

MNI Bank Of Canada Preview: Jan 2026

Announcement Date: Wed, 28 January

Decision / Opening Statements/Monetary Policy Report: 0945ET, **Press Conference:** 1030ET

MNI Review of Previous Meeting (December): [LINK](#)

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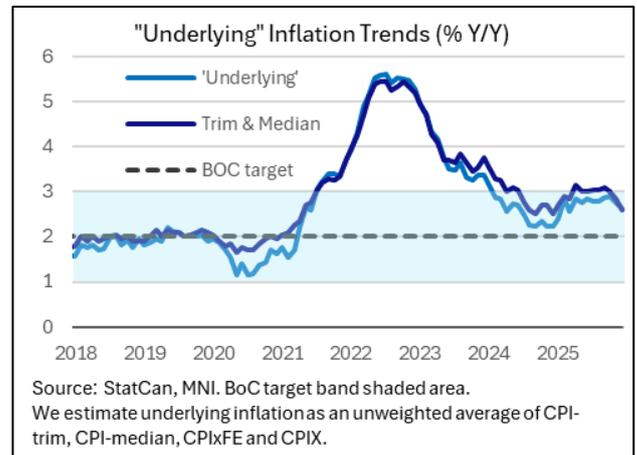
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MNI POV: Holding Is The Plan...Until It Isn't

January 27, 2025 - By Tim Cooper

The Bank of Canada is overwhelmingly expected by both markets and analysts to maintain its overnight rate at 2.25% at the January meeting (announcement on Jan 28). This would be a 2nd consecutive pause as part of what is anticipated to be a flat rate path through 2026. The biggest question is, in which direction will the next move be? The account of the deliberations at the December meeting highlighted that Governing Council debated "whether it was more likely that their next move would be to raise or lower the policy interest rate." It remains more likely than not that the next move will be a hike, with a downside shock required for cutting again.

- As the December deliberations began, it seemed at the time that there was not just a firm case for the easing cycle to already have ended, but that a hike would definitely be more appropriate as the next move. The policy rate was at the lower end of the estimated 2.25-3.25% neutral range, employment had bounced back strongly over a multi-month period, inflation remained above-target, and uncertainty over the Canada-US trade conflict appeared to have abated.
- But since then, December data suggested that underlying inflation was softening while employment gains had slowed again, and most importantly US-Canada trade relations appeared to deteriorate again. We review the latest data below but it's largely consisted of dovish surprises of late that have removed impetus for near-term hiking.



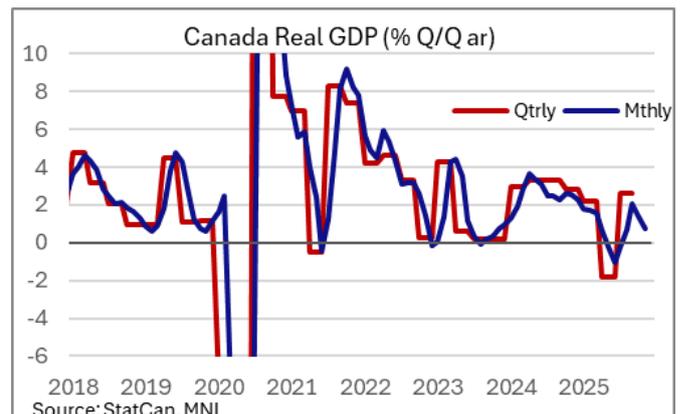
- With rates "at about the right level", Governor Macklem noted last month that it would take "a new shock" or "an accumulation of evidence" to "materially change the outlook", and the data received since December do not rise to that standard. While the latest quarterly Monetary Policy Report (MPR) projections released at this meeting will mark-to-market a more mixed trajectory for GDP growth than seen at the last edition in October, there is unlikely to be much of a change in the inflation outlook. We look at potential MPR updates below.
- In line with the BOC's uncertainty, market pricing has reflected the somewhat ambiguous outlook for the next BOC move. Meeting-dated OIS continues to see the easing cycle at an end, with a moderate chance of a hike by end-2026 but more likely in 2027. See table at right for implied overnight rates.

| Meeting | Current Market Pricing (%) | After December BOC Meeting (Dec 11) | Change since then | Cumulative Change From Current Rate (bp) | Incremental Chg (bp) |
|-------------|----------------------------|-------------------------------------|-------------------|--|----------------------|
| Jan 28 2026 | 2.24 | 2.24 | 0.4 | -0.9 | 0.7 |
| Mar 18 2026 | 2.23 | 2.25 | -1.8 | -2.5 | -1.6 |
| Apr 29 2026 | 2.22 | 2.28 | -6.9 | -3.8 | -1.3 |
| Jun 10 2026 | 2.21 | 2.29 | -8.2 | -4.3 | -0.5 |
| Jul 15 2026 | 2.21 | 2.30 | -9.1 | -4.1 | 0.2 |
| Sep 2 2026 | 2.26 | 2.38 | -12.3 | 0.5 | 4.6 |
| Oct 28 2026 | 2.29 | 2.48 | -18.8 | 3.4 | 2.9 |
| Dec 9 2026 | 2.33 | | | 7.2 | 3.8 |

