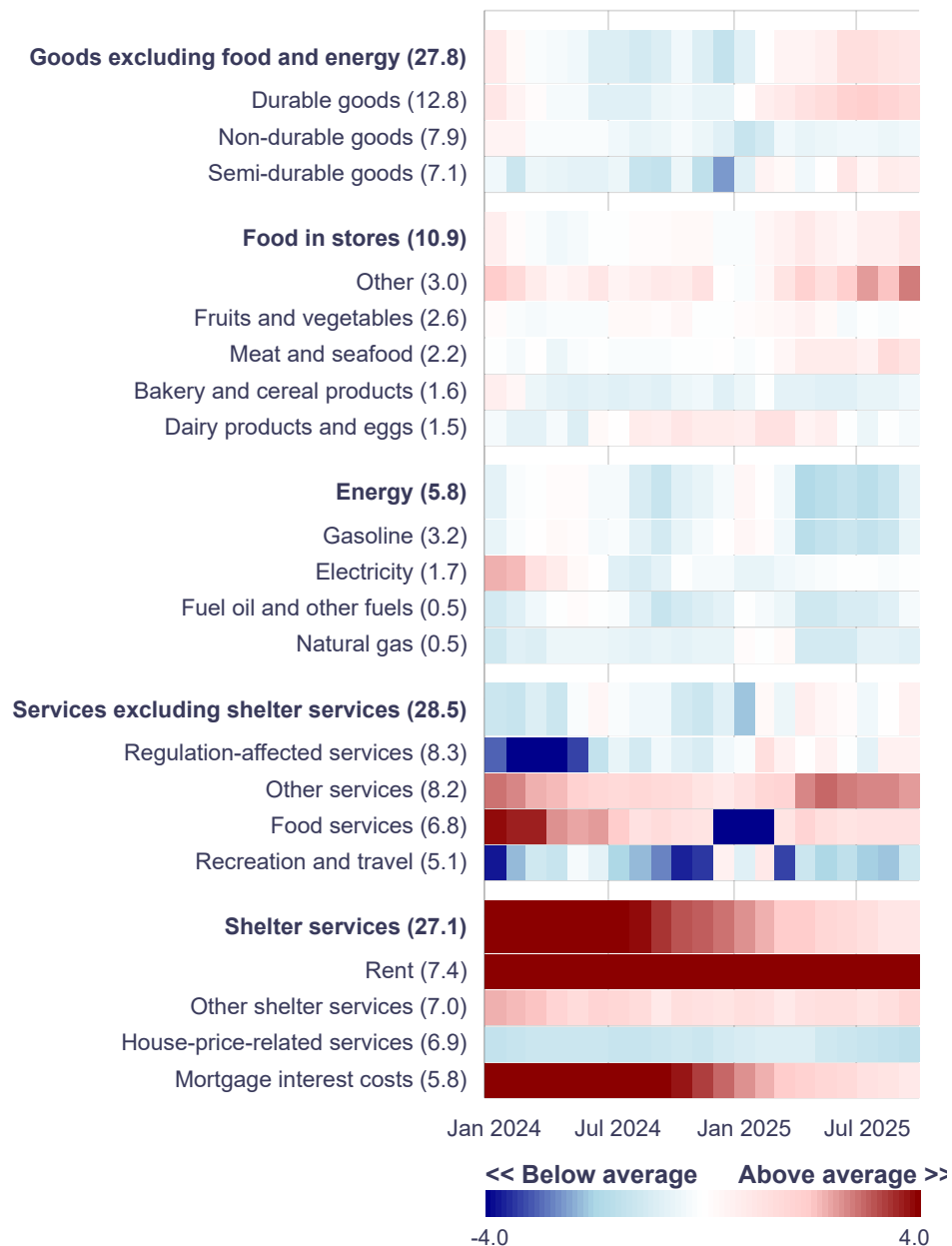


Sources: Statistics Canada and Bank of Canada calculations and estimates
Last data plotted: March 2026

Inflation in services prices remains close to 3%, supported by strong growth in prices for some shelter components, financial services, fast food and motor vehicle insurance. But inflationary pressures from shelter services prices have been moderating as inflation in mortgage interest costs has continued to ease (**Chart 11**).

Inflation is expected to drop in October as energy prices decline, reflecting both lower oil prices and reduced refinery margins. Year-over-year inflation is anticipated to rise slightly by January 2026. This is mainly because prices will be compared with those from the same time last year, when the GST/HST holiday temporarily lowered some prices. After January 2026, inflation is projected to dip below 2% due to lower energy prices and the end of the volatility associated with the GST/HST holiday.

Chart 11: Inflation in shelter services prices has moderated since the start of the year



Note: The heatmap shows the distance of each CPI component's year-over-year inflation rate from its historical average. The colour is white when a component's inflation rate is close to its average and is a varying shade of blue (red) when the rate is below (above) the average. Because the historical range of inflation varies widely across CPI components, each inflation rate plotted in the heatmap is standardized by subtracting its mean and dividing by its standard deviation. This standardization is conducted using data from 1996 to 2019, except for *Regulation-affected services* and *Other services*, where available data begin in 2004 and 2008, respectively. Note that *Regulation-affected services* includes prices that are affected by government regulations either directly (e.g., child care services) or indirectly (e.g., telephone services). Values in parentheses are CPI weights (in percent). Due to rounding, weights within categories may not sum to their respective totals. The components include the temporary GST/HST holiday (December 14, 2024, to February 15, 2025). This tax change impacts a wide range of goods and services, particularly semi-durable goods and food services.

Sources: Statistics Canada and Bank of Canada calculations

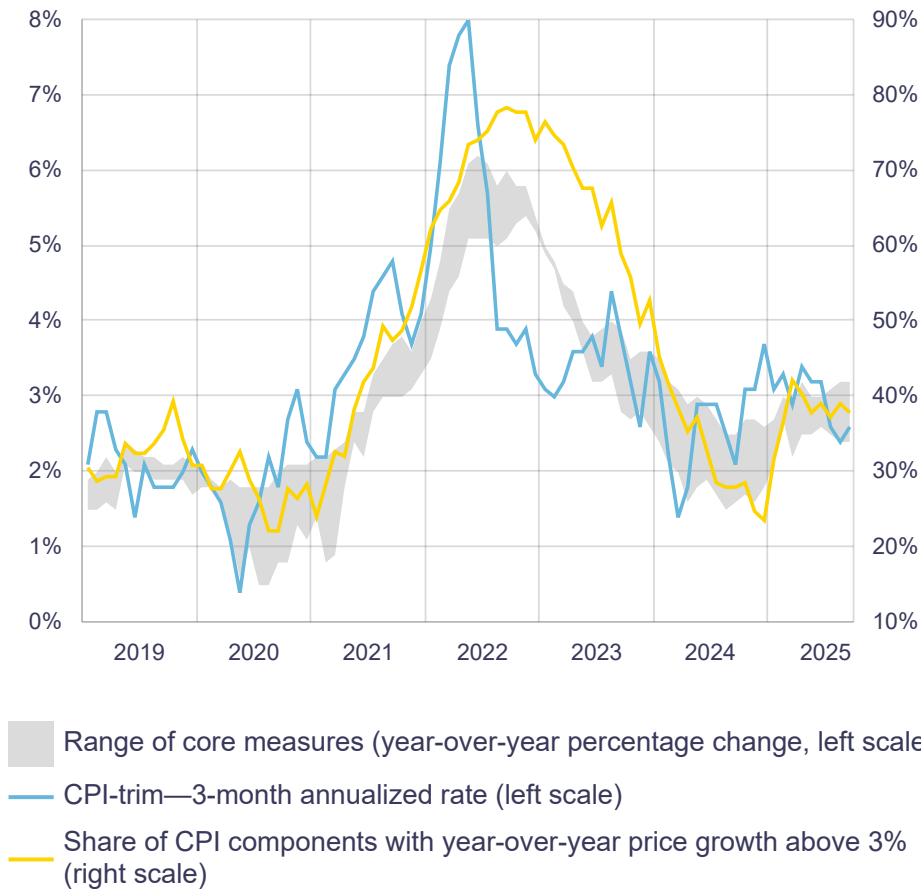
Last observation: September 2025

Underlying inflation has persisted at close to 2½%

A broad range of indicators continue to suggest that underlying inflation remains close to 2½% (see **In focus: Assessing underlying inflation**). Most measures of core inflation have been between 2½% and 3¼% in recent months (**Chart 12**). However, the upward momentum observed earlier in the year seems to have faded, with the three-month rates having edged down. The share of CPI components rising by more than 3% year over year has also declined modestly since its peak in March but remains above its historical average.

Chart 12: Core inflation is elevated, but the upward momentum has faded

Monthly data



Note: Core measures included are CPI-trim, CPI-median, CPIX and CPIXFET. CPI-trim excludes CPI components whose rates of change in a given month are located in the tails of the distribution of price changes. CPI-median is a measure of core inflation corresponding to the price change located at the 50th percentile. CPIX excludes eight of the most volatile components of inflation. CPIXFET excludes food and energy inflation. All core inflation measures exclude the effect of indirect taxes.

Sources: Statistics Canada and Bank of Canada calculations

Last observation: September 2025

Cost pressures are easing but are still a concern (see **In focus: Shifts in cost pressures**). Several factors have contributed to the moderation in cost pressures. These include:

- the removal of most counter-tariffs on imported goods from the United States
- the easing of labour cost pressures, with growth in unit labour costs for the business sector of around 2% over the past four quarters

- the diminishing impact of past pressures coming from high global shipping costs, severe weather and the depreciation of the Canadian dollar

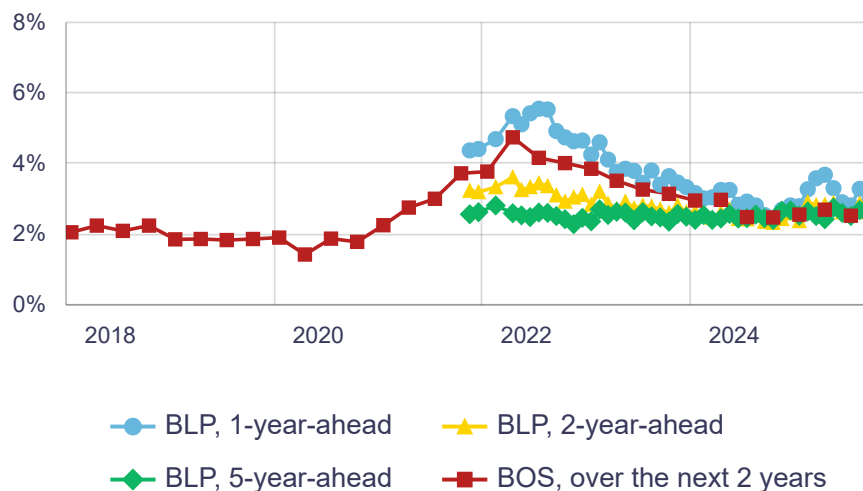
Businesses surveyed in the third quarter reported modest pressures on their costs, often linked to trade tensions.

After rising slightly in early 2025 due to concerns about tariffs, businesses' short-term inflation expectations declined in the third quarter and are now only slightly above their levels in late 2024 (**Chart 13**). Consumers' short-term inflation expectations have remained broadly unchanged in 2025 and are still above their pre-pandemic averages.

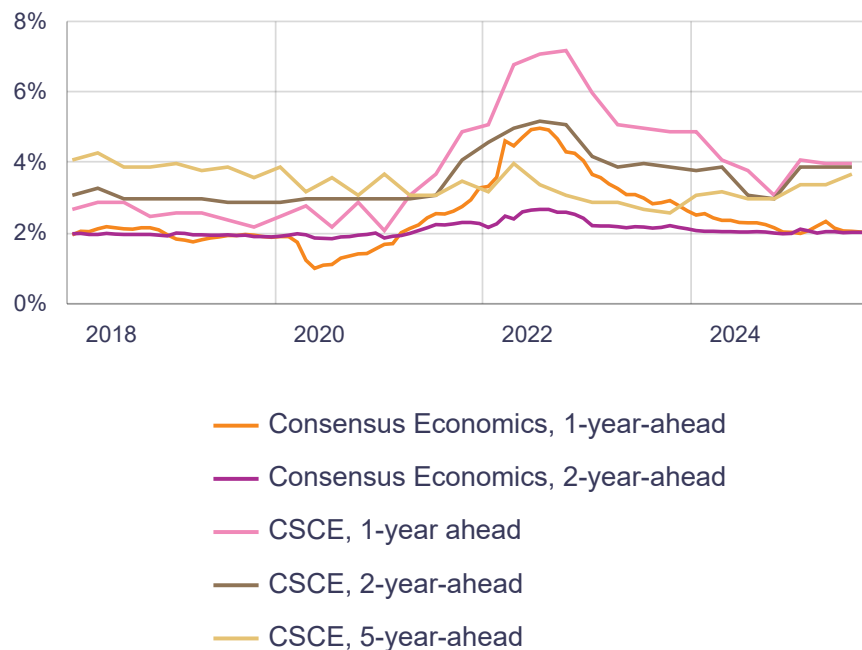
Chart 13: Businesses' inflation expectations have declined, while consumers' expectations have been flat

Quarterly and monthly data

a. Businesses



b. Consumers and professional forecasters



Note: CSCE is the Canadian Survey of Consumer Expectations; BOS is the Business Outlook Survey; BLP is the Business Leaders' Pulse. Consensus Economics' forecasts for the next year (based on monthly data) and the next two years (based on a combination of monthly and quarterly data releases) are transformed into fixed-horizon forecasts by the weighted average of fixed-date forecasts. *1-year-ahead* refers to inflation expectations for the next 12 months. *2-year-ahead* refers to inflation expectations for the period 12 to 24 months from now. *5-year-ahead* refers to inflation expectations for the period 48 to 60 months from now. This question was not asked in the January or March 2022 BLP.

