ATTACHMENT IG-IR-6

UPDATED SECTION 4.2 of DR. CLEARY NSMPL 2025 EVIDENCE

4.2 The Future

4.2.1 Global Economic Activity

The Bank of Canada's July 2025 Monetary Policy Report (MPR) noted that:

> The global trade conflict continues to evolve. Since the time of the April Report, extreme trade tensions between the United States and China have receded. The US administration has reached agreements on tariffs with some countries, which have raised US tariffs significantly from January levels. The United States has also doubled its tariffs on imports of steel and aluminum and has threatened high, broad-based tariffs on many other trading partners if agreements are not reached soon.

Recognizing that the impact of the evolving global trade conflicts introduces significant uncertainty regarding the global and Canadian economic outlooks, the Bank's July 2025 MPR:

> presents an economic scenario conditional on trade policies in place or agreed on as of July 27, 2025 - the *current tariff scenario* - rather than a conventional forecast. This Report also includes two alternative scenarios, one in which tariffs are reduced and another in which they are substantially increased - the *de-escalation scenario* and the *escalation scenario*, respectively. Taken together, these scenarios encompass a range of paths for trade policy and the Canadian economy.

The Bank's "current tariff scenario" assumed existing U.S. tariffs remained in place (with a U.S. weighted average world tariff rate of 13%), while existing retaliatory tariff rates remained in place, and the level of uncertainty remains elevated at a similar level to July of 2025. The Bank's "de-escalation scenario" assumed a decrease in U.S. tariffs (with a U.S. weighted average world tariff rate of 10% - and with tariffs on Canada cut in half), while existing retaliatory tariffs were removed or significantly reduced, and the level of uncertainty falls significantly relative to July 2025. The Bank's "escalation scenario" assumed an increase in U.S. tariffs (with a U.S. weighted average world tariff rate of 28%), a significant increase in retaliatory tariff rates, and the level of uncertainty remained similar to the July 2025 level.

In the Bank's October 2025 MPR, the Bank returned to using "base-case" projections, as per the discussion below included in that report:

> 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.

While the Bank returned to its usual "base-case" approach, it noted the continued importance of considering various scenarios, stating:

> 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.

The Bank's October 2025 MPR notes the continued importance of global trade uncertainties, noting:

> 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.

> 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**).
>
> 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.

The October 2025 MPR notes that:

> 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.

It further states that:

> 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.

With respect to the Euro Zone, the October 2025 MPR states that:

> 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

Finally, the October 2025 MPR notes:

> 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**).

The Bank's October 2025 "base case" assessment for global growth is **very similar** to the growth estimates provided for its "current scenario" forecasts provided in the July 2025 MPR. According to the Bank's October 2025 MPR, Table 2 shows that the global economy is expected to grow at around 3% annually over the 2025 to 2027 period, with growth estimates of 3.2%, 2.9% and 3.0% respectively, very similar to its July 2025 MPR "current scenario" forecasts of 3.0%, 2.8% and 3.1% (which are also reported in Table 2). Table 2 shows that this global growth is expected to be solid despite slow growth in the Euro area of 1.2%, 1.0% and 1.5% during 2025, 2026 and 2027 (similar to the July 2025 MPR forecasts of 1.1%, 1.1% and 1.4%), and despite U.S. growth declining from 2.8% in 2024 to 2.1%, 2.2% and 2.1% in 2025, 2026 and 2027 respectively (similar to the July 2025 MPR forecasts of 1.8%, 2.4% and 2.1%). Meanwhile, annual Chinese GDP growth is estimated at 4.9%, 4.4% and 4.1% in 2025, 2026 and 2027 respectively (similar to the July 2025 MPR forecasts of 4.9%, 4.5% and 4.2%).

TABLE 2

REAL GDP GROWTH GLOBAL FORECASTS (2025-2027)

	Real GDP Growth (%)		
	2025	**2026**	**2027**
World	**3.2** (3.0)	**2.9** (2.8)	**3.0** (3.1)
U.S.	**2.1** (1.8)	**2.2** (2.4)	**2.1** (2.1)
Euro area	**1.2** (1.1)	**1.0** (1.1)	**1.5** (1.4)
China	**4.9** (4.9)	**4.4** (4.5)	**4.1** (4.2)

Source: Bank of Canada October 2025 MPR and July 2025 MPR.
July 2025 MPR estimates are provided in parentheses.

4.2.1 Canada's Outlook

The Bank's October 2025 MPR notes the following:

> 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.

The October 2025 MPR states that:

> 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 Bank's "base case" forecasts in the October 2025 MPR predict real GDP growth in Canada during 2025 of 1.2%, and 1.1% in 2026, before increasing to 1.6% for 2027. These estimates are very similar to the "current tariff scenario" forecasts included in the July 2025 MPR of 1.3%, 1.1% and 1.8% for 2025, 2026 and 2027 respectively.

Table 3 also includes real GDP forecasts from RBC, CIBC World Markets, BMO Capital Markets, Desjardins, TD Bank, Scotiabank, OECD, and the IMF.[1] The average of the 2025 Real GDP forecasts from these sources of 1.35% is slightly above the Bank's October 2025 forecast of Canada of 1.2%, while the 2026 average forecast of 1.39% is also above the Bank's October 2025 forecast of 1.1%.

TABLE 3

REAL GDP GROWTH FORECASTS – CANADA (2025-2027)

	2025	2026	2027
RBC	1.6	1.3	
CIBC World Markets	1.5	1.6	
BMO Capital Markets	1.2	1.4	
Desjardins	1.4	1.4	
TD Bank	0.9	1.1	
Scotiabank	1.6	1.3	
OECD	1.0	1.1	
IMF	1.6	1.9	
Average	**1.35**	**1.39**	
Max	1.6	1.9	
Min	0.9	1.1	
Bank of Canada	**1.2** (1.3)	**1.1**(1.1)	**1.6** (1.8)

[1] The figures (and data sources) for the predictions from other financial organizations that are reported in Tables 3, 4 and 5 are included in Attachment F, which is appended to my evidence.

Source: Bank of Canada October 2025 MPR, July 2025 MPR and Attachment F.
July 2025 MPR estimates are provided in parentheses.

The October 2025 MPR notes that:

> 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%.

It further notes:

> 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 October 2025 MPR predicts that inflation will remain almost exactly equal to the midpoint of its target range of 2% during the 2025-2027 period. Table 4 shows that in October 2025 the Bank expects inflation of 2.0% in 2025, 2.1% in 2026, and 2.1% in 2027, very close to the July 2025 "current tariffs scenario" forecasts of 1.9%, 2.0% and 1.9% in 2025, 2026 and 2027 respectively. Table 4 shows that the Bank's 2025 inflation projection of 2.0% is slightly below the average of the other forecasts of 2.1%, while its 2026 projection of 2.1% is slightly above the average forecast of 2.0%.

TABLE 4

CPI FORECASTS – CANADA (2025-2027)

	2025	2026	2027
RBC	2.1	2.0	
CIBC World Markets	2.2	1.7	
BMO Capital Markets	2.3	2.0	
Desjardins	2.1	2.1	
TD Bank	2.2	2.1	
Scotiabank	2.1	2.1	
OECD	2.1	2.1	
IMF	2.0	2.1	
Average	**2.14**	**2.03**	
Max	2.3	2.1	
Min	2.0	1.7	
Bank of Canada	**2.0** (1.9)	**2.1** (2.0)	**2.1** (1.9)

Source: Bank of Canada October 2025 MPR, July 2025 MPR and Attachment F.
July 2025 MPR estimates are provided in parentheses.