- But compared with pricing at the conclusion of the last meeting in December, rates markets have faded near-term rate hike expectations, with a little bit of easing creeping back into the profile through mid-2026 (about 4bp of cuts through July vs 5bp of hikes having been expected). There remains a lean toward a hike by end-2026 though only very faintly, with about 8bp in net cumulative tightening by the December meeting. This shift has come with a moderation in both core CPI and employment data since the December meeting, as well as a resurgence in geopolitical risks/US-Canada trade tensions.
- Analysts are unanimous on a hold through at least the first half of 2026, with the vast majority seeing a hold through the full year. None see the next move being a cut as the base case. However there are a couple that have Q4 hikes as their central case and most see tightening in 2027.
- A hike before the summer would probably require a series of extraordinary upside surprises vs the soft growth and inflation expected for the coming quarters. Conversely there remain multiple potential avenues for a cut in the near-future, most prominently a renewed trade shock, potentially stemming from the upcoming US-Canada-Mexico free trade deal renegotiations due this summer. The Canadian economy was much better-insulated from the Trump administration's tariffs than feared due to preferential free-trade tariffs for Canadian exports, and a removal of that relief could spur calls for easier monetary policy to get ahead of a deterioration in growth. Certainly, the BOC will probably want to wait for more clarity on this situation before initiating a hiking cycle, and such clarity is unlikely to be achieved until much later in the year. In the meantime they'll probably want to continue conveying caution.

MPR Updates - Higher Inflation And Growth: The January Monetary Policy Report is likely to show an upgrade to GDP growth projections for 2025 as a whole with a potential slight upgrade to 2026 at a still-soft level. The main impetus for the revision would be marking-to-market for a much-stronger-than-expected Q3 GDP reading (2.6% Q/Q SAAR, vs 0.5% in the October MPR expectation).

- However, Q4 is looking much weaker vs the BOC's 1.0% MPR projection, with growth set to come in close to flat. October and November monthly data looked mixed at best in terms of both GDP and private sector surveys. Canadian GDP by industry came in at the -0.3% M/M expected in October from both the advance estimate and consensus, leaving the level of GDP effectively flat vs the start of the year, and the StatCan advance estimate for November limited traction in activity, with a 0.1% M/M growth rate projected. Consensus is for 0.3% Q/Q SAAR growth to end the year.
- We'll be watching for adjustments to the estimated output gap from the -1.5 to -0.5% range in Q3, which looks to be largely closed due to historical GDP revisions as well as the stronger Q3 GDP reading itself.
- CPI forecasts also look set to be raised slightly due to higher-than-expected headline readings in the latter months of the year, but as we explain in the section below, the more important underlying metrics have been subdued.



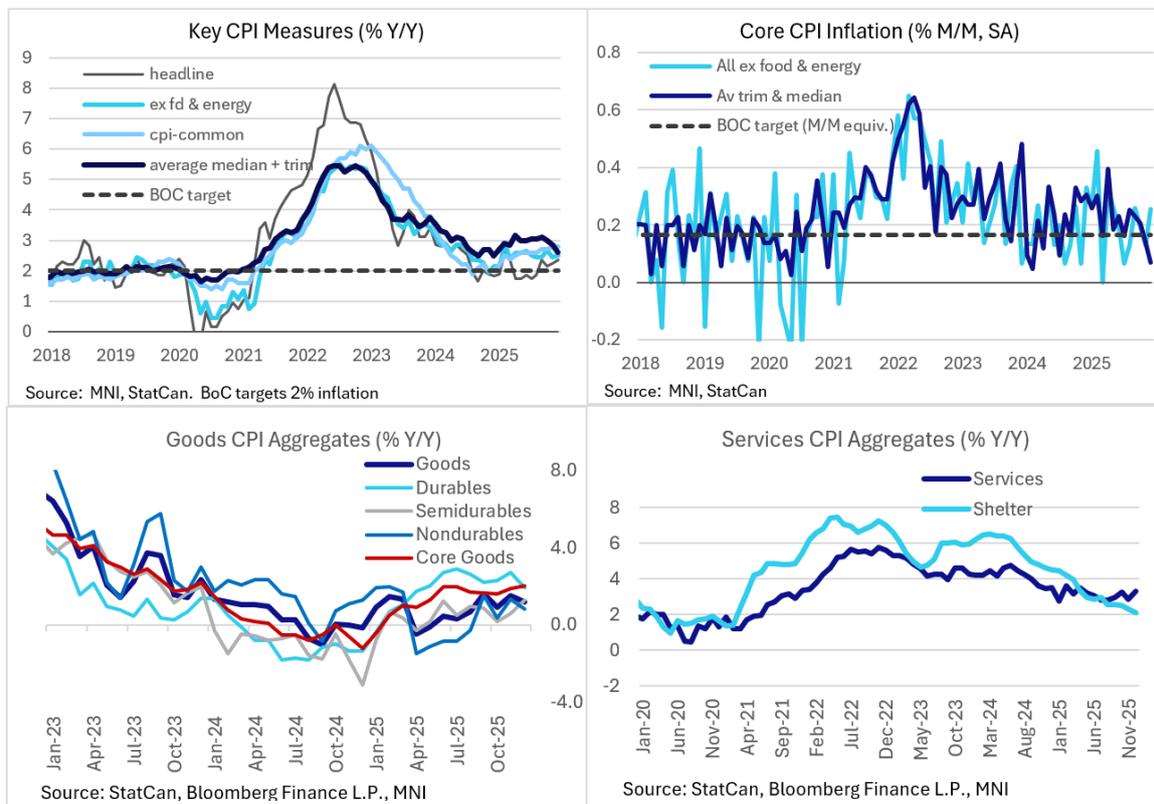
| | <u>GDP</u> | | | <u>CPI</u> | | |
|----------------|------------|---------|-----------|------------|---------|-----------|
| | Jul MPR | Oct MPR | Consensus | Jul MPR | Oct MPR | Consensus |
| Q3 2025 | 1.0 | 0.5 | 2.6 | 1.8 | 1.8 | 2.0 |
| Q4 2025 | | 1.0 | 0.3 | | 2.0 | 2.2 |
| 2025 | 1.3 | 1.2 | 1.7 | 1.9 | 2.0 | 2.1 |
| 2026 | 1.1 | 1.1 | 1.2 | 2.0 | 2.1 | 2.2 |