Sources: Consensus Economics, Bank of Canada and Bank of Canada calculations

Last observations: Consensus Economics and Business Leaders' Pulse, September 2025;

Canadian Survey of Consumer Expectations and Business Outlook Survey, 2025Q3

Commodities

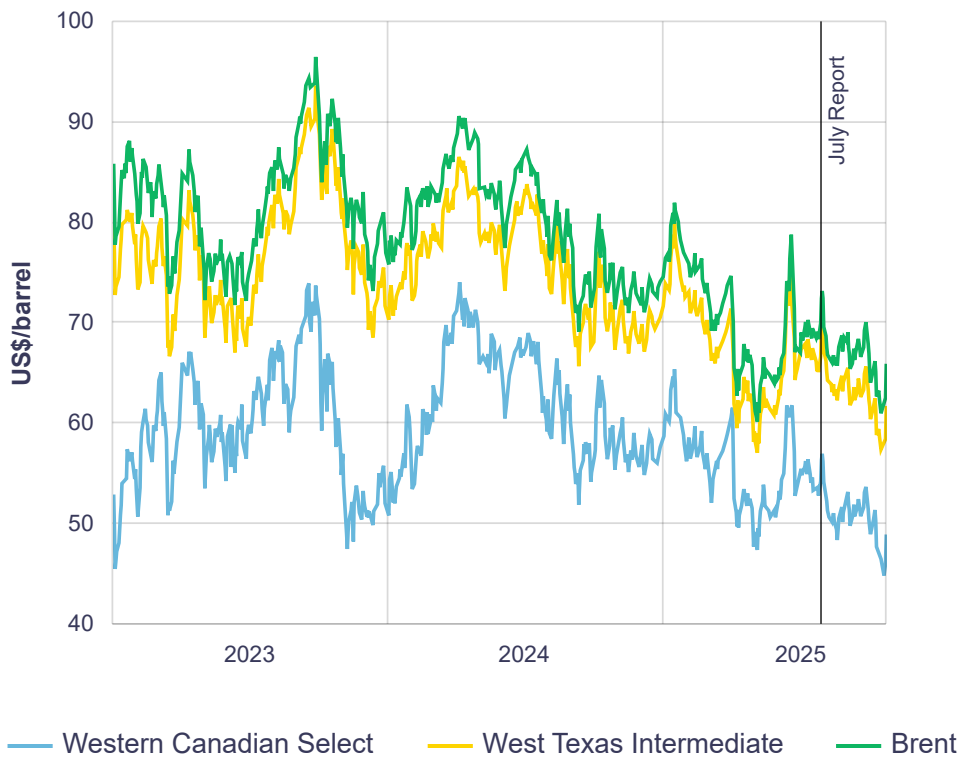
Oil prices remain broadly in line with levels assumed in the July Report. The Bank of Canada's non-energy commodity price index has since risen.

Energy

Brent oil prices have fluctuated around US\$65 since early August (**Chart 14**). Unexpectedly large increases in oil supply by the Organization of the Petroleum Exporting Countries have been largely absorbed by strong demand from China to fill its reserves. As a result, the price of Brent crude oil remains near the US\$65 assumption used in the July Report. Natural gas prices have moved up since the July Report.

Chart 14: Oil prices are close to levels observed in August

Daily data



Sources: NYMEX and Intercontinental Exchange via Haver Analytics and Argus Media
Last observation: October 23, 2025

Non-energy commodity prices

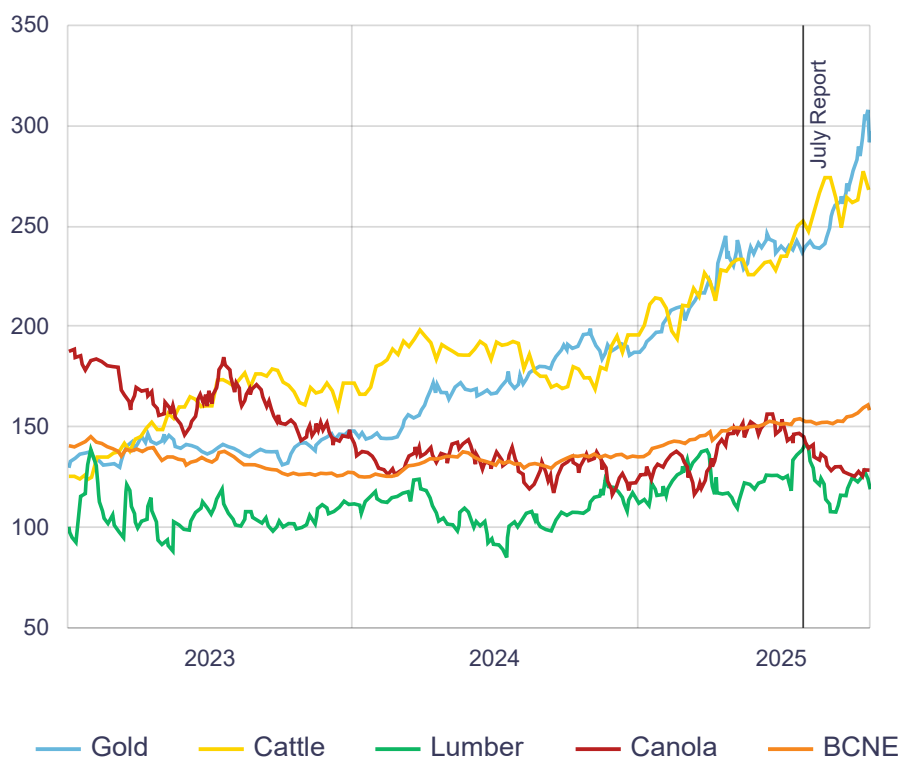
The Bank's non-energy commodity price index has risen since the July Report, with higher gold and cattle prices more than offsetting declines in other components.

Gold prices have increased by 25% since the end of July (**Chart 15**). This reflects solid demand amid geopolitical and US policy uncertainty. In addition, demand for gold as a reserve asset has grown, with some central banks diversifying away from the US dollar.

Cattle prices have risen by 6% since July, supported by historically low herd counts. These gains have been partially offset by lower lumber (-15%) and canola (-11%) prices amid trade actions restricting market access for Canadian producers.

Chart 15: Gold and cattle prices continue to climb

Commodity prices, index: 2019 = 100, daily data



Note: Gold is measured in US dollars per ounce, cattle is measured in US dollars per 100 pounds, lumber is measured in US dollars per 1,000 board feet, and canola is measured in US dollars per bushel. BCNE is the Bank of Canada non-energy commodity index.

Sources: Gold: Handy and Harman, N.Y.; Cattle: Steer feeder, Oklahoma City; Lumber:

Chicago Mercantile Exchange; Canola: #1 Canada in store, Vancouver

Last observation: October 23, 2025

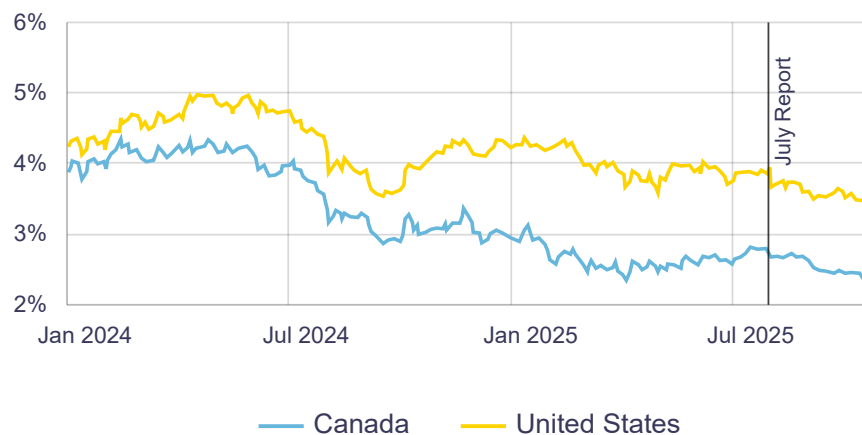
Financial conditions

Canadian and US financial conditions have eased since July. Recent signs of weakening economic conditions have led to expectations for additional cuts to policy interest rates and lower yields for both Canadian and US government bonds (**Chart 16**). The decline in yields and continued strong earnings have supported the ongoing strength of risk assets. Most equity markets are currently trading near all-time highs and above their July levels (**Chart 17**). Corporate spreads are relatively unchanged and remain below their historical averages.

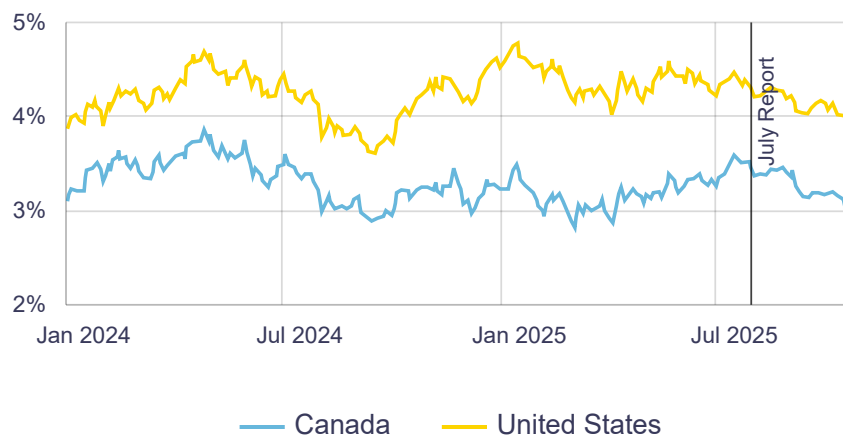
Chart 16: US and Canadian bond yields have declined since the July Report

Daily data

a. 2-year government bond yield



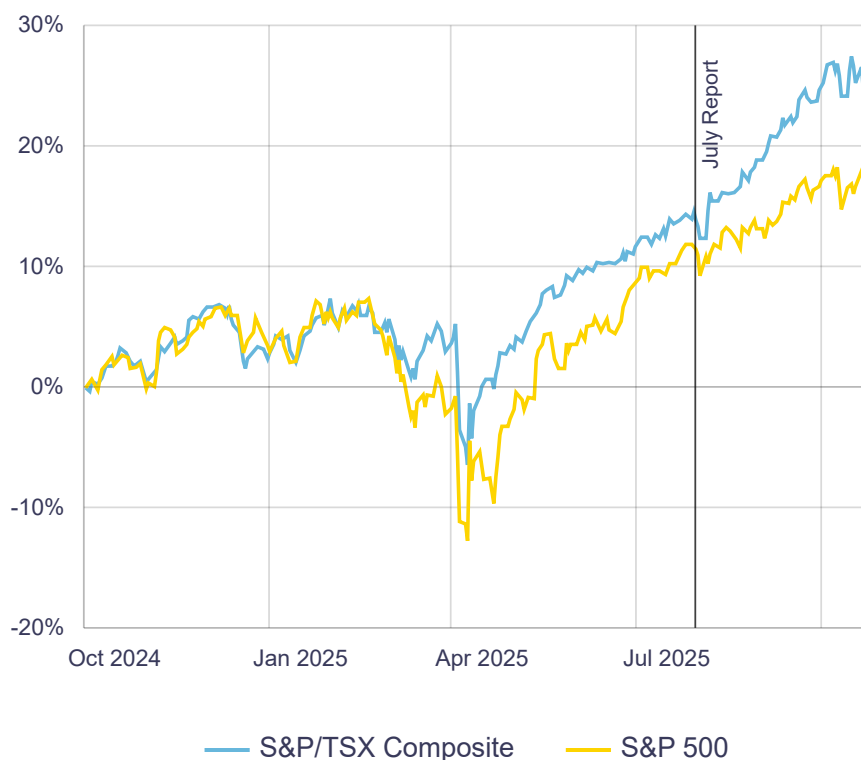
b. 10-year government bond yield



Source: Bloomberg Finance L.P.
Last observation: October 24, 2025

Chart 17: Equity markets have continued to rise sharply since the July Report

Daily data



Source: Bloomberg Finance L.P.
Last observation: October 24, 2025

The Canadian dollar has weakened slightly against the US dollar since July and is currently trading below 72 cents US. However, both currencies have depreciated against several other currencies, partly due to recent signs of softening economic conditions in North America.

The ongoing decline in the US dollar continues the broader trend observed since the beginning of 2025. The US dollar has now depreciated by about 7% against other major currencies since the start of the year and is about 3% weaker against the Canadian dollar.

Endnotes

1. See Bank of Canada, *Business Outlook Survey—Third Quarter of 2025* (October 2025). [[←](#)]
2. Long-term unemployment is defined as being unemployed for 27 weeks or more. [[←](#)]

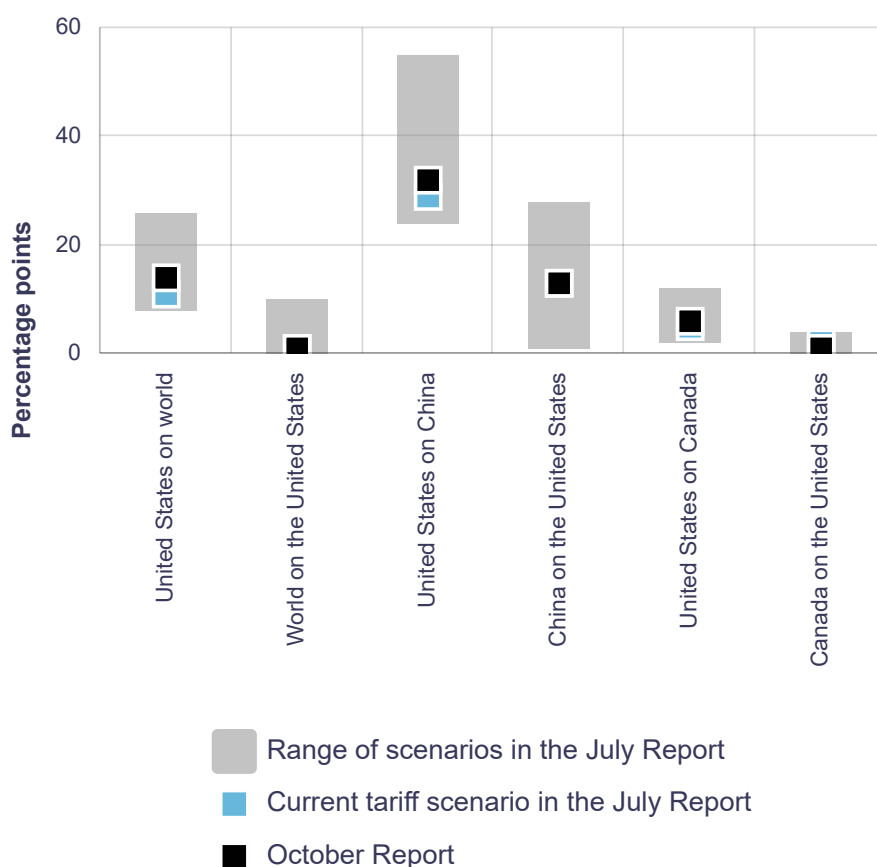
Tariff and other assumptions

Many countries have signed new trade agreements with the United States. US tariffs continue to be in flux, and the future of trade in North America remains uncertain.

Trade negotiations between Canada and the United States, including the review of the Canada-United States-Mexico Agreement (CUSMA), remain uncertain. The projection is based on tariffs in place or officially agreed on by October 22, 2025 (**Chart 18**).

Chart 18: The increase in tariff rates is larger than previously assumed

Estimated increases to average tariff rates on imported goods since the start of 2025



Note: To highlight changes reflecting the dramatic shift in US trade policy, the chart presents the marginal change in tariff rates from the start of the year up to October 22, 2025. Calculating tariff levels from other countries on the United States before 2025 is challenging due to data limitations.

Source: Bank of Canada calculations

The average level of tariffs between the United States and Canada has increased significantly since the beginning of 2025 but only slightly since the July Report (**Table 1**).

