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Dear clients,

In the face of significant geopolitical tensions, the Bank of Canada announced today that it has lowered its policy interest rate by 25 basis points. This marks the seventh reduction since June of 2024.

Below, we summarize the Bank's commentary.

Canadian Economic Performance and Housing

- Canada's economy grew by 2.6% in the fourth quarter of 2024 following upwardly revised growth of 2.2% in the third quarter
- This "growth path" is stronger than was expected when the Bank last reported in January 2025
- Past cuts to interest rates have boosted economic activity, particularly consumption and housing
- However, economic growth in the first quarter of 2025 will likely slow as the intensifying trade conflict weighs on sentiment and activity
- Recent surveys suggest a sharp drop in consumer confidence and a slowdown in business spending as companies postpone or cancel investments
- The negative impact of slowing domestic demand has been partially offset by a surge in exports in advance of tariffs being imposed
- The Canadian dollar is broadly unchanged against the US dollar but weaker against other currencies

Canadian Inflation and Outlook

- Inflation remains close to the Bank's 2% target
- The temporary suspension of the GST/HST lowered some consumer prices, but January's Consumer Price Index was "slightly firmer" than expected at 1.9%
- Inflation is expected to increase to about 2.5% in March with the end of the tax break
- The Bank's preferred measures of core inflation remain above 2%, mainly because of the persistence of shelter price inflation
- Short-term inflation expectations have risen in light of fears about the impact of tariffs on prices





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Canadian Labour Market

- Employment growth strengthened in November through January and the unemployment rate declined to 6.6%
- In February, job growth stalled
- While past interest rate cuts have boosted demand for labour in recent months, there are warning signs that heightened trade tensions could disrupt the recovery in the jobs market
- Meanwhile, wage growth has shown signs of moderation

Global Economic Performance, Bond Yields and the Canadian Dollar

- After a period of solid growth, the US economy looks to have slowed in recent months, but US inflation remains slightly above target
- Economic growth in the euro zone was modest in late 2024
- China's economy has posted strong gains, supported by government policies
- Equity prices have fallen and bond yields have eased on market expectations of weaker North American growth
- Oil prices have been volatile and are trading below the assumptions in the Bank's January Monetary Policy Report

Rationale for a rate cut

While the Bank offered that economic growth came in stronger than it expected, the pervasive uncertainty created by continuously changing US tariff threats is restraining consumers' spending intentions and businesses' plans to hire and invest. Against this background, and with inflation close to the 2% target, the Bank decided to reduce its policy rate by 25 basis points.

Outlook

The Bank notes that the Canadian economy entered 2025 "in a solid position," with inflation close to its 2% target and "robust" GDP growth. However, heightened trade tensions and tariffs imposed by the United States will likely slow the pace of economic activity and increase inflationary pressures in Canada. The economic outlook continues to be subject to more-than-usual uncertainty because of the rapidly evolving policy landscape.





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Final comments

The Bank noted that monetary policy “cannot offset the impacts of a trade war.” What monetary policy “can and must do” is ensure that higher prices do not lead to ongoing inflation.

The Bank said it will carefully assess: i) the timing and strength of both the downward pressures on inflation from a weaker economy and ii) the upward pressures on inflation from higher costs. It will also closely monitor inflation expectations.

It ended its statement by saying it is committed to maintaining price stability for Canadians.

More scheduled BoC news

The Bank is scheduled to make its third policy interest rate decision of 2025 on April 16th. First National will provide an executive summary immediately following that announcement. In the meantime, please visit the Resources page of this website for other important insights.