Colors denote current tracking/actuals vs last MPR round.
 * All figures % chg Y/Y but Qtrly GDP is % chg Q/Q SAAR. Source: BOC, MNI

Canada Data Review

Inflation - Underlying CPI Measures Point To Contained Pressures: Headline aggregates in December's CPI report came in a little hotter than anticipated, but by almost all underlying measures there were weaker inflationary pressures than expected.

- Y/Y headline rose to a 3-month high 2.4% after 2.2% prior (2.2% expected), with ex-food/energy picking up a tenth to 2.5% (2.3-2.4% expected). But summing up the disinflationary progress beneath the surface in December was MNI's underlying CPI composite (unweighted average of CPI-trim, CPI-median, CPIxFE and CPIX) fell to 2.6% Y/Y from 2.8%, marking a 9-month low and off the Sept/Oct highs of 2.9%. At 2.1% on a 3-month moving average, this was the closest the measure has been to 3% since September 2024, with momentum clearly converging on that level. Sequential trim / median inflation decelerated to the weakest since early 2024, to 0.09% M/M / 0.05% respectively (0.14% for each prior). The Y/Y readings fell to 2.7% trim / 2.5% median for an average 2.60% after 2.85% prior, below expectations (which were for 2.70%) and a 12-month low.
- The report further cooled speculation over a near-term BOC rate hike, with softer domestic demand appearing to keep a lid on prices. In December the BOC statement noted "Governing Council sees the current policy rate at about the right level to keep inflation close to 2% while helping the economy through this period of structural adjustment." The December report reinforced that inflation was plausibly on a path back to "close to 2%" and thus reduced the impetus to hike soon.

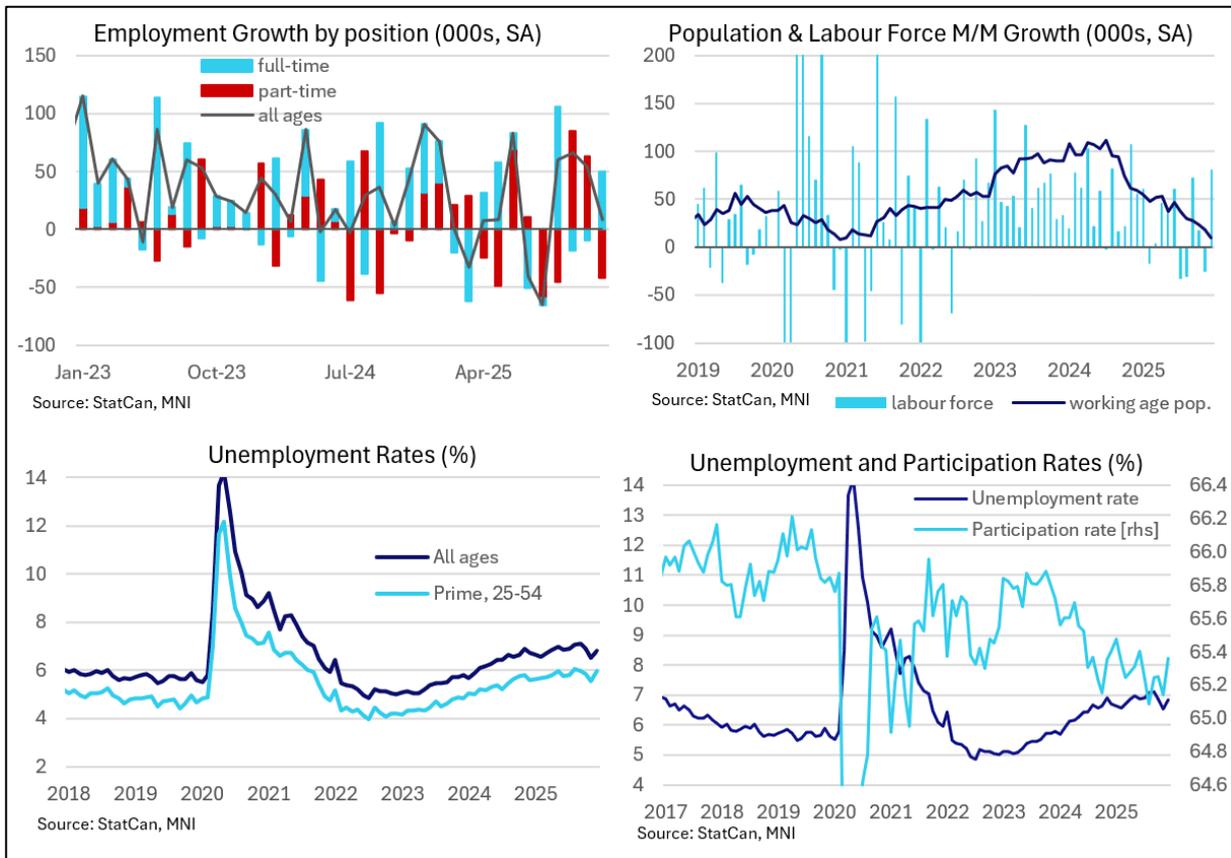


Employment - The December Labour Force Survey released earlier this month shouldn't greatly change the Bank of Canada's assessment of the labor market, if anything assuaging fears of any renewed or broadening deterioration in employment at year-end.