Table 1: Average tariff rates on exports and imports of goods embedded in the outlook (%)

	Before 2025	July [*]	October
US tariff rate on Canada	0.1	4.4 (4.8)	5.9
Canadian tariff rate on the United States[†]	0.0	2.6 (2.1)	1.0

^{*} Numbers in parentheses are the average tariff rates published in the July Report. The assumptions have been revised based on new data and methods.

[†] These tariff rates include the impact of Canadian tariff remissions.

How the average tariff rates are calculated

Average tariff rates are calculated by weighting each recently announced tariff for a given product by that product's share of exports in 2024. This includes only import tariffs, which is a general tax a government imposes on goods entering a country. Countervailing or anti-dumping duties, such as US duties on Canadian softwood lumber, are excluded.¹ Consequently, the average tariff rate understates the true cost to the Canadian economy of the recent trade measures imposed by the United States.

Exemptions under CUSMA and other qualifying factors affect the average tariff rate.² According to the US Census Bureau, 90% of the value of Canadian goods exported to the United States entered that country tariff-free in July 2025. If steel, aluminum, motor vehicles and energy are excluded, then 94% of the value of goods entered the United States tariff-free.

Average tariff rates are based on assumptions made using limited data because many important details—such as the proportion of motor vehicle exports with non-US content—cannot readily be computed. These assumptions are routinely updated to ensure accuracy when new information becomes available.

Canada's average tariff rate on goods imported from the United States includes an estimate for the effect of tariff remissions, as announced by the Government of Canada. These remissions return tariff revenues to affected businesses, which are assumed to remove any impact of tariffs on product prices. This effectively reduces the amount of US imports that are subject to tariffs. If remissions were not taken into account, Canada's average tariff rate on US imports would be estimated to be 2.4% instead of 1.0% in the October Report.

The detailed tariff assumptions in the projection

This outlook assumes that the following tariffs remain in place ([Table 2](#)).

Table 2: Detailed tariff assumptions in the projection

Tariffs in place before the July Report:	
US tariffs on Canada	• 50% on imports of steel and aluminum • 25% on the non-US content of CUSMA-compliant imported motor vehicles • 25% on non-CUSMA-compliant motor vehicle parts • 10% on non-CUSMA-compliant energy or potash products • 35% on other imported goods that do not comply with CUSMA (25%)
	Tariffs added since the July Report:
	• 50% on an expanded set of downstream steel and aluminum products • 50% on copper products, with some exemptions • 25% on selected furniture and fixtures • 10% on softwood lumber[*]
Retaliation by Canada	• 25% on a range of US steel and aluminum imports • 25% on the US content of vehicles imported from the United States
Increase in total tariff rate compared with the start of 2025:	
US tariffs on other regions	• 32.5 pps on Chinese goods (28.5 pps)[†] • 8.5 pps on euro area goods (9.5 pps) • 9.5 pps on Mexican goods (6 pps) • 15.5 pps on average on goods from all other countries (10.5 pps)
Chinese tariffs on Canada and the United States	• an increase equivalent to 13 pps on US goods • up to 100% on some Canadian agricultural products (e.g., canola) • 25% on certain Canadian pork, fish and seafood products

^{*} This tariff rate does not include countervailing or anti-dumping duties that stem from Canada's long-standing disagreement with the United States over softwood lumber.

[†] Numbers in parentheses are assumptions from the July Report.

Note: pps is percentage points. Tariff rate calculations are rounded to the nearest half percent.

Other key inputs to the projection

The Bank of Canada's projection is conditional on several other key inputs and assumptions about their future path. The Bank regularly reviews these assumptions and adjusts the economic projection accordingly.

- Tariffs and trade tensions reduce total factor productivity and investment, resulting in Canada's potential output being 0.8% lower in 2026 than expected in January.
 - Global potential output in 2026 is 0.2% lower due to trade tensions.
- The impact of policy uncertainty is assumed to slowly decrease around the world in 2026.
- In Canada, some tariff revenues are remitted back to affected businesses. All remaining revenues are redistributed to households.
- In all other countries, half of the revenues from tariffs are redistributed to households, while the rest are added to general government revenues.
- In most countries, three-quarters of the increased costs from tariffs are passed through to consumer prices within six quarters.
 - In the United States, tariffs are assumed to be passed through to goods prices in roughly three quarters. The United States is the only country to impose tariffs on all its trading partners, increasing the cost of imports from all countries. This means businesses do not need to worry about cheaper substitutes and can therefore pass on tariff-related cost increases more quickly.
- The projection incorporates information from published provincial budgets and new federal fiscal measures that have been tabled at the time of writing.
- The rate of population growth of people aged 15 and over in Canada is assumed to slow from 3.3% in 2024 to 1.5% in 2025. It then slows further to an average of 0.5% in 2026 and 2027.
 - The population of Canada by the end of 2026 is roughly in line with the outlook in the January Report.
- Potential output growth in Canada is expected to slow from 1.6% in 2025 to 1.0% in 2026. It then rises to 1.3% in 2027.
 - Annual revisions to potential output growth were published in the April Report. Given the uncertainty around US trade policy at that time, two scenarios were presented, each with different implications for potential output. The outlook for potential output has evolved closer to the first scenario, which featured limited tariffs and high uncertainty. The base-case projection for October builds on this profile and incorporates the rise in US tariffs, historical revisions and recent data.

- The nominal neutral interest rate in Canada is assumed to be in the estimated range of 2.25% to 3.25%.
- Over the projection horizon, the per-barrel prices for oil are assumed to be US\$65 for Brent and US\$60 for West Texas Intermediate. These are \$15 lower than assumed in the January Report. Western Canadian Select is assumed to be US\$50, which is \$10 lower than the assumption in January.
- The Canadian dollar is assumed to average 72 cents US over the projection, 2 cents higher than in the January Report.

Endnotes

1. Although these specific duties are excluded from the average tariff rate calculations in this Report, the estimated economic impact resulting from changes to these duties is incorporated into the economic outlook.[←]

2. Other qualifying factors include product-specific exemptions, goods imported by a US government agency, re-exports, repairs or temporary imports.[←]

Outlook

The ongoing trade conflict is fundamentally reshaping Canada's economy and will have a lasting negative impact on economic activity. At the same time, the reconfiguration of global trade and domestic production is putting upward pressure on costs. Reflecting these two competing forces, inflation remains near the 2% target over the projection horizon.

The United States has turned to protectionism and has imposed broad tariffs on most of its major trading partners. US tariffs on Canada are assumed to remain in place for the foreseeable future. Although 90% of the value of Canadian goods exports enter the United States tariff-free, some sectors have faced significant increases in tariffs. These increases include levies of:

- 50% on steel and aluminum
- 25% on the value of the non-US content of motor vehicles that are compliant with the Canada-United States-Mexico Agreement (CUSMA); non-CUSMA-compliant motor vehicles are subject to a 25% tariff on the entire value of the vehicle

As a result, the average tariff rate on Canadian exports has risen from 0.1% at the start of 2025 to around 5.9% in October. In response, Canadian businesses are actively seeking new trade partners and adjusting their supply chains.

This Report provides a base-case projection. Uncertainty about the Canada-US trade relationship nonetheless remains elevated. Both the unpredictability of US tariffs and the upcoming review of CUSMA are contributing to this uncertainty.

US trade policy is disrupting the Canadian economy

The outlook is based on the tariffs in place by October 22, 2025. It is presented relative to January, which was the last Report with a base-case projection.

Tariffs and trade policy uncertainty have reduced foreign demand for Canadian exports and have triggered significant structural changes to the Canadian economy. While some exporters are expected to break into new international markets, others will struggle. The adjustment process will result in job losses in some sectors and hiring in others, with some workers transitioning into new roles that may not fully match their skills. Investment will slow, and some existing capital could be written off or diverted toward a less profitable use.

These structural changes are anticipated to cause Canada's potential output to grow more slowly than expected in January. The structural adjustment and the weakness in demand are expected to lead to a period of slow growth in household incomes, which will weigh on household spending, particularly in 2026.

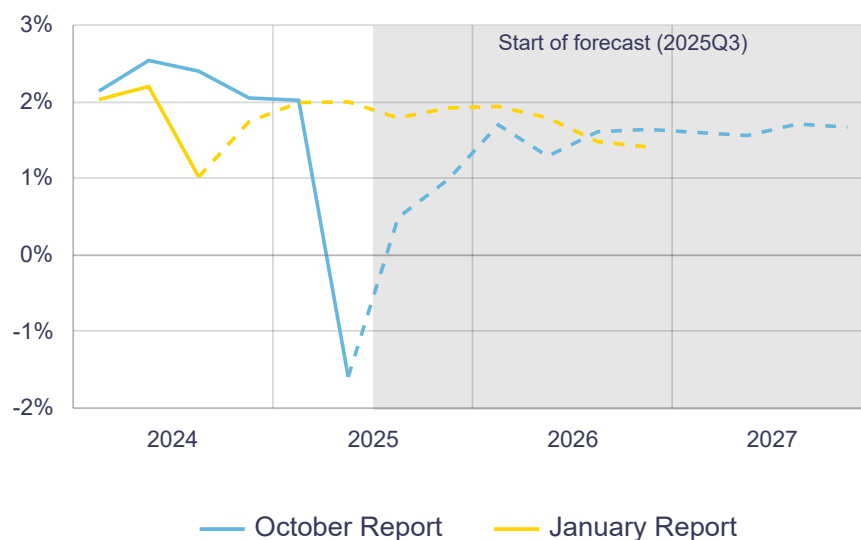
How exactly structural adjustment and weakness in demand play out over time is subject to considerable uncertainty and is important for the conduct of monetary policy. Over time, monetary policy can effectively mitigate the slowdown in demand and the disinflationary pressures arising from excess supply. However, monetary policy cannot offset the negative effect that structural adjustments—such as from sectoral reallocation and its effect on trend productivity—have on the growth of gross domestic product (GDP).

GDP growth is expected to gradually increase over the second half of 2025. Growth in 2026 and 2027 averages around 1.4%. However, US tariffs are anticipated to permanently reduce the level of Canadian GDP when compared with the January Report (**Chart 19**).

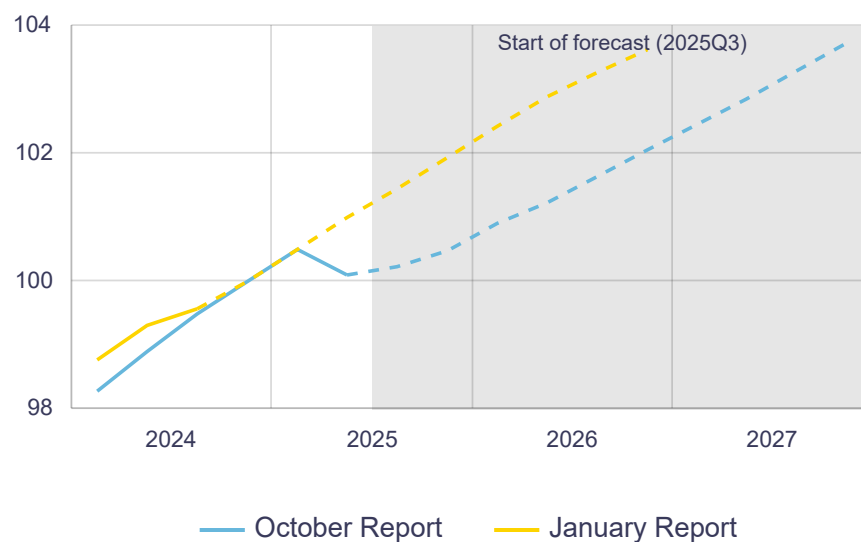
Chart 19: GDP growth is expected to strengthen, but the level of activity is lower than projected in the January Report

Quarterly data

a. Quarter-over-quarter percentage change of real GDP at annual rates



b. Level of real GDP, index: 2024Q4 = 100



Sources: Statistics Canada and Bank of Canada calculations, estimates and projections
Last data plotted: 2027Q4

The reconfiguration of global trade and domestic production is expected to put upward pressure on costs for businesses. At the same time, tariffs will likely exert upward pressure on prices over the projection horizon. However, the impact on inflation from tariffs is now less pronounced than previously anticipated because most Canadian counter-tariffs have been removed.

Overall, inflation is projected to remain close to 2%. The effects of weaker demand on the economy are anticipated to mostly offset the inflationary pressures caused by tariffs.

Economic outlook

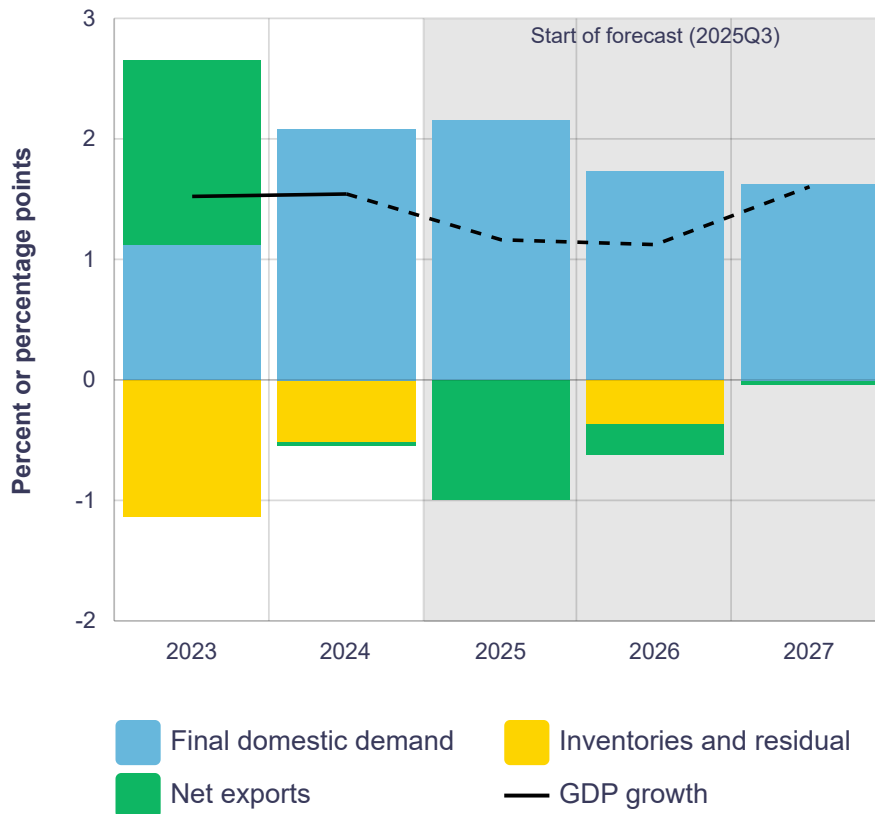
The trade conflict has put the Canadian economy on a lower path. Both potential output and demand conditions have been affected, with the level of GDP projected to be about 1.5% lower by the end of 2026 than in the January Report. About half of this downward revision reflects lower potential output, which mostly stems from the impact of the reallocation of capital and labour because of tariffs. The remaining half of the downward revision to GDP is due to weaker demand, most of which is directly related to the decline in exports. However, separating the effects of cyclical fluctuations from structural change in real time is imprecise.

