

## Economics

# ECONOMIC FLASH!

[economics.cibccm.com](https://economics.cibccm.com)

December 10, 2025

## Bank of Canada: On the sidelines for now

by **Katherine Judge** [katherine.judge@cibc.com](mailto:katherine.judge@cibc.com)

The Bank of Canada left the overnight rate unchanged at 2.25% and reiterated that it believes that rates are at about the right level to keep inflation close to 2%. Policymakers downplayed recent upside surprises in the data in the statement, pointing to only some signs of improvement in the labour market, with trade-sensitive sectors still weak and hiring intentions muted. It also cited that final domestic demand was flat in Q3, with the headline upside surprise in GDP driven by volatility in trade, which is set to cause activity to swing in the other direction in the Q4 GDP report. The Bank remains data dependent, with the Governor stressing in the press conference that policymakers would respond to material changes in the outlook in either direction.

The Governor also noted in the press conference that positive GDP revisions released with the Q3 data showed healthier demand and also implied that economic capacity was higher heading into the period of trade tensions with the US. That higher potential explains some resilience in the data, and implies a relatively neutral impact on the output gap, with the economy still in excess supply. The Bank's view of Canada's economy hasn't fundamentally changed, with a structural adjustment due to trade policy changes still underway, and businesses still showing caution in investment, causing slack to be absorbed only slowly.

CIBC's forecast is for Q4 GDP to stall, although 2026 is likely to show signs of an improvement, assuming a renewal of CUSMA and some reductions in sectoral tariffs, particularly aluminum. Federal spending on capital projects ramping up later in the year will also provide some support in our view. The Governor suggested that the impact of the federal budget would be neutral for inflation, given that it will add to both demand and supply. However, if there were to be a reduction in sectoral tariffs in 2026, that would represent an upside surprise relative to the BoC's October MPR projection.

Although core measures of inflation are still in the 2.5-3% range, the Bank expects economic slack to keep underlying price pressures contained ahead, following some near-term lift to headline CPI from base effects tied to last year's GST/HST holiday. It's our view that inflation risks from the reconfiguration of trade are overblown, and economic slack will keep inflation in check even as GDP growth improves over 2026.

**Re: Economic forecast** — There weren't any surprises in today's announcement, with the Bank closely watching the evolution of economic data and willing to respond accordingly, implying with either a cut or hike, depending on surprises or an accumulation of evidence that the economy is under/outperforming prior expectations. However, we expect the overnight rate to remain at 2.25% through the end of 2026, with trade progress and the impact of past rate cuts supporting a recovery in growth over next year, while not presenting a threat to inflation given the degree of economic slack that remains in the economy.

**Re: Markets** — Bond yields fell when the statement was released as it downplayed upside surprises in recent data, and seemed to undermine the possibility of a rate hike in 2026, which markets had previously placed odds on.

CIBC Capital Markets is a trademark brand name under which Canadian Imperial Bank of Commerce ("CIBC"), its subsidiaries and affiliates (including, without limitation, CIBC World Markets Inc., CIBC World Markets Corp. and CIBC Capital Markets (Europe) S.A.) provide different products and services to our customers around the world. Products and/or services offered by CIBC include corporate lending services, foreign exchange, money market instruments, structured notes, interest rate products and OTC derivatives. CIBC's Foreign Exchange Disclosure Statement relating to guidelines contained in the FX Global Code can be found at [www.cibccm.com/fxdisclosure](http://www.cibccm.com/fxdisclosure). Other products and services, such as exchange-traded equity and equity options, fixed income securities and futures execution of Canadian securities, are offered through directly or indirectly held subsidiaries of CIBC as indicated below.

#### Distribution

This report is written by the economics team at CIBC Capital Markets and is not the product of a CIBC Capital Markets research department. This report is issued and approved for distribution: (a) in Canada, by CIBC World Markets Inc., a member of the Canadian Investment Regulatory Organization, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund; and (b) in the United States, by either: (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada and does not constitute an offer or solicitation to buy or sell any securities discussed herein, including (without limitation) in any jurisdiction where such offer or solicitation would be prohibited.

The distribution of this report in the United Kingdom is being made only to, or directed only at, persons falling within one or more of the exemptions from the financial promotion regime in section 21 of the UK Financial Services and Markets Act 2000 (as amended) ("FSMA") including, without limitation, to the following:

- authorised firms under FSMA and certain other investment professionals falling within article 19 of the FSMA (Financial Promotion) Order 2005 ("FPO") and directors, officers and employees acting for such entities in relation to investment;
- high value entities falling within article 49 FPO and directors, officers and employees acting for such entities in relation to investment; and
- persons who receive this presentation outside the United Kingdom.

The distribution of this report to any other person in the United Kingdom is unauthorised and may contravene FSMA. No person falling outside such categories should treat this report as constituting a promotion to them or rely or act on it for any purposes whatsoever. This report is distributed solely to eligible counterparties or professional clients and not retail clients as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018.

For all other jurisdictions, this report is distributed solely to institutional clients and not retail clients as defined by the applicable securities legislation and regulation to which CIBC Capital Markets may be subject in any jurisdiction.

#### Miscellaneous

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.

CIBC Capital Markets and the CIBC Logo Design are trademarks of CIBC, used under license.

CIBC Capital Markets – PO Box 500, 161 Bay Street, Brookfield Place, Toronto, Canada M5J 2S8 – Bloomberg @ CIBC