- Gov Macklem at the December press conference downplayed the freshly-hot employment gains in September through November, highlighting instead expectations that growth is likely to slow in the context

of a major structural adjustment, and with December's report looks largely justified: "You're seeing overall employment has moved up. So that is encouraging. There is some resilience to the economy. What I would say, though, is looking forward, it hasn't fundamentally changed our view. The Canadian economy is going through a difficult structural adjustment that is going to take some time. When you talk to companies, they're being very cautious about their investment plans. They're cautious about their hiring plans. So yes, we are pleased to see this resilience. But going forward, we continue to expect fairly modest growth."

- The December report showed relative steadiness vs November's strong data, with a slight gain in employment of 8.2k (-10k expected) but confirming a major slowdown from an average gain of 60k the prior 3 months (+53.6k in Nov). However there was also a sizeable rise in the unemployment rate, to 6.83% - reversing November's 0.34pp drop to 6.54% - above the consensus 6.7%. However, this was a "healthy" rise in the rate as it came with a jump in participation to 65.4% from 65.1%, marking the highest since June. Put another way, the number of unemployed rose 73k but that was attributable largely to the labour force as a whole rising 81k. (These figures were revised slightly in the subsequent annual seasonal adjustment revisions but the overall story stands.) The BoC's fear had been that weakness in the labour market would spill over from trade-related into non-trade-related sectors, which appeared to start happening in the summer but the bleeding has more recently been staunched.



Key Inter-Meeting BoC Commentary

| Speaker | Commentary Since Previous BoC Rate Decision |
|---------------------------------------|--|
| <p>Tiff Macklem (Governor)</p> | <p>Dec 16 speech in Montreal:</p> <p>"This year, 2025, was marked by the US swerve to protectionism and the resulting upheaval in global trade. It's a story about uncertainty, and about the loss of trust in our trade relationship with our biggest and best partner."</p> <p>"When inflation gets out of control, we lose price stability—and we risk losing trust. If elevated inflation persists, it becomes entrenched in people's expectations, making it more difficult to bring inflation back to target. That's why we responded forcefully, raising interest rates at a historically rapid pace. It worked. Longer-term inflation expectations remained well anchored, and we were able to restore 2% inflation without a recession."</p> <p>"But high inflation has had a lasting impact. Inflation has been back around 2% for more than a year, but price levels are a lot higher than they were before the pandemic. That's why it's so important that inflation stay low and stable, so incomes can catch up."</p> <p>"As we review we recognize that structural shifts—the rise of artificial intelligence, climate change, trade disruptions and geopolitical instability—make global economies increasingly vulnerable to shocks and uncertainty. We want to be sure the way we use our flexible inflation-targeting framework gives us the best chance of keeping inflation low and stable in a more shock-prone world. We want to provide the best information to Canadians about how we're doing that. And we want to better understand the link between inflation and housing affordability."</p> <p>"One thing we're <i>not</i> reviewing is whether 2% inflation is the best target. We're confident it is. Flexible inflation targeting has proven to be more successful and more durable than anything that came before. In the 25 years leading up to the pandemic, inflation in Canada averaged very close to the 2% target and was inside the 1% to 3% band about 80% of the time. And yes, the pandemic tested our framework like never before, but as difficult as that was, the framework guided our actions to restore low inflation."</p> <p>"Faced with a more shock-prone world, the anchor provided by the 2% target looks more important than ever. But we need to look at how we conduct monetary policy to hit the 2% target. The economic landscape is shifting. Protectionist US trade policy and high tariffs are adding costs and creating economic volatility. More generally, ongoing structural changes are turning into headwinds that have the potential to disrupt supply and add inflationary pressures."</p> <p>"The renewal of our monetary policy framework in 2026 is the opportunity to ensure we are ready for a more shock-prone world. Good money in all its forms is only as good as its purchasing power."</p> <p>"This has been a pivotal year for the global economy. The reconfiguration of global trade and the restructuring of Canada's economy will likely continue to dominate the economic landscape in 2026."</p> <p>"US tariffs on steel, aluminum, autos and lumber have hit these sectors hard, and uncertainty is weighing on business investment. But so far, the economy is proving resilient overall."</p> <p>"Inflationary pressures continue to be contained despite added costs related to the reconfiguration of trade. Total CPI inflation has been close to the 2% target for more than a year now, and we expect it to remain near the target."</p> <p>"In the current situation, Governing Council sees the policy rate at about the right level to keep inflation close to 2% while helping the economy through this period of structural adjustment. Uncertainty is of course still very high. If the outlook changes, we are prepared to respond."</p> |

December 10 Rate Decision Statement

Bank of Canada maintains policy rate at 2¼%

The Bank of Canada today held its target for the overnight rate at 2.25%, with the Bank Rate at 2.5% and the deposit rate at 2.20%.

Major economies around the world continue to show resilience to US trade protectionism, but uncertainty is still high. In the United States, economic growth is being supported by strong consumption and a surge in AI investment. The US government shutdown caused volatility in quarterly growth and delayed the release of some key economic data. Tariffs are causing some upward pressure on US inflation. In the euro area, economic growth has been stronger than expected, with the services sector showing particular resilience. In China, soft domestic demand, including more weakness in the housing market, is weighing on growth. Global financial conditions, oil prices, and the Canadian dollar are all roughly unchanged since the Bank's October Monetary Policy Report (MPR).