GDP is expected to gradually pick up during the second half of 2025. Growth then averages about 1.4% over 2026 and 2027 (**Chart 20**). The recovery in GDP is projected to be slow because the reallocation of capital and labour in the economy and the weakness in the labour market weigh on household spending.

Growth in potential output is expected to stay subdued in 2026 before picking up in 2027. Population growth is assumed to remain muted, and the trade conflict is anticipated to hold back growth in trend labour productivity. Excess supply is expected to diminish gradually over the projection horizon.

Chart 20: GDP is expected to average 1.4% in 2026 and 2027

Contributions to real GDP growth, annual change, yearly data



Sources: Statistics Canada and Bank of Canada calculations, estimates and projections
Last data plotted: 2027

Exporters adapt to tariffs gradually

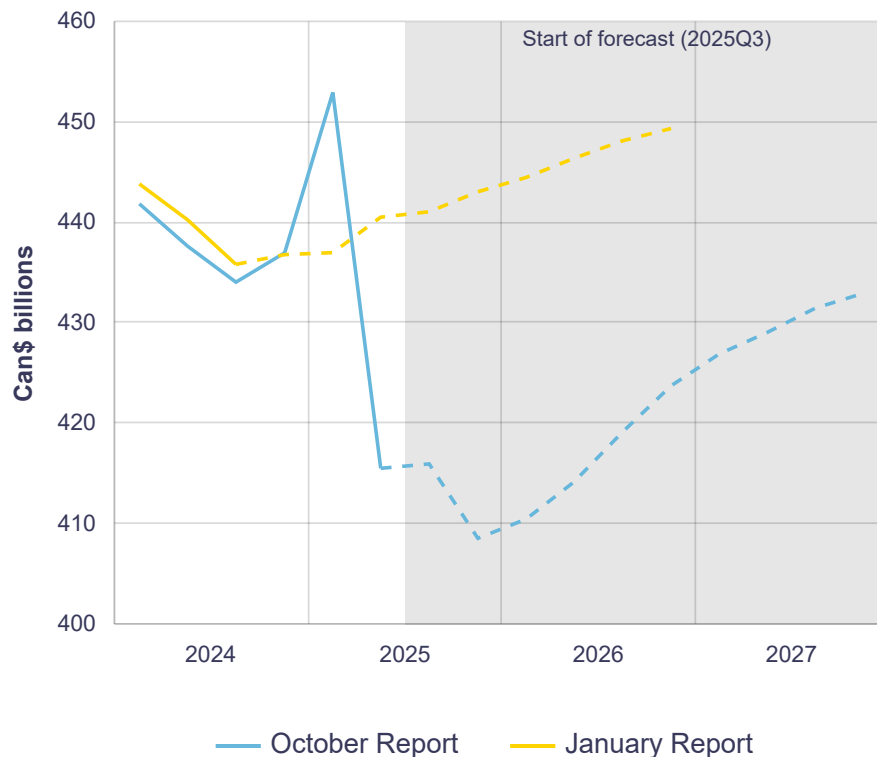
Exports are anticipated to decline in the second half of 2025 due to tariffs and a slowing in US demand growth. Although tariffs are mainly applied to specific sectors, such as steel and aluminum, even exporters outside these sectors face challenges. Some businesses report that their US customers are reluctant to place new orders due to ongoing trade tensions.

Export growth resumes in 2026, supported by foreign demand, but from a substantially lower level. Businesses are also anticipated to make progress toward diversifying exports outside of the United States, although how quickly this proceeds remains highly uncertain. Overall, non-commodity exports remain below their 2024 levels over the projection horizon because of US tariffs (**Chart 21**).

Imports are projected to decline through the end of 2025 partly because of weaker growth in domestic demand. In addition, businesses are expected to import fewer manufacturing inputs because tariffs limit their opportunities to export products. As economic conditions improve and businesses adjust to Canada's remaining counter-tariffs, imports start to grow in 2026 and 2027.

Chart 21: Non-commodity exports are expected to remain below their 2024 levels

Annualized, quarterly data, chained 2017 Canadian dollars



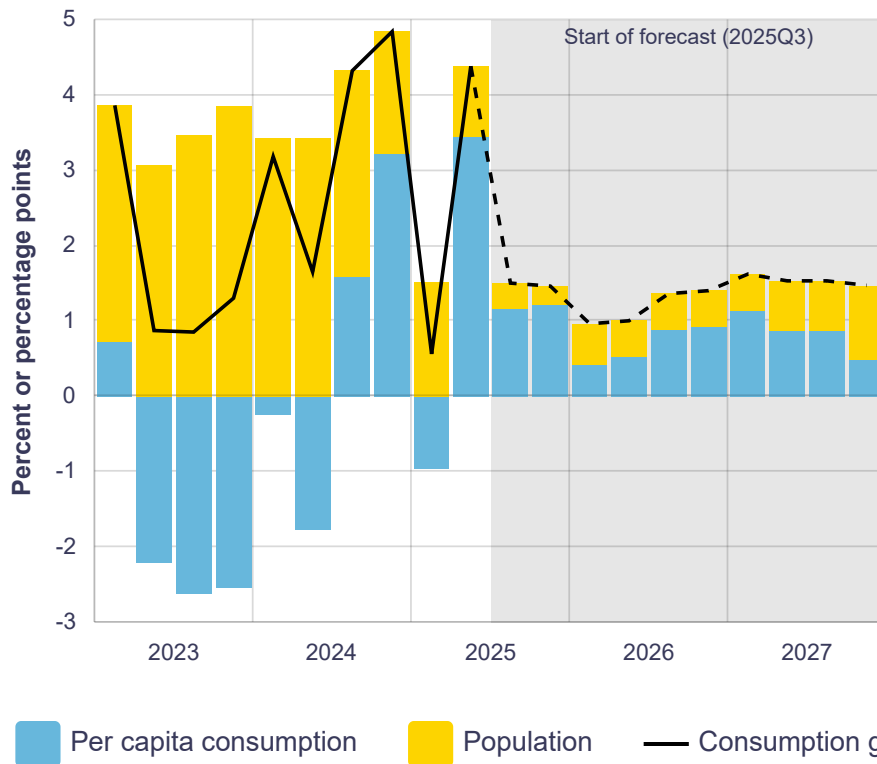
Sources: Statistics Canada and Bank of Canada calculations, estimates and projections
Last data plotted: 2027Q4

Growth in household spending slows

Consumer spending growth is projected to average approximately 1½% over 2026 and 2027, which is notably slower than the 2.8% in 2025 ([Chart 22](#)).

Chart 22: Consumption growth is expected to be slower over the projection horizon

Contribution to consumption growth, quarter-over-quarter at annual rates, quarterly data



Sources: Statistics Canada and Bank of Canada calculations, estimates and projections
Last data plotted: 2027Q4

Population growth is a key factor behind this expected slowdown, driven by government policies designed to reduce the inflow of newcomers. Population growth is assumed to slow to average 0.5% over 2026 and 2027. This pace is much slower than the 1.5% in 2025 or the 3.3% in 2024.

Consumption per person is forecast to expand at a modest pace of approximately 1% on average over 2026 and 2027. Elevated unemployment caused by the trade conflict is expected to restrain disposable income per person. The magnitude of this impact depends heavily on the extent to which the trade conflict affects the rest of the economy. Growth in consumption per person is supported by accommodative financial conditions.

Residential investment is hampered by supply constraints

Residential investment is anticipated to grow modestly over the projection horizon.

Slow growth in disposable income is expected to weigh on growth in renovation spending and resales. Housing starts are anticipated to remain elevated and grow modestly. Pent-up demand and accommodative financial conditions support growth. However, growth is held back by affordability challenges, limited availability of land and a persistent shortage of skilled workers in some regions.

Business investment remains weak

Tariffs and trade policy uncertainty are expected to remain a significant headwind to investment into 2026. Growth in business investment remains subdued mainly due to reduced US demand for Canadian exports. Tempered prospects for domestic demand are also expected to weigh on investment. Both exporting and non-exporting businesses continue to report weak investment plans given the uncertainty about future demand. The level of business investment is projected to remain significantly below the path forecast in January.

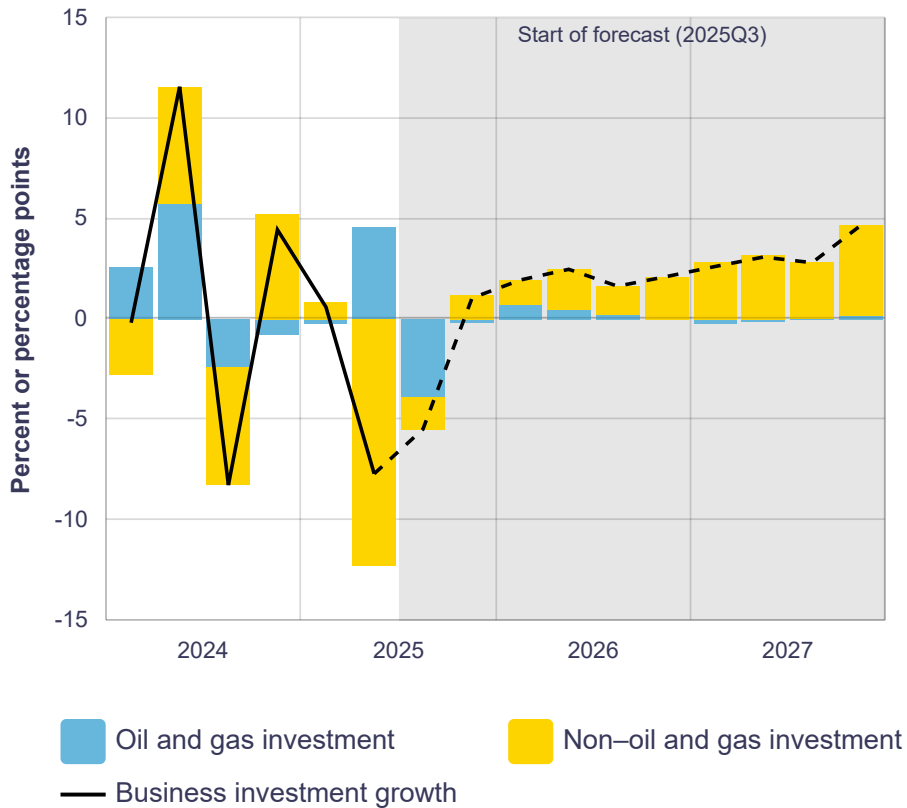
After strong growth in 2024, capital expenditures in the oil and gas sector are expected to slow (**Chart 23**). As the Trans Mountain Expansion Project reaches its full operating capacity, fewer new oil and gas projects will be undertaken.

In 2027, growth in capital spending is expected to pick up modestly as businesses continue to adapt to tariffs from the United States and China.

Inventories are expected to weigh on GDP growth in 2026 as businesses gradually reduce the excess stock they had accumulated in the first half of 2025.

Chart 23: Business investment is anticipated to pick up slowly

Contribution to real business investment growth, quarter-over-quarter at annual rates, quarterly data



Sources: Statistics Canada and Bank of Canada calculations, estimates and projections
Last data plotted: 2027Q4

Government spending is assumed to grow

The projection for government spending is based on information from published provincial budgets and new federal fiscal measures that have been tabled at the time of writing. Government spending is assumed to grow at a moderate pace in 2026 and 2027. However, the path of federal government spending will be clearer after the budget is released on November 4.

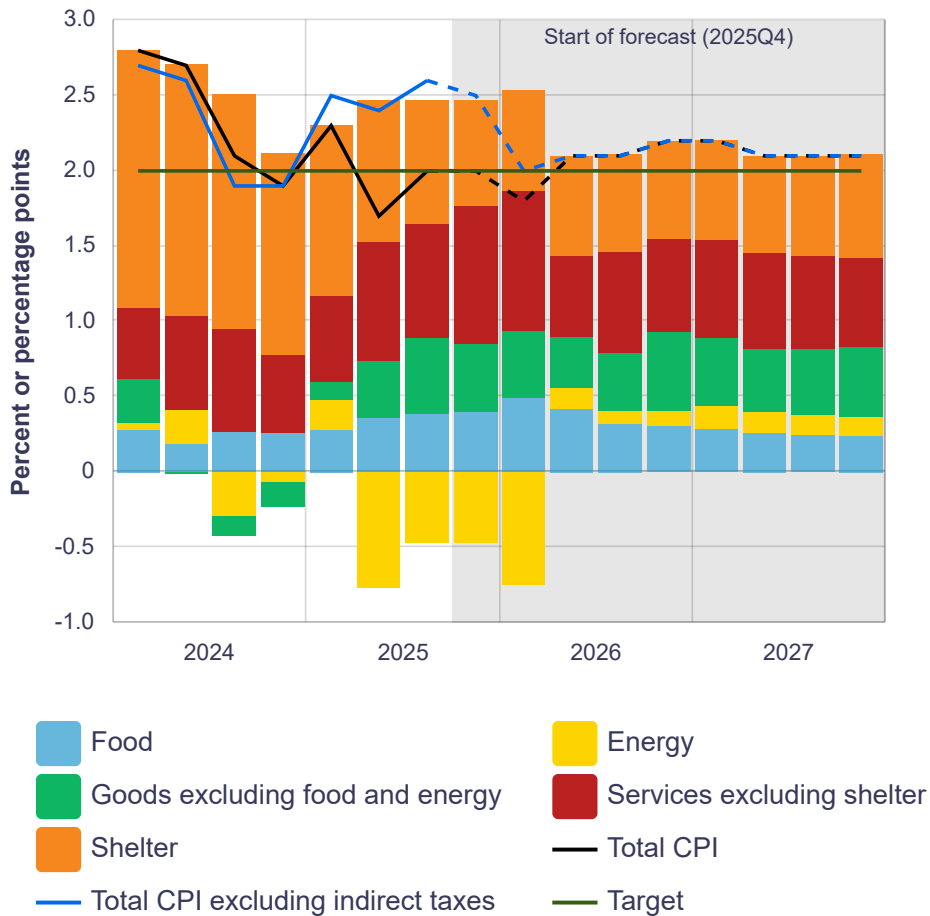
Inflation outlook

Inflation is projected to decline from 2.4% in September and settle around 2% in early 2026. It remains there throughout the projection horizon (**Chart 24**).

Inflation at 2% reflects opposing forces. On the upside, tariffs and the restructuring of global trade and domestic production are raising costs and supporting inflation. On the downside, excess supply dampens inflation.

Chart 24: CPI inflation averages around 2% over the projection horizon

Contributions to year-over-year CPI inflation, quarterly data



Note: No changes to indirect tax rates are assumed over the projection horizon.

Sources: Statistics Canada and Bank of Canada calculations, estimates and projections

Last data plotted: 2027Q4

Inflation in prices for goods

The continued effects of tariffs and the increased cost of imports are expected to put upward pressure on inflation.

While most Canadian counter-tariffs were lifted on September 1, counter-tariffs on steel, aluminum and motor vehicles remain in effect. Tariffs introduced since the start of the trade conflict are now projected to raise the level of the consumer price index (CPI) by roughly 0.4%. This represents a downward revision from the July Report, which had estimated the impact on the level of the CPI to be roughly 0.8%.

US tariffs and the costs associated with the reconfiguration of global trade are anticipated to raise the cost of imports from the United States and goods produced in other countries. For example:

- US tariffs on goods from China will likely increase the cost of electronics imported into Canada because many of these items are shipped through warehouses in the United States. While importing directly from China would bypass these tariffs, doing so would still be expensive for Canadian businesses.
- US tariffs on Brazilian coffee beans are affecting the price of roasted coffee—a commodity Canada primarily sources from the United States.

Ongoing excess supply and fading past cost pressures, including for food, will put downward pressure on inflation. Overall, inflation in goods excluding energy is expected to ease modestly over the projection. In addition, the removal of the carbon tax will stop having a downward effect on inflation by the second quarter of 2026.

Inflation in prices for services

Inflation in prices for services excluding shelter is expected to ease over the projection horizon because of the impact of excess supply.

Inflation in shelter services prices—which is currently elevated—is expected to moderate. Inflation in rent eases because the supply of rental housing is expected to increase and because slower population growth will continue to hold back demand growth.

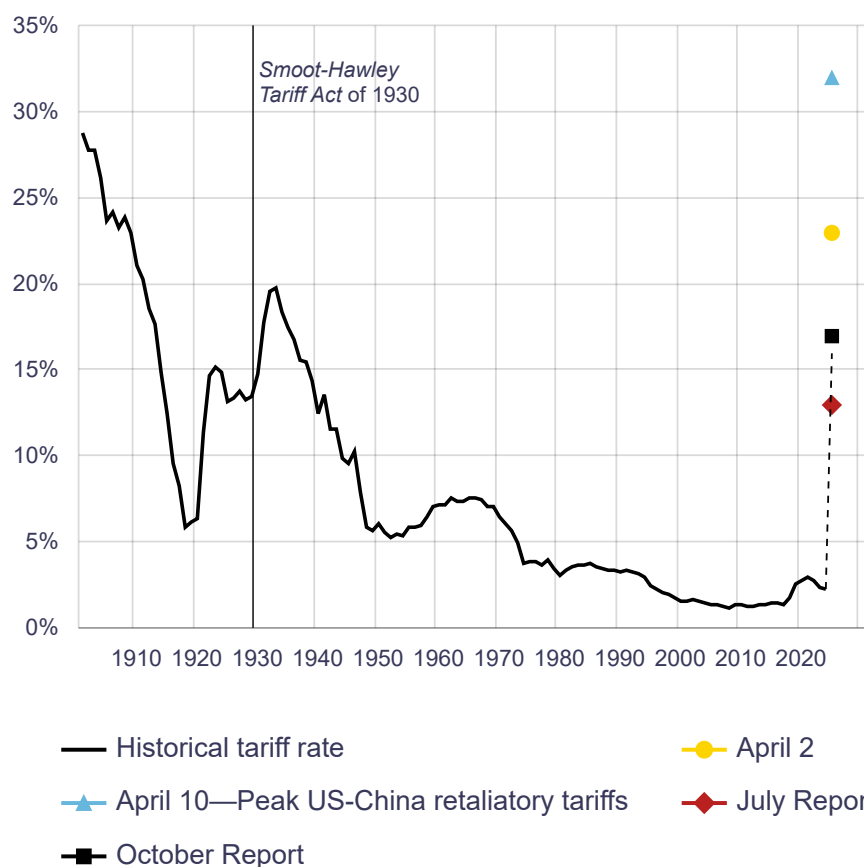
Global economy

Global growth has been resilient. But the historic rise in US tariffs is reshaping global trade, weighing on prospects for global growth and pushing up inflation in the United States.

US trade policy has shifted significantly since January, which is leading to a reconfiguration of global trade. The average US tariff rate has risen to 17%—the highest it has been in more than 80 years—from just above 2% at the start of 2025 (**Chart 25**).

Chart 25: The average US tariff rate has eased since April but remains the highest it has been in decades

US tariff rate, weighted average, annual data

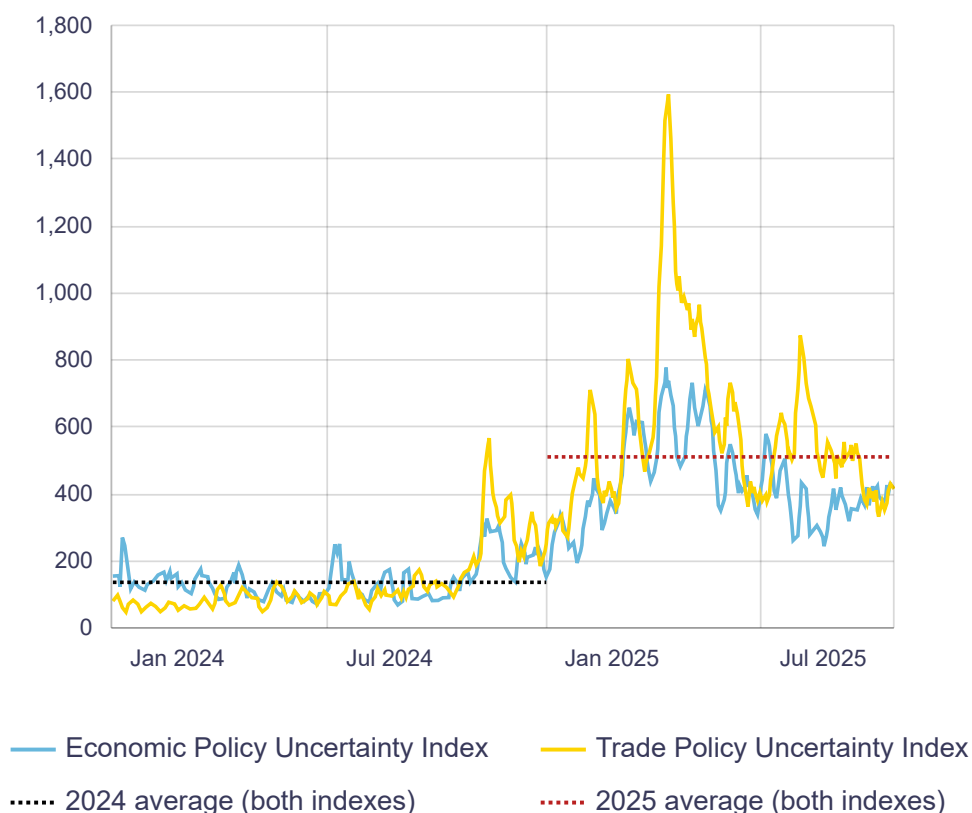


Sources: US International Trade Commission and Bank of Canada calculations
Last data plotted: October 22, 2025

New tariffs continue to be announced on top of existing tariff agreements with the United States. While uncertainty around US trade policy remains elevated, it has eased from its peak earlier in 2025 ([Chart 26](#)). At the same time, retaliatory tariffs have been very modest.

Chart 26: US policy uncertainty indexes remain elevated

US policy uncertainty indexes, index: 2015–19 = 100, 7-day moving average, daily data



Note: The US Trade Policy Uncertainty Index counts the monthly frequency of articles in major US newspapers that discuss trade policy uncertainty. This index was developed in D. Caldara, M. Iacoviello, P. Molligo, A. Pretipino and A. Raffo, “The Effects of Trade Policy Uncertainty,” *Journal of Monetary Economics* 109 (2020): 38–59. The Economic Policy Uncertainty Index counts the number of articles in a broad set of US newspapers that discuss economic policy uncertainty. These indexes are available at policyuncertainty.com. Baker et al. refers to S. R. Baker, N. Bloom and S. J. Davis, “Measuring Economic Policy Uncertainty,” *Quarterly Journal of Economics* 131, no. 4 (2016): 1593–1636.

Sources: PolicyUncertainty.com, Caldara et al. (2020) and Baker et al. (2016) via Haver Analytics and Bank of Canada calculations
Last observation: October 20, 2025

The consequences of US trade policy are playing out in numerous ways:

- Exporters are rerouting goods to avoid tariffs.
- Tariffs and uncertainty are weighing on investment decisions in many countries and leading to a reallocation of capital and labour.
- Tariffs are adding meaningful pressure to US inflation and increasing costs in global supply chains.

The global economy was resilient to this structural change in the first half of 2025, with growth just above 3%. This growth was supported by the front-loading of activity ahead of tariffs and by robust domestic demand in China, the euro area and the United States.

But now growth is showing signs of slowing. Global growth is now expected to average 2½% in the second half of 2025. Growth is then anticipated to rise to around 3% in 2026 and 2027.

However, the reconfiguration of global trade and the reallocation of capital and labour in sectors most affected by the trade conflict are expected to put the global economy on a lower path.

The outlook for growth in gross domestic product (GDP) for the global economy and the United States, in particular, is weaker than expected in the January Report, which was the last Report with a base-case projection.

United States

Economic growth in the United States has remained strong despite the imposition of tariffs and the rise in uncertainty. Recently, however, employment growth has stalled, and investment outside of the growth in artificial intelligence (AI) has weakened. Tariffs have also started pushing up consumer prices.¹

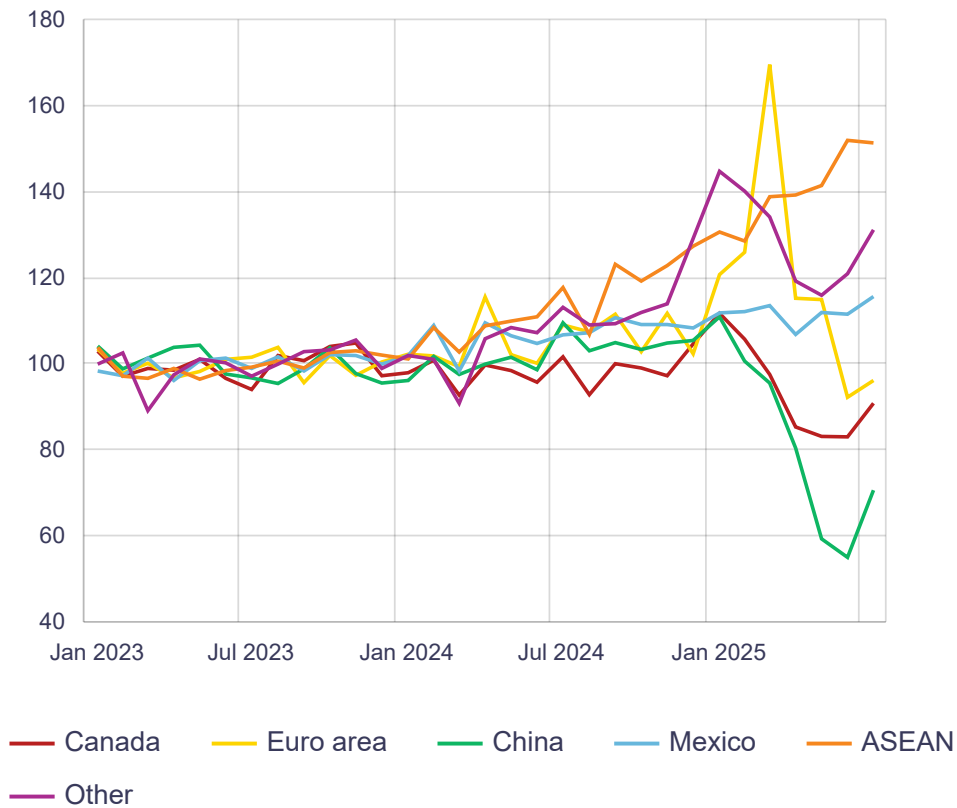
Economic activity is strong, but job growth is slowing

After rebounding to 3.8% in the second quarter of 2025, US economic growth is expected to average 2.5% in the second half of the year.

- Consumption spending growth, particularly among high-income earners, is anticipated to remain solid due to recent gains in the equity market and growth in real income. This strength will more than offset the effects of price increases tied to tariffs, economic uncertainty and reduced immigration.
- Growth in business investment has been strong, boosted by AI-related spending. Policy uncertainty has hampered investment spending in other areas.
- The federal government shutdown will weigh temporarily on government spending.
- US trade flows are projected to be steady through the second half of 2025 after having been volatile earlier in the year. Export growth is forecast to be modest, while higher US tariffs are expected to significantly limit import growth. Imports from China, Canada and the euro area have declined since the beginning of 2025 ([Chart 27](#)).

Chart 27: US imports of goods from China, Canada and the euro area have declined, but imports from other regions have increased

Nominal imports of goods by origin, index: 2023 = 100, seasonally adjusted, monthly data



Note: ASEAN is the Association of Southeast Asian Nations.

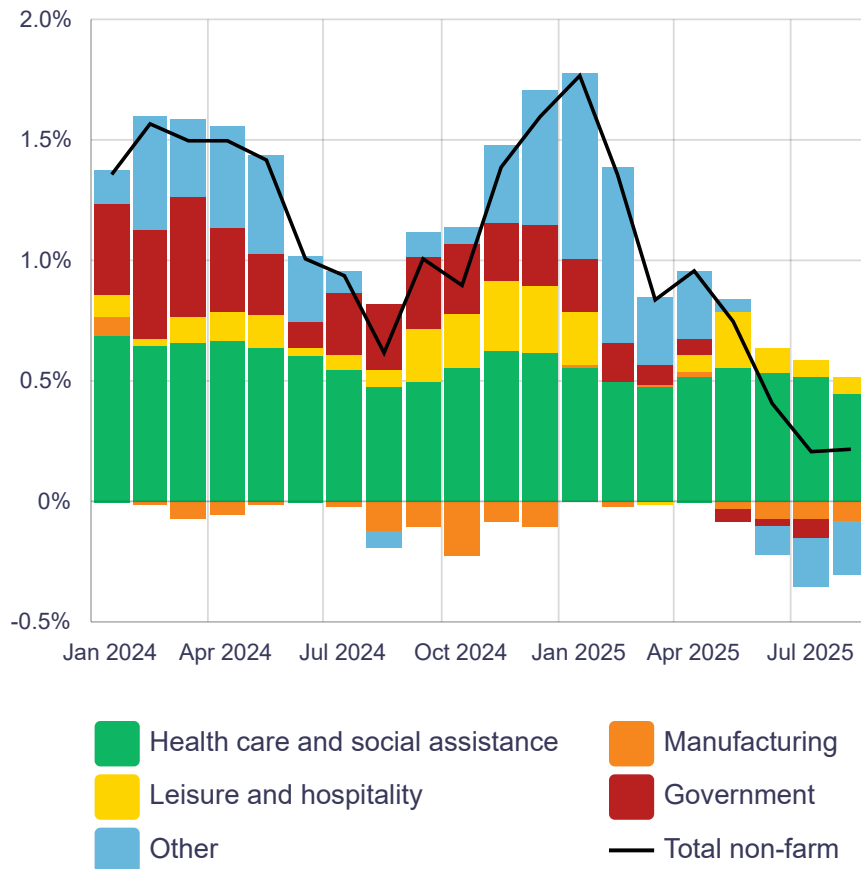
Sources: US Census Bureau via Haver Analytics and Bank of Canada calculations

Last observation: July 2025

Employment growth in the United States has slowed sharply, although the unemployment rate has remained relatively stable (**Chart 28**). Declines in employment in the manufacturing sector have partially offset gains in the health care sector. At the same time, reduced levels of immigration have led to slowing growth in labour supply.