Canada's economy grew by a surprisingly strong 2.6% in the third quarter, even as final domestic demand was flat. The increase in GDP largely reflected volatility in trade. The Bank expects final domestic demand will grow in the fourth quarter, but with an anticipated decline in net exports, GDP will likely be weak. Growth is forecast to pick up in 2026, although uncertainty remains high and large swings in trade may continue to cause quarterly volatility.

Canada's labour market is showing some signs of improvement. Employment has shown solid gains in the past three months and the unemployment rate declined to 6.5% in November. Nevertheless, job markets in trade-sensitive sectors remain weak and economy-wide hiring intentions continue to be subdued.

CPI inflation slowed to 2.2% in October, as gasoline prices fell and food prices rose more slowly. CPI inflation has been close to the 2% target for more than a year, while measures of core inflation remain in the range of 2½% to 3%. The Bank assesses that underlying inflation is still around 2½%. In the near term, CPI inflation is likely to be higher due to the effects of last year's GST/HST holiday on the prices of some goods and services. Looking through this choppiness, the Bank expects ongoing economic slack to roughly offset cost pressures associated with the reconfiguration of trade, keeping CPI inflation close to the 2% target.

If inflation and economic activity evolve broadly in line with the October projection, Governing Council sees the current policy rate at about the right level to keep inflation close to 2% while helping the economy through this period of structural adjustment. Uncertainty remains elevated. If the outlook changes, we are prepared to respond. The Bank is focused on ensuring that Canadians continue to have confidence in price stability through this period of global upheaval.

Latest BOC Links:

- Interest Rate Announcement: <https://www.bankofcanada.ca/2025/12/fad-press-release-2025-12-10/>
- Press Conference Statement: <https://www.bankofcanada.ca/2025/12/opening-statement-2025-12-10/>
- Monetary Policy Report (October): <https://www.bankofcanada.ca/publications/mps/mps-2025-10-29/>

mni Central Bank Watch - Bank of Canada

January 26, 2026

| MNI Bank of Canada Data Watch List | | | | | | | | | | | |
|------------------------------------|---------|--------|--------|--------|--------|------------|------------|----------|----------------|---------|-------|
| | Current | 3m ago | 3m Chg | 6m ago | 6m Chg | 2Y History | Hit / Miss | Vs Trend | Surprise Index | Z-Score | |
| Inflation | | | | | | | | | | | |
| CPI | % y/y | 2.4 | 2.4 | ⇒ | 1.9 | ↑ | | | | | 0.38 |
| Core CPI - Median | % y/y | 2.5 | 3.1 | ↓ | 3.0 | ↓ | | | | | -2.19 |
| Industrial Product Price | % m/m | -0.6 | 0.9 | ↓ | 0.2 | ↓ | | | | | -1.21 |
| Breakeven 10-Year | % | 1.95 | 1.95 | ↓ | 1.97 | ↓ | | | | | -0.64 |
| Economic Activity | | | | | | | | | | | |
| PMI Manufacturing | Index | 48.6 | 47.7 | ↑ | 45.6 | ↑ | | | | | -0.08 |
| GDP | % m/m | -0.3 | 0.5 | ↓ | -0.1 | ↓ | | | | | -1.33 |
| Manufacturing Sales | % m/m | -1.21 | -1.03 | ↓ | -1.51 | ↑ | | | | | -0.52 |
| Trade Balance | CAD bn | -0.58 | -3.90 | ↑ | -7.24 | ↑ | | | | | 1.17 |
| Monetary Analysis | | | | | | | | | | | |
| M3 Money Supply | % y/y | 4.77 | 4.45 | ↑ | 5.06 | ↓ | | | | | -0.74 |
| Bank Lending Survey (Q) | % m/m | 0.67 | 0.67 | ⇒ | 1.51 | ↓ | | | | | -0.55 |
| New House Prices | % m/m | -0.2 | -0.2 | ⇒ | -0.2 | ⇒ | | | | | 0.00 |
| Housing Starts | K | 282.4 | 280.8 | ↑ | 284.2 | ↓ | | | | | 0.61 |
| Consumer / Labour Market | | | | | | | | | | | |
| Retail Sales | % m/m | 1.3 | 1.1 | ↑ | -1.2 | ↑ | | | | | 1.12 |
| Retail sales Ex-Autos | % m/m | 1.7 | 0.9 | ↑ | -0.3 | ↑ | | | | | 1.20 |
| Employment Chge m/m | K | 10.1 | 53.3 | ↓ | 66.3 | ↓ | | | | | -0.26 |
| Ave Hourly Wage Rate | % y/y | 3.65 | 3.61 | ↑ | 3.16 | ↑ | | | | | 0.08 |
| Markets | | | | | | | | | | | |
| S&P/TSX Composite | Index | 33267 | 30023 | ↑ | 26857 | ↑ | | | | | 2.00 |
| Canadian 10-Year Yield | % | 3.37 | 3.18 | ↑ | 3.27 | ↑ | | | | | 1.20 |
| CAD Yield Curve (2s-10s) | bps | 79.9 | 70.9 | ↑ | 68.2 | ↑ | | | | | 1.99 |
| CAD TWI | Index | 116.44 | 114.51 | ↑ | 116.83 | ↓ | | | | | 0.98 |

Note: For quarterly data the 3m ago column will display the previous data point and the 6m ago column will display the data point prior to that.
Source: MNI, Bloomberg Finance L.P.