Chart 28: US employment growth by sector has weakened since April

Contributions to US non-farm employment growth, 3-month annualized rate, seasonally adjusted, monthly data



Sources: US Bureau of Labor Statistics via Haver Analytics and Bank of Canada calculations
Last observation: August 2025

Tariffs have increased core inflation

Consumer price index (CPI) inflation has ticked up, largely because businesses have passed on some of the cost of higher tariffs to consumers (**Chart 29**). Businesses will likely pass on more of these costs in the coming quarters.

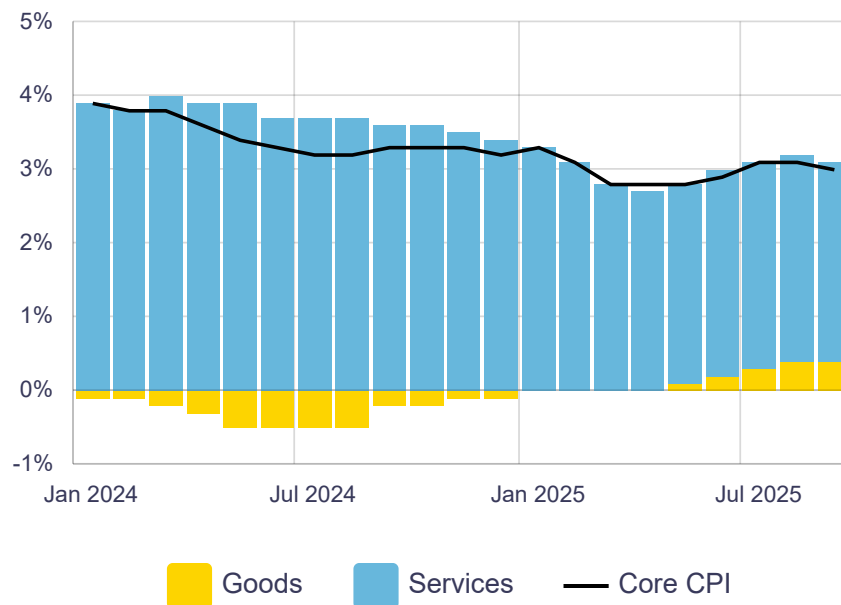
- Core CPI rose to 3.1% in the third quarter of 2025, up from 2.8% in the second quarter, largely because of the effect of tariffs on the prices of goods.
 - Tariffs imposed earlier this year have led to price increases in many subcomponents of the CPI, such as cookware, motor vehicles and parts, furniture, appliances, tools and hardware.

- About half of the pass-through of costs from tariffs is assumed to have already occurred by September.
- CPI inflation in services prices has remained elevated.

Manufacturers, businesses in the services sector, and households continue to have high inflation expectations.

Chart 29: Inflation in US goods prices is rising as tariff costs are passed on to consumer prices

Contributions to core CPI growth, year-over-year, monthly data



Sources: US Bureau of Labor Statistics via Haver Analytics and Bank of Canada calculations
Last observation: September 2025

Growth is expected to moderate

GDP growth is anticipated to slow in 2026 from its strong pace in the second half of 2025, pulled down by policy uncertainty and higher tariffs. Lower interest rates support household spending.

Overall, growth in the United States is forecast to remain near 2% over the projection horizon (**Chart 30**). The projected level of US activity is lower than expected in January due to US trade actions, policy uncertainty and reduced immigration. Robust AI-related spending and labour productivity have been sources of strength.

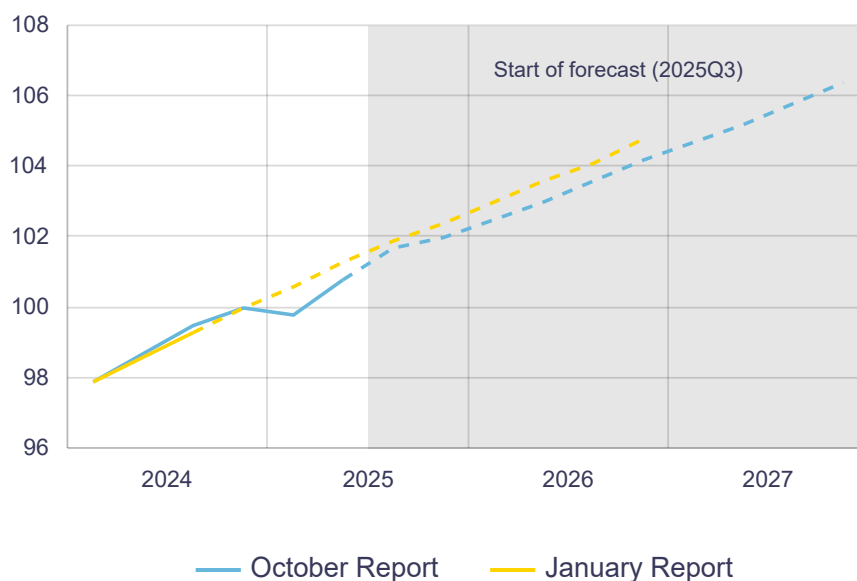
- Business investment growth is expected to moderate in 2026, as the pace of AI-related spending growth slows. Other areas of investment are expected to pick up as the impact from policy uncertainty fades and new depreciation rules from the *One Big Beautiful Bill Act* come into effect.
- Near-unilateral tariffs induce modest improvements in the trade balance because domestic production replaces imported goods.²

Household spending growth is expected to increase later in the projection horizon as the impact from uncertainty dissipates. Slower growth in government spending and exports provide a partial offset.

Personal consumption expenditure inflation, the Federal Reserve's preferred measure, is forecast to gradually moderate toward 2½% by the end of 2026 and ease closer to 2% in 2027. This softening reflects both the fading effects of tariffs and the decline in inflation expectations from still-elevated levels.

Chart 30: The path of US GDP is lower than projected in the January Report

US GDP, index: 2024Q4 = 100, quarterly data



Source: Bank of Canada calculations, estimates and projections
Last data plotted: 2027Q4

Euro area

After expanding at about 1.5% in the first half of 2025, growth in the euro area has slowed due to persistent weakness in exports and decreased growth in domestic demand. Inflation has remained near 2%.

- After a sharp pull-back in the second quarter, exports are expected to decline further in the second half of 2025 because of higher US tariffs and issues related to competitiveness, including the recent appreciation of the euro.
- Growth in domestic demand, which has been resilient, is expected to moderate.
- Policy uncertainty negatively affects growth in business investment.

Later in the projection, growth is expected to pick up due to:

- the fading effects from tariffs and related uncertainty
- additional fiscal spending on defence and infrastructure

Altogether, GDP in the euro area is forecast to grow by 1¼% on average over the projection. Inflation is anticipated to remain close to the European Central Bank's target of 2%.

China

Economic growth in China was solid in the first three quarters of 2025, bolstered by strong government support to households. China has been rapidly redirecting exports away from the United States to other countries. This has mitigated export losses tied to the increase in US tariffs (**Chart 31**).

Growth is expected to slow in the fourth quarter of 2025 (**Chart 32**) due to:

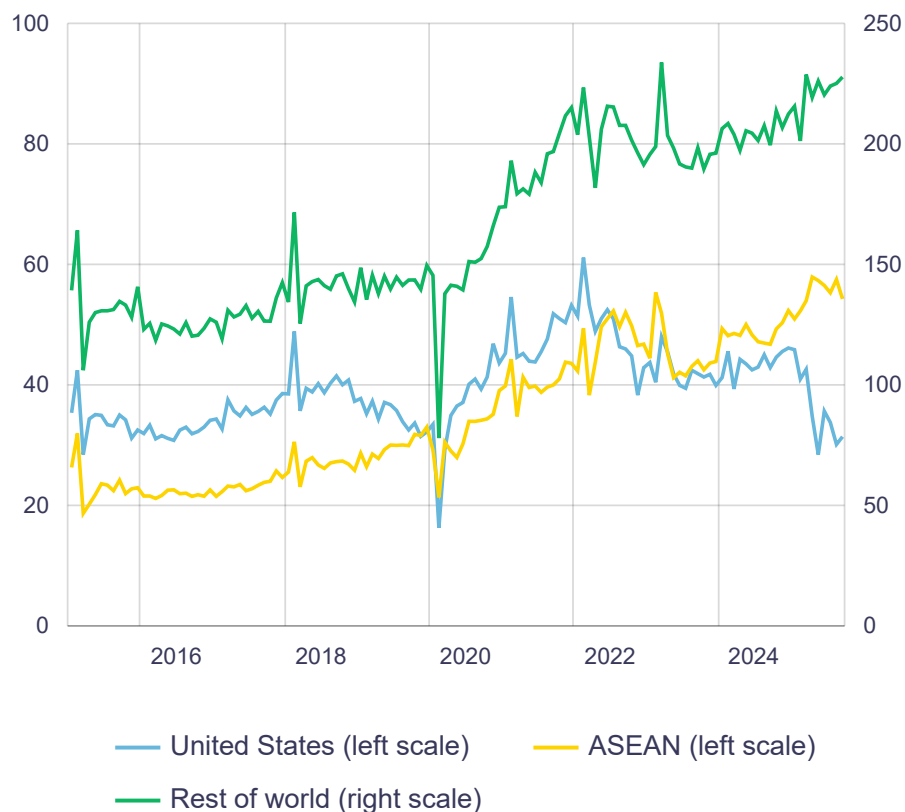
- waning fiscal support to households
- a government directive reining in inefficient investment³
- declining activity in the property sector
- slowing industrial production growth

GDP growth in China is expected to slow from about 5% in 2025 to 4¼%, on average, over 2026 and 2027. This moderation is due to population aging, which will reduce the size of the labour force, and a slower pace of capital accumulation.

- US tariffs and new policy guidance to rein in growing excess capacity mean that exports and investment will contribute less to growth than they have in recent years.
- This slowdown is partially offset by stronger growth in domestic demand due to an increase in consumer spending. As the government provides new policy stimulus and property prices stabilize, growth in consumer spending is expected to rise.

Chart 31: The diversion of trade away from the United States has supported China's exports

Nominal exports of goods by destination, billions of US dollars, seasonally adjusted, monthly data



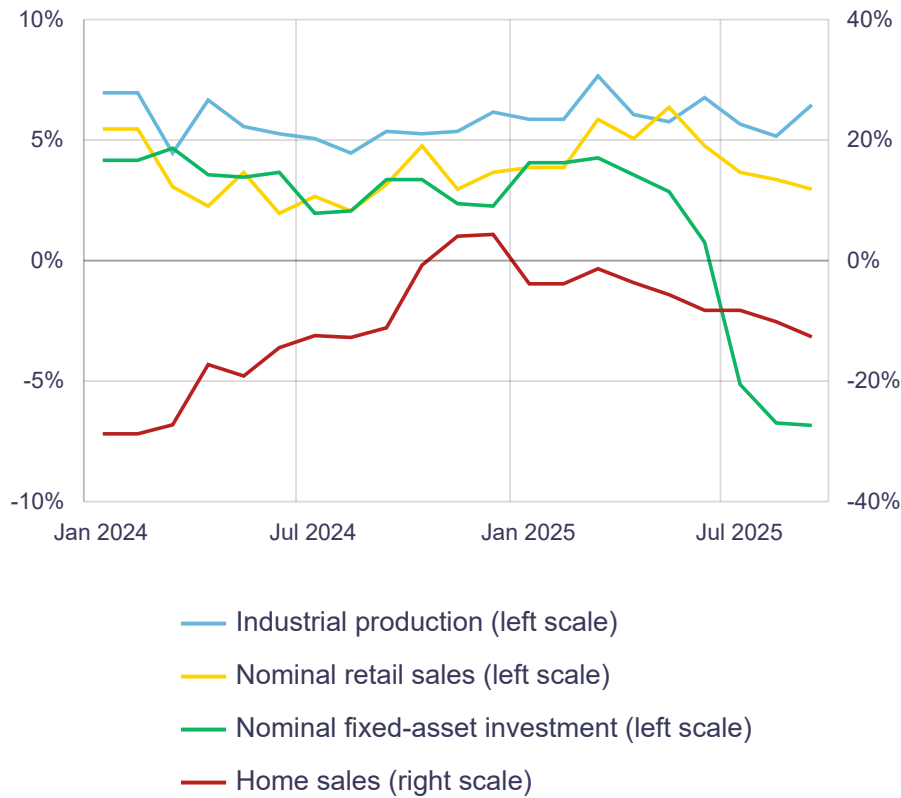
Note: ASEAN is the Association of Southeast Asian Nations.

Sources: China's General Administration of Customs via Haver Analytics and Bank of Canada calculations

Last observation: September 2025

Chart 32: Indicators of domestic demand show broad-based weakness in China

Activity indicators, year-over-year percentage change, monthly data



Sources: National Bureau of Statistics of China via Haver Analytics and Bank of Canada calculations

Last observation: September 2025

Endnotes

1. Except for the September consumer price index data released on October 24, no official US statistics have been released since September 30 because of the US government shutdown at the start of October.[←]
2. Tariffs are considered near-unilateral because the effective tariff rate on US exports to the rest of the world has risen by only 1 percentage point, while the effective tariff rate on imports into the United States from the rest of the world has increased by about 14 percentage points.[←]
3. The directive is part of the Chinese government's "anti-involution" campaign to limit disorderly price competition among domestic producers and reduce inefficient production capacity. The campaign is intended to make investments more efficient, improve businesses' pricing power and profitability, and ultimately address deflationary pressures in the economy.[←]

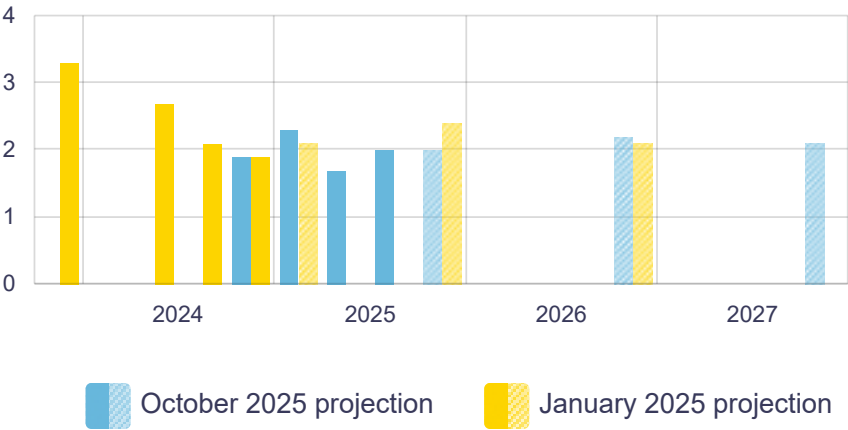
Projections

Economic growth in Canada is projected to strengthen from around 0.75% in the second half of 2025, with annual growth averaging 1.4% over 2026 and 2027. Inflation is expected to remain around 2% over the projection horizon.

The current outlook is presented relative to January, which was the last Report with a base-case projection (**Chart 33**). The Canadian and global outlooks are weaker due to the trade conflict.

Chart 33: The October 2025 and January 2025 Monetary Policy Report outlooks

CPI inflation (year-over-year percentage change)



Changes to the projection

Canadian outlook

Growth in gross domestic product (GDP) is approximately 0.7 percentage points lower in both 2025 and 2026 than in the January Report. After historical revisions are taken into account, the level of Canadian GDP is projected to be 1.5% lower by the end of 2026 (**Table 3** and **Table 4**).

Roughly half of the downward revision relative to the January Report reflects the negative impact of tariffs and uncertainty on potential output. The remainder reflects weaker demand conditions, mainly caused by the negative effects of US trade policies.

The outlook for consumer price index (CPI) inflation is around 0.3 percentage points lower in 2025 and unchanged in 2026. This is primarily due to lower oil prices and the temporary decline in inflation from the removal of the consumer carbon tax. These effects outweigh the one-time price increase from Canada's counter-tariffs and inflation from imports from the United States.

Table 3: Contributions to average annual real GDP growth Percentage points*†

	2024	2025	2026	2027
Consumption	1.3 (1.1)	1.5 (1.3)	0.8 (0.9)	0.9
Housing	-0.1 (-0.1)	0.1 (0.5)	0.2 (0.2)	0.1
Government	1.1 (0.7)	0.7 (0.5)	0.7 (0.4)	0.4
Business fixed investment	-0.2 (-0.1)	-0.2 (0.1)	0.0 (0.2)	0.3
Subtotal: final domestic demand	2.1 (1.6)	2.1 (2.4)	1.7 (1.7)	1.7
Exports	0.2 (0.3)	-1.2 (0.6)	-0.2 (0.8)	1.0
Imports	-0.2 (-0.2)	0.3 (-0.7)	-0.1 (-0.8)	-1.0
Inventories	-0.5 (-0.4)	0.0 (-0.5)	-0.3 (0.1)	-0.1
GDP	1.6 (1.3)	1.2 (1.8)	1.1 (1.8)	1.6
Memo items (percentage change):				
Range for potential output	2.8 (2.1–2.8)	1.2–2.0 (1.1–2.4)	0.4–1.4 (0.9–2.2)	1.3–2.3
CPI inflation	2.4 (2.4)	2.0 (2.3)	2.1 (2.1)	2.1

* Numbers in parentheses are from the January Report.

† Numbers may not add to total due to rounding.

Sources: Statistics Canada and Bank of Canada calculations, estimates and projections

Table 4: Summary of the quarterly projection for Canada*

	2025				2024 2025 2026 2027			
	Q1	Q2	Q3	Q4	Q4	Q4	Q4	Q4
CPI inflation (year-over-year percentage change)	2.3 (2.1)	1.7	2.0	2.0	1.9 (1.9)	2.0 (2.4)	2.2 (2.1)	2.1
Core inflation (year-over-year percentage change)†	2.8 (2.5)	3.1	3.2	2.9	2.6 (2.6)	2.9 (2.1)	2.3 (2.1)	2.1
Real GDP (year-over-year percentage change)	2.3 (1.7)	1.2	0.7	0.5	2.3 (1.8)	0.5 (1.9)	1.6 (1.7)	1.6
Real GDP (quarter-over-quarter percentage change at annual rates)‡	2.0 (2.0)	-1.6	0.5	1.0				

* See details on the [key inputs to the projection](#). Numbers in parentheses are from the January Report.

† Core inflation is the average of CPI-trim and CPI-median.

‡ At the time of the projection, 2025Q3 and 2025Q4 are the only quarters for which some information about real GDP growth was available. For longer horizons, fourth-quarter-over-fourth-quarter percentage changes are presented. They show the Bank of Canada's projected growth rates of CPI and real GDP within a given year. They can therefore differ from the growth rates of annual averages shown in [Table 3](#).

Sources: Statistics Canada and Bank of Canada calculations, estimates and projections

Global outlook

The outlook for global growth is weaker than it was at the time of the January Report ([Table 5](#)).

- US growth is softer in 2025 and 2026 because the impacts of tariffs and policy uncertainty, higher inflation and lower immigration have weakened household spending. This softer growth is partially offset by stronger labour productivity and business investment resulting from spending related to artificial intelligence.
- Euro area growth has been revised up on average relative to the January Report. Stronger-than-expected domestic demand in 2025 and fiscal stimulus anticipated in 2026 are the reasons for this upward revision.
- Despite the negative impact from higher US tariffs and continued weakness in the property sector, the outlook for GDP in China has been revised up. The upward revision reflects, in part, robust fiscal support.

Table 5: Projection for global economic growth (percentage change)

Share of real global GDP* (%)		Growth† (%)			
		2024	2025	2026	2027
United States	15	2.8 (2.8)	2.1 (2.6)	2.2 (2.3)	2.1
Euro area	12	0.8 (0.7)	1.2 (0.8)	1.0 (1.3)	1.5
China	19	5.0 (5.0)	4.9 (4.9)	4.4 (4.1)	4.1
World	100	3.2 (3.1)	3.2 (3.1)	2.9 (3.1)	3.0

* Shares of gross domestic product (GDP) are based on International Monetary Fund (IMF) estimates of the purchasing-power-parity valuation of country GDPs for 2023 from the IMF's October 2024 *World Economic Outlook*.

† Numbers in parentheses are projections from the January Report.

Sources: National sources via Haver Analytics and Bank of Canada calculations, estimates and projections

Risks

Risks related to Canada's trade relationship with the United States remain elevated. The outlook could also be affected by risks that are not directly related to tariffs.

The base-case projection incorporates the tariffs and trade policies in place on October 22, 2025. It assumes that those tariffs and policies—including the Canada-United States-Mexico Agreement (CUSMA)—remain in place throughout the projection horizon (see the **Tariff and other assumptions** section).

Considerable uncertainty surrounds both the Canada-US trade relationship and the economic impacts of US tariffs. Therefore, in the current environment, risks around the base-case forecast are particularly elevated.

The assumption for fiscal policy reflects information from published provincial budgets and new federal fiscal measures that have been tabled. However, the federal government has announced plans to significantly increase infrastructure investment and defence spending while reducing operational expenses. The federal budget that will be tabled on November 4 will provide more clarity on the path of fiscal policy.

Main upside risks to inflation

US tariffs could raise inflation in Canada more than expected

The cost of higher US import tariffs is affecting inflation in the United States. Inflation in Canada could also be affected in several ways, including the following:

- US tariff-related costs that are passed on to Canadian businesses could be greater than anticipated because supply chains between the Canadian and US economies are closely connected.
- Supply chains that rely on US businesses could be disrupted, and the costs of reconfiguring trade could be higher than assessed. This could raise production costs and import prices by more than expected.
- Multinational corporations could raise international prices to help offset profit losses in the United States caused by tariffs.
- A depreciation of the Canadian dollar would increase the price of imports, adding to business costs and consumer prices.

Any of these impacts could increase inflationary pressures relative to the base-case projection.

Sectoral tariffs could be reduced

Trade-related uncertainty and higher tariffs are having considerable impacts on Canadian exports, business investment and employment in affected sectors. Sectoral US tariffs—particularly on steel and aluminum—have led to a rapid reduction in Canadian exports of these products. However, an agreement could result in a significant decrease in US tariffs from current levels. This would reduce uncertainty and lead to a rebound in export demand and production in affected sectors. Lower uncertainty could also lead to a pickup in business investment and in spending by households. Overall, this would boost demand and inflation.

Main downside risks to inflation

Trade policy could weaken the economy more than expected

US trade policy remains unpredictable, and tariffs could increase or broaden in the near term. The upcoming review of CUSMA is also an ongoing uncertainty. Affected businesses and households continue to face complex planning decisions. Businesses and consumers will be cautious as they wait for more clarity about the future of CUSMA. This caution could lead to slower-than-expected growth in demand and lower inflation. In addition, the continued trade policy uncertainty could lead businesses to redirect their investment spending from Canada to the United States to avoid tariffs.

Global financial conditions could tighten

The outlook for US economic growth is increasingly tied to the investment in and future use of artificial intelligence (AI). Throughout 2025, US domestic demand was significantly supported by AI-related investment spending and a rise in the stock prices of businesses linked to AI. A significant reassessment of the prospects for AI could result in a sharp correction in stock market valuations. A correction could hurt consumer confidence in the United States and in many other countries, including in Canada. This, in turn, could lead to a widespread economic downturn.

At the same time, long-term government bond yields could rise in response to the rapid increase in government debt around the world. This would lead to higher borrowing costs for Canadian households and businesses.

In either case, the result would be weaker domestic demand, which would then lead to excess supply and put further downward pressure on inflation in Canada.

Assessing underlying inflation

The goal of monetary policy is to keep total inflation close to the 2% target. But inflation can be volatile, and it takes time for changes to interest rates to filter through the economy. This is why, when setting policy, it is important to distinguish between temporary movements in inflation and lasting ones.

Underlying inflation is the lasting—or persistent—part of inflation.¹ It reflects the economic fundamentals that influence inflation, such as sustained cost pressures in the economy and imbalances between supply and demand.

Underlying inflation is not a formula, nor can it be measured with precision. Rather, it is determined by assessing a collection of inflation indicators, including measures of core inflation and measures of the breadth of inflation, and by analyzing individual categories of the consumer price index (CPI).

Because interest rate changes work with a lag, assessing underlying inflation helps ensure that monetary policy responds to lasting factors affecting inflation instead of temporary movements in prices.

The assessment for underlying inflation

Core inflation is one of the indicators the Bank of Canada considers when assessing underlying inflation. Measures of core inflation aim to filter out short-term noise, typically by excluding volatile components or large price movements.

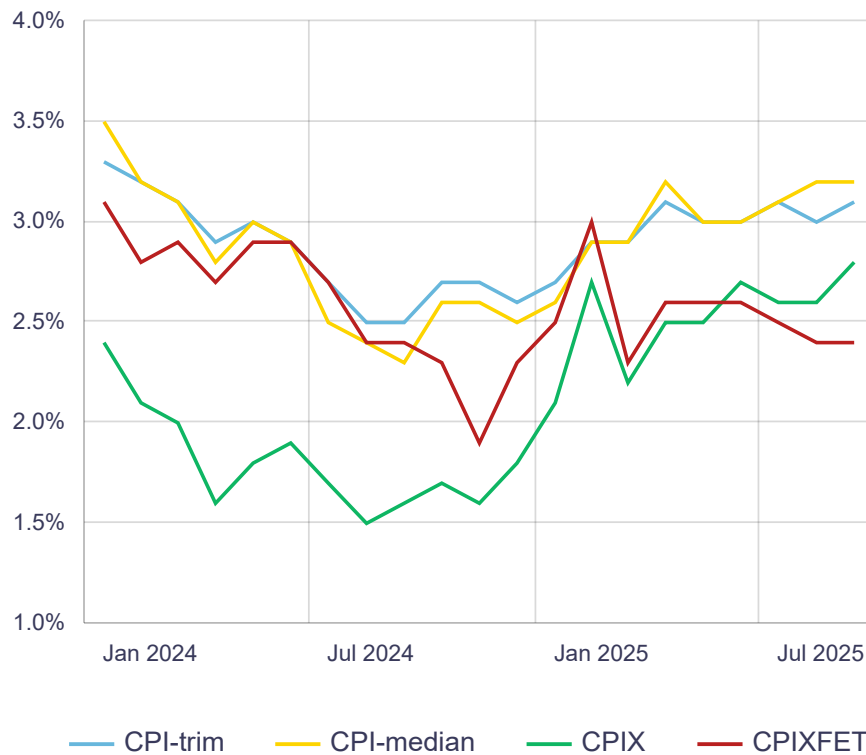
In recent months, measures of core inflation have generally been between 2½% and 3¼% (**Chart 34**). In September:

- CPI-trim rose to 3.1%
- CPI-median was flat at 3.2%
- CPIX rose to 2.8%
- CPIXFET was flat at 2.4%

While many of these measures increased earlier this year, the upward momentum seems to have faded, and three-month rates have come down.

Chart 34: Measures of core inflation remain around 2½% to 3¼%

Year-over-year percentage change, monthly data



Note: Core measures included are CPI-trim, CPI-median, CPIX and CPIXFET. CPI-trim excludes CPI components whose rates of change in a given month are located in the tails of the distribution of price changes. CPI-median is a measure of core inflation corresponding to the price change located at the 50th percentile. CPIX excludes eight of the most volatile components of inflation. CPIXFET excludes food and energy inflation. All core inflation measures exclude the effect of indirect taxes.

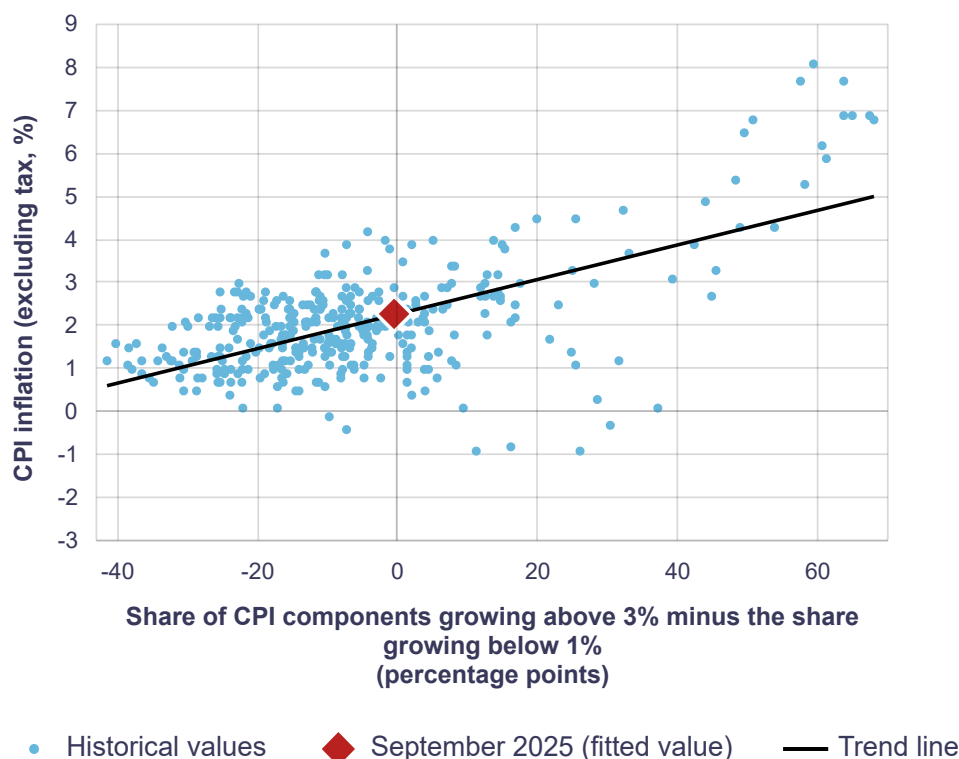
Source: Statistics Canada
Last observation: September 2025

Measures of the breadth of inflation help gauge how widespread price increases are across goods and services in the CPI basket. In September:

- The share of CPI components growing faster than 3% and the share growing below 1% suggest inflation of around 2% to 2½% (**Chart 35**).
- The distribution of price changes stayed slightly skewed to the upside, which signals elevated inflation for several CPI components.