MNI Instant Answers

We have chosen the following questions for our Instant Answers service with the BoC decision at 0945ET:

- Overnight Rate Target (level in x.xx%)
- Does the Bank signal it is prepared to lower rates in the future?
- Does the Bank say the policy rate appears appropriate if its economic forecast is realized?
- Does the Bank signal it intends to leave rates on hold?
- Does the Bank mention added risk from recent global geopolitical changes?

Analyst Expectations And Key Comments

Analyst BoC Policy Rate Expectations



| Analyst | January | Next Move? | Rate path/broader comments on upcoming meeting |
|------------------------------|---------|---|--|
| Median | Hold | Hike | |
| Canadian institutions | | | |
| BMO | Hold | Hold through 2026. | "Macklem looks to retain his neutral bias, potentially with a slight dovish tilt, amid slowing core inflation and persistent uncertainty. The growth and inflation projections will likely have a cautious lean as USMCA renegotiations loom large. Until the outlook changes materially, it's steady as she goes for monetary policy." |
| TD | Hold | Hold through 2026, hike in 2027 | "The first BoC hike is fully priced for 2027Q1, which is in line with our forecast - but we believe that pricing hikes for 2026H1 would require either several more months of positive economic data or overt hawkish signals from the BoC. Neither seem likely." |
| Desjardins | Hold | Hold through 2026, risks of cut. 50bp hikes in 2027 | "Governing Council will reiterate that the current policy rate is low enough to bring the economy back to full health—assuming everything goes according to plan. But policymakers should begin to soften their rhetoric on inflation and more openly discuss the downside risks that would spur them back into action. Even if rate cuts aren't in the offing any time soon, a dovish tone in next week's communiqué could help lower borrowing rates. It's the least they can do given the current situation." |
| CIBC | Hold | Hold through 2026. 50bp hikes in 2027 | "Economic growth during the second half of 2025 was broadly in line with the Bank's October MPR projections. That said, a nod towards the apparent slowing in activity again towards the end of the year may be perceived as a dovish signpost by a market still pricing in a greater risk of rate hikes this year than further cuts." |
| RBC | Hold | Hold through 2026. 100bp hikes in 2027 | "The focus will be on the Monetary Policy Report and a new set of central projections. We don't anticipate material revisions, and expect forecasts will continue to align well with our cautiously optimistic view for a gradual recovery in 2026." |
| National | Hold | 50bp hikes in Q4 2026, hold in 2027 | "We don't expect Governing Council to clearly endorse the hawks or the doves. Instead, they'll reiterate that policy is appropriately calibrated in what should be a balanced, on-one-hand-on-the-other-hand statement...expect growth projections to be boosted due to a strong Q3 and revisions to earlier quarters. Compared to October, 2025 GDP growth will look much stronger but 2026 may be upwardly revised too... Projections for inflation will undergo smaller revisions but should rise modestly." |
| Scotiabank | Hold | 50bp hikes in Q4 2026, 25bp hike in Q1 2027 | "The BoC is unlikely to move until CUSMA renegotiations are settled and the policy backdrop clears...the next move will be a rate hike in the second half of 2026, bringing the policy rate closer to its neutral stance. By that time, we anticipate the economy will be on firmer footing which will allow the BoC to start to withdraw some stimulus." |
| Other institutions | | | |
| Wells Fargo | Hold | Hold through at least mid-2027 | "while Governor Macklem is likely to communicate a degree of comfort with monetary policy settings, we would not be surprised to at least hear overtures toward the possibility of restarting rate cuts. Financial markets are not priced for much in terms of policy rate adjustments in Canada this year, so if a slight reference to cuts comes up, rates markets could adjust quickly while the Canadian dollar could be restrained." |
| BofA | Hold | Hold through 2026 | "Expect guidance and forecasts will mostly remain unchanged, with the BoC continuing to signal that it intends to remain on hold at upcoming meetings...While we don't rule out the possibility that the BoC could normalize policy back towards the middle of its 2.25-3.25% neutral rate range later in the year, we also see (smaller) risks that a renewed downturn in labor market and/or growth data could prompt one or two more cuts to bring the policy rate more squarely into accommodative territory." |
| Goldman Sachs | Hold | Hold through 2026 | "events over the weekend illustrate uncertainty regarding US-Canada trade relations remains a key near-term risk." |
| Rabobank | Hold | Hold through 2026 | "Despite cooling inflation and weakening economic activity, we see no cuts in 2026 as the economic forces strangling the economy can almost entirely be traced back to the ongoing trade war with the US, that monetary policy cannot offset on its own." |
| JPM | Hold | Hold through 2026 | "While there may eventually be a case for "normalization" to move the policy rate closer to the center of the neutral range, we think this process is more likely to come through a downward revision to the neutral band itself rather than actual rate hikes—in contrast with current market pricing for later this year." |

Correct to the best of MNI's knowledge as of Jan 26 2026, Sorted by lowest to highest end-2026 rate

MNI Policy Team Insights

MNI BOC WATCH: Hold Expected As Geopolitics Shadow Outlook

By Greg Quinn (Jan 22)

OTTAWA - The Bank of Canada looks set to hold interest rates Wednesday in line with a commitment to keep policy neutral with inflation near target unless a new shock upends that outlook, making any comment about U.S. threats to stability an important subtext.