On balance, measures of core inflation and the breadth of inflation point to underlying inflation in the vicinity of 2½%. This is below the 3% level suggested by the Bank's preferred core measures alone, CPI-trim and CPI-median.

Chart 35: Breadth of price pressures suggests inflation of around 2% to 2½%



Note: The trend line and fitted value are estimated using a linear regression based on a sample from January 1995 to September 2025.

Sources: Statistics Canada and Bank of Canada calculations

Last observation: September 2025

Why underlying inflation matters

Price swings caused by temporary factors such as an energy shock or a drought can have a significant impact on total inflation. Measures of core inflation are typically used to filter out these types of volatile price changes and capture the more stable, underlying trend. But sometimes the Bank's preferred core measures can give misleading signals. This is when the assessment for underlying inflation becomes important. It considers a far broader range of indicators and therefore gives a clearer signal on whether changes to inflation will persist or be temporary.

When underlying inflation is assessed to be largely consistent with the signal coming from the preferred measures of core inflation, the Bank does not need to be explicit about underlying inflation.

Endnotes

1. See R. Mendes, “**Underlying inflation: Separating the signal from the noise**” (speech to the Ivey Business School, London, Ontario, October 2, 2025).[←]

Shifts in cost pressures

Cost pressures are expected to ease. But businesses continue to face high input costs due to US tariffs and the broader reconfiguration of global trade.

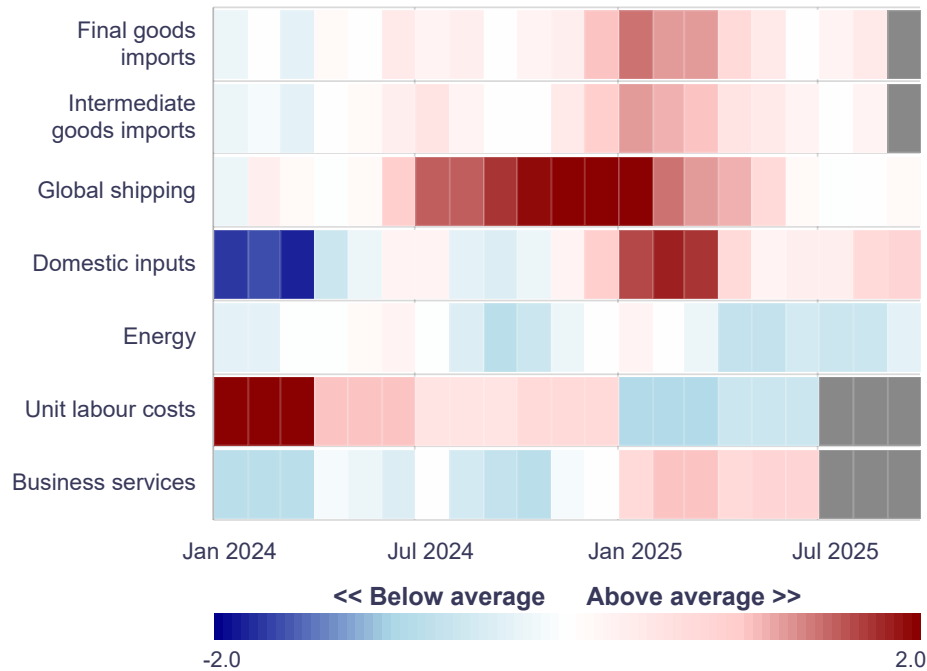
Past cost increases have boosted inflation

Until recently, several factors were increasing input costs. These factors include:

- spikes in global shipping costs at the end of 2024
- severe weather that increased agricultural prices, such as for coffee and cocoa
- the depreciation of the Canadian dollar starting in late 2024 and continuing into early 2025

These factors raised business costs and contributed to higher prices for non-energy goods. While some pressures have already eased, the lagged effects of past increases are still filtering through to consumer prices (**Chart 36**). These effects are anticipated to fade by early 2026.

Chart 36: Cost pressures on goods are easing



Note: The heatmap shows the distance of each cost component's year-over-year growth from its historical average. The colour is white when the component is near its historical average, a varying shade of blue when it is below its historical average, and a varying shade of red when it is above its historical average. The colour is grey when data were not available at the time of writing. *Final goods imports* and *Intermediate goods imports* reflect various Canadian import prices. *Domestic inputs* reflects various Canadian industrial production prices indexes. *Business services* includes commercial rents and the For-hire Motor Carrier Freight Services Price Index.

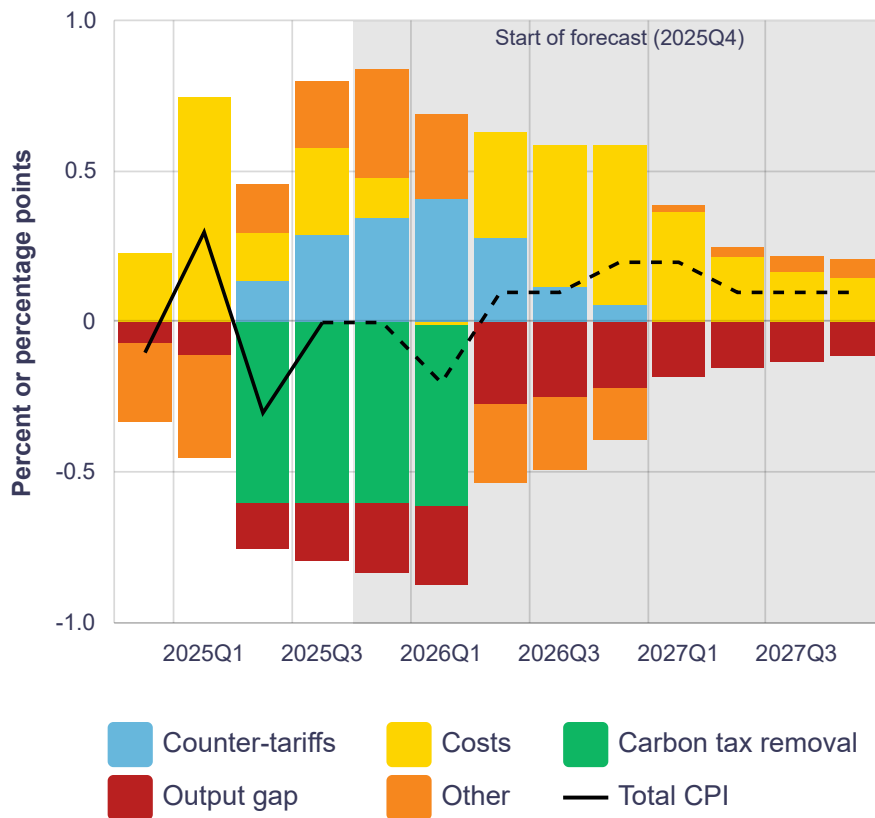
Sources: Harper Peterson & Co. and Baltic Exchange via Haver Analytics, Statistics Canada and Bank of Canada calculations

Shifts in trade are expected to add costs

Canadian counter-tariffs on US imports are pushing up costs and inflation (**Chart 37**). The peak impact from tariffs on the level of the consumer price index (CPI) is now projected to be around 0.4% in the first quarter of 2026. This has been revised down from about 0.8% in the July Report because most counter-tariffs have been removed. So far, counter-tariffs are estimated to have raised the price level by about 0.3%.

Chart 37: Shifts in trade are adding new costs

Contributions to year-over-year CPI inflation, deviation from target, quarterly data



Note: Examples of included costs are commodity prices, import prices and shipping costs.
Sources: Statistics Canada and Bank of Canada calculations, estimates and projections
Last data plotted: 2027Q4

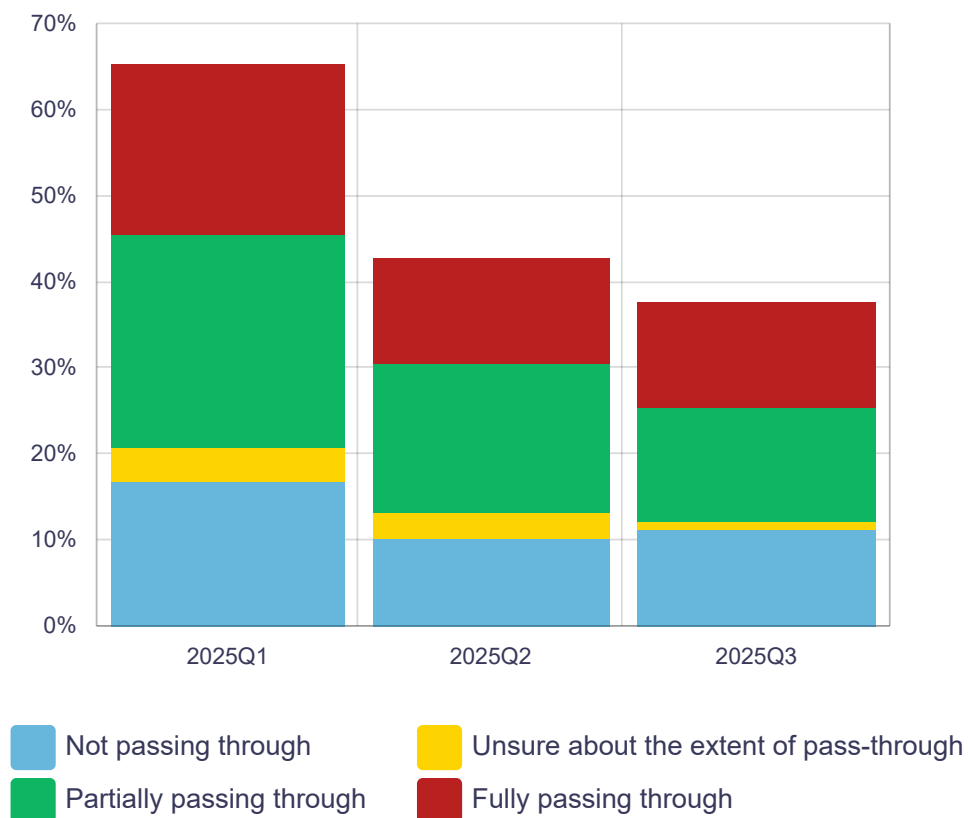
The broader cost implications of trade disruptions and the reconfiguration of supply chains are difficult to predict. Foreign tariffs, including those in the United States, are also a concern because they could raise the costs of goods imported by Canadian companies.

At the same time, several factors could help alleviate these upward pressures on prices. Global overcapacity in manufacturing and strategic underpricing by exporters could exert downward pressures, while the adoption of artificial intelligence could reduce production costs.

Some Canadian businesses are reporting higher costs due to these global adjustments, but weak demand is limiting their ability to pass on increases to their customers (**Chart 38** and **Chart 39**).^{1, 2} Businesses may decide to absorb higher costs by reducing markups, especially if profit margins are healthy.

Chart 38: Fewer businesses than in previous quarters are planning to pass trade-related cost increases on to customers

Percentage of respondents, pass-through expectations over the next 12 months, Business Outlook Survey, quarterly data

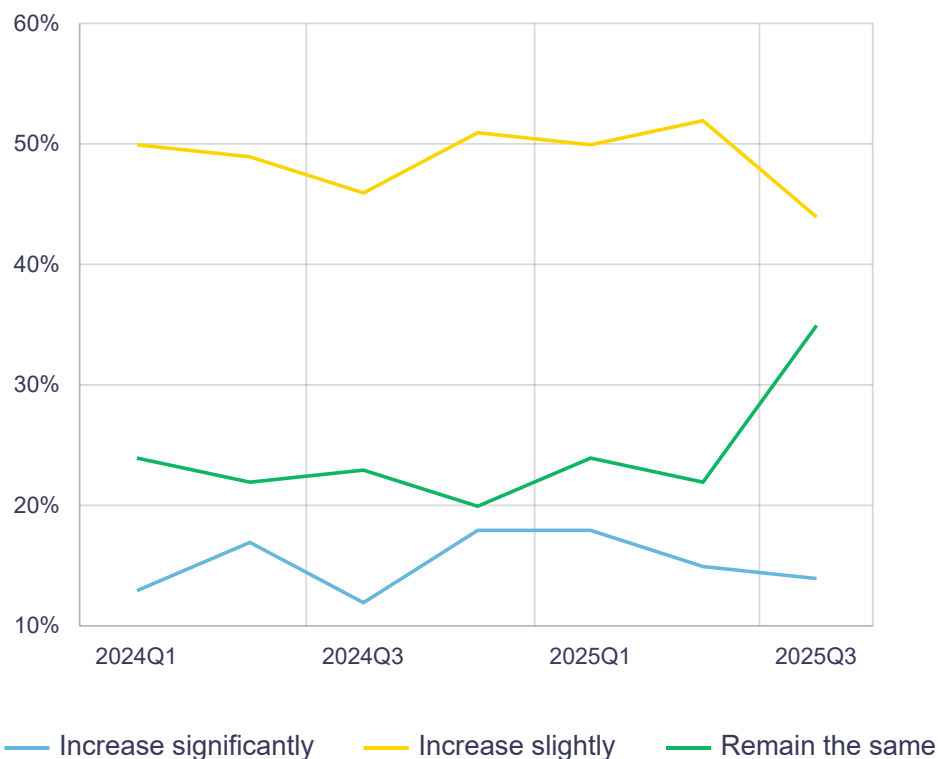


Source: Bank of Canada

Last observation: 2025Q3

Chart 39: More businesses than in previous quarters are expecting to hold prices steady

Percentage of respondents, price change expectations in the next 12 months, Business Outlook Survey, quarterly data



Source: Bank of Canada
Last observation: 2025Q3

Endnotes

1. Input costs influence pricing but often asymmetrically: businesses tend to raise prices more rapidly when costs increase, but they tend to reduce prices slowly when costs ease. [[↩](#)]
2. See Bank of Canada, *Business Outlook Survey—Third Quarter of 2025* (October 2025). [[↩](#)]