Governor Tiff Macklem is seen by all 18 economists surveyed by MNI as leaving the overnight rate at 2.25% for a second meeting in a decision due at 945am EST followed by a press conference. There is no revised economic forecast but data since the Dec. 10 [decision](#) has done little to alter views that Canada's 2026 base case is tame inflation and weak growth. (See: [MNI INTERVIEW: BOC On Hold Barring Fresh Weakness - Ex Staffer](#))

Macro forces are overshadowed by Donald Trump's seizure of Venezuelan oil production, threats of annexing Greenland and his ambivalence about Canadian trade and security. Tariffs on Canadian autos, steel and aluminum have weakened investment and exports but the economy is showing resilience in avoiding recession. Continued U.S. actions could dent growth more than pushing up inflation because Canada has avoided retaliatory tariffs.

Bank officials have said the trade war creates an intense but narrow hit to industries facing the highest tariffs, something monetary policy isn't best equipped to tackle. The Bank has already cut four times last year to what it calls the bottom of its neutral range, even as core indexes hovered near 3%. Growth is being supported by Mark Carney's deficit spending including a plan to lift military spending to a NATO goal of 5% of GDP.

NO NORMALIZATION THIS YEAR

Economists predict the economy is returning to consistent growth after shrinking in the second quarter as most U.S. tariffs took effect. Growth is modest with the Bank seeing GDP up about 1% this year, a pace it says offsets higher costs from trade re-alignment.

Core inflation remains elevated but [slowed](#) for a third consecutive month in December and headline CPI is close to 2%. (See: [MNI INTERVIEW: BOC Hold This Year As Economy Rebuilds-Mc Mahon](#))

Ten of 18 economists polled by MNI see the Bank's rate staying on hold all year in a sluggish economic rebuild. Others are split on a hike or a cut this year, but there's no question geopolitical risks overshadow traditional projections.

"The Bank will not look to normalize policy while the economy still faces great uncertainty over the outcome of CUSMA renegotiations this year," Bradley Saunders of Capital Economics wrote in a research note. "We don't believe a return to policy tightening is in store until 2027 at the earliest."

MNI INTERVIEW: BOC Hold This Year As Economy Rebuilds-Mc Mahon

By Greg Quinn (Jan 14)

OTTAWA – The Bank of Canada will leave interest rates unchanged at the low end of neutral this year as the economy grinds out a slow rebound from the U.S. tariff shock, a former Quebec finance ministry staffer told MNI.

Governor Tiff Macklem has made it clear "risk management" is how policy is being set and he will only move if there is another major shift, in particular around U.S. trade talks, says Sebastien Mc Mahon, now chief strategist at Industrial Alliance where he's attended an economist roundtable with top BOC staff.

Growth may be as fast as 2% this year rather than the 1.1% officials expect but inflation will remain tame as the economy rebuilds after U.S. exports tumbled, he said.

"The Canadian economy is doing well, not enough to warrant rate hikes in 2026, maybe in 2027 we will start to see it. They are in their sweet spot and it's a high bar for rate hikes," Mc Mahon said. (See: [MNI INTERVIEW: BOC On Hold Barring Fresh Weakness - Ex Staffer](#))

DOUBLE DEALING

The policy rate was cut four times last year to 2.25% or the bottom of the Bank's neutral range as President Donald Trump put major tariffs on autos, steel and aluminum while other industries avoided penalties with a USMCA exemption. Canada skirted the recession many investors predicted but investment and exports are weak and a fresh downturn is possible if Trump rips up free trade.

"If they do have to cut, it would be a series of cuts because things are very bad. It's very low odds," Mc Mahon said. "They are very deeply entrenched in their risk management approach, which I think is the right approach."

Trump will likely seek separate deals with Canada and Mexico because that increases his bargaining power, Mc Mahon said. Canada may give some concessions on things like agriculture but the U.S. president will recognize he can't break up vital supply chains, he said.

"At least we will have some clarity," with a new trade deal, Mc Mahon said. "This will be viewed positively by businesses who have been so negative for so long, and now we get the signal that we need to invest." (See: [MNI: Mild US And China Tariff Damage- NS Finance Minister](#))

OPTIMISTIC CASE

The most likely scenario is Canada regains enough momentum for the Bank to raise rates twice next year to the middle of the neutral range, he said. There is still an optimistic case for a trade deal in the first half of 2026 requiring tighter monetary policy late this year, Mc Mahon said.

"Investment spending will be turning very quickly" in that case, he said. "This is a scenario that is low odds but it's definitely possible."

Canada will also experience spillovers if Trump forces the Fed to slash interest rates, Mc Mahon said, in particular a short-term rise in exports. "Initially I think it will be a positive element, but in the long run if there is a boom-and-bust cycle and the U.S. has some issues down the road, then we could have some issues."

Resistance from some members of Congress and Trump's distancing himself from the Department of Justice [subpoena](#) are signs Jerome Powell's video may have fended off any shift, Mc Mahon said. The real pressure will fall on whoever Trump picks to replace Powell, he said.

"It looks like this is uniting the FOMC even more firmly around Powell," Mc Mahon said. "Mostly this is an incentive for the next Chair to stay in line."

MNI INTERVIEW: BOC On Hold Barring Fresh Weakness - Ex Staffer

By Greg Quinn (Jan 8)

OTTAWA - The Bank of Canada is likely on hold through at least the first half of the year, though a rate cut remains possible if the economy shows fresh weakness, former BOC and finance department economist Charles St-Arnaud told MNI.

"As we start the first half, I don't see the Bank of Canada cutting," said St-Arnaud, now chief economist at Servus credit union in Alberta. "They made it clear that there's no intention of cutting rates, they would prefer to stay on hold."

The BOC would only potentially resort to another rate reduction on fresh setbacks such as fourth-quarter GDP stalling or contracting to undo the third-quarter rebound, he said. The job market could also give back some recent strong gains, with industry surveys showing weak hiring plans, he said. "Who's hiring if no business wants to hire?"

Statistics Canada reports December job figures Friday at 830am EST and an MNI survey shows economists predict a 10,000 decline after a rise of 181,000 over the prior three months.

St-Arnaud downplayed the possibility of a late 2026 rate hike that some investors are expecting, pointing to an ongoing drag from housing costs on core inflation. That moderation provides breathing room if the economy grows more than expected, he said.

UPSIDE RISKS RECEDE

Governor Tiff Macklem also says he intends to keep rates on hold unless there's a major shock to the economy, and St-Arnaud said it would take time for evidence to build up that another cut may be needed. (See: [MNI: Mild US And China Tariff Damage- NS Finance Minister](#))

While there's some slack in the economy to deal with growth that's above expectations, the Bank's forecast for 2026 growth of around 1% makes any shortfalls more relevant for a policy switch, St-Arnaud said.

With population now shrinking after government immigration curbs, it's also possible the 2.25% policy rate becomes slightly restrictive, he said. (See: [MNI INTERVIEW: Supply Damage Supports BOC Hold- Dal's McNeil](#))

"It's hard to have a balanced outlook considering the risks on the economy are mainly on the downside," he said. "The upside surprises are that the downside risks have disappeared."

One threat still in place comes from new demands from President Donald Trump as North American free trade talks resume this year, he said, and U.S. actions around Venezuela add to that headwind.

MNI INTERVIEW: Strong CAD Pressures Fresh BOC Cut- Ex Staffer

By Greg Quinn (Dec 11)

OTTAWA - Strength in Canada's dollar alongside continuing U.S. trade threats will pressure the central bank to resume interest-rate cuts next year, former staff researcher Greg Tkacz told MNI.

The Canadian dollar's rise after Governor Tiff Macklem held rates Wednesday and Federal Reserve Chair Jerome Powell cut a few hours later illustrates the situation, he said. A few more cents of appreciation will harm an economy where firms are cutting investment as Donald Trump uses looming USMCA talks to make new trade threats, Tkacz said.

"The only issue I would see with this pause right now especially with the U.S. dropping (rates) later in the afternoon, is that the exchange rate may not be moving in the direction that would be beneficial to helping us offset the negative shock to our exports," said Tkacz, who now teaches economics at St Francis Xavier University in Antigonish, Nova Scotia.

Canada's dollar strengthened about a cent against the U.S. dollar Wednesday and is up 3% this year even with the economy shrinking in the second quarter amid the trade war. Macklem held the key rate at 2.25% Wednesday and many economists see the pause lasting through 2026 and some say the next move is a hike.

Recent data show a resilient Canadian economy with three months of strong job gains and exports rising again after dropping 13% in the second quarter.

PAUSE FINE FOR NOW

David Rosenberg, known for predicting the 2008 U.S. downturn, said this week he sees CAD gaining to CAD1.30 next year, from CAD1.38 at midday Thursday in Toronto, the first time he's been bullish in years. He cited potential for the Fed to keep cutting while the BOC stays on hold.

Some currency strength comes from a global shift out of U.S. dollar assets, and earlier this year Senior Deputy Carolyn Rogers said the currency has continued its historical role as a shock absorber.

"If the Canadian dollar appreciates too much more I think the Bank would have to reassess its decision to pause going forward, so it would have to start dropping rates again," said Tkacz.

Before the trade dispute Canada sent three-quarters of its exports to the U.S. and officials have said a million jobs are at risk in a country of about 40 million people. ([MNI INTERVIEW: Supply Damage Supports BOC Hold- Dal's McNeil](#))

Halting rate cuts after four moves this year and a cycle that began with an overnight rate at 5% still makes sense given inflation pressures, he said. Core indexes are around 3% and the Bank has shifted to a broader definition of trend inflation it sees around 2.5%.

MORE PERMANENT INVESTMENT SHOCK?

"Interest rates can only go down so far right now, especially with inflation being where it is; I mean real rates are practically negative right now," Tkacz said. Without making a specific prediction he noted rates could fall another percentage point before officials need to worry about running short of conventional policy room, he said.

Canada's job market is also being pulled between an immigration cutback that may sustain lower unemployment and hotter wage gains, and the potential hit from U.S. trade threats, he said. Trump has suggested he could abandon a free trade deal with Canada, an issue that could create a long-term investment drop, Tkacz said.

"There will be some costly restructuring taking place, and that's where you'll see more substantial job losses, because this tariff will go from a temporary negative shock to a permanent negative supply shock, and I think that's what the Bank of Canada is very concerned about," he said. ([MNI INTERVIEW: Canada Truckers See Worst Slump In Four Decades](#))

Financial market setbacks are another sore spot with Canadian stock markets rallying about as much as American counterparts despite the weaker economy, and there is a worrying jump in borrowing by U.S. artificial intelligence firms, Tkacz said.

"If a company like Oracle failed to make debt payments for instance, that could be the catalyst for another financial crisis, and I just don't know if governments in North America have much appetite to bail out tech firms," he said.