

MNI Bank Of Canada Review: Jan 2026

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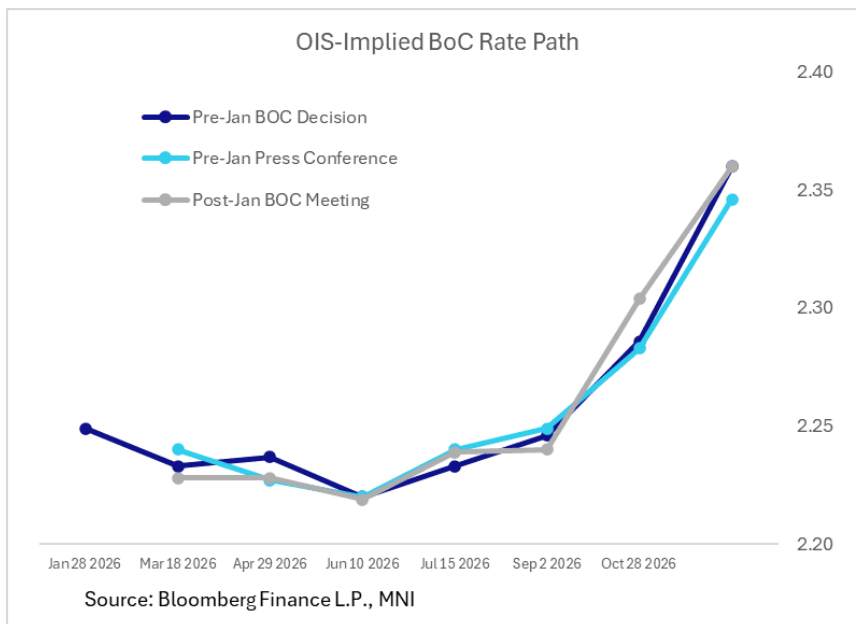
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MNI View: Uncertainty Remains The Watchword

Jan 28, 2026 - By Tim Cooper

The Bank of Canada accompanied the unanimously-expected overnight rate hold at 2.25% at its January meeting with a largely unchanged appraisal of the economic and policy outlook. There was a very slight dovish tilt to the communications but not enough to sway market pricing of the expected policy path which continues to show no change in rates through 2026.

- While the BOC remains uncertain about the “timing or direction of the next change in the policy rate”, the opening statement highlighted the “unusually high” degree of uncertainty due in large part to upcoming North American free trade negotiation which the Bank’s forecasts assume will result in the status quo, at worst.
- And the updated Monetary Policy Report forecasts didn’t deviate from expectations that inflation will converge with the 2% target, while maintaining that there remains slack in the economy despite upgraded growth forecasts.
- Gov Macklem was asked in the press conference whether elevated uncertainty raises the bar for either cutting or hiking, and offered a little bit more colour on Governing Council’s deliberations without revealing any particular lean, noting merely that CUSMA presented “obvious” risks to the outlook.
- Markets came out of the meeting expecting largely the same path of rates as seen coming into the day, with modest cuts implied through July (~5bp) but rates ultimately ending the year higher (~9bp) vs current levels.
- The next major data points to watch are November GDP on Friday, with January labour force data on Feb 6 and January CPI on Feb 16. The next rate decision will be on March 18.



Rate Decision Highlights Geopolitical Uncertainty: The January rate announcement statement highlighted the outlook for the economy is "vulnerable" to "unpredictable trade policies and geopolitical risks", a slightly more dovish nod to downside risks vs the December statement that noted "resilience" in major economies (including Canada's). It also notably mentions the upcoming Canada-US-Mexico agreement as "a key source of uncertainty". A full comparison of the new statement to prior is later in this document.

- The BOC also downplays strong Q3 GDP growth, saying expansion "likely stalled" in Q4, while noting that the unemployment rate "remains elevated" and the outlook for hiring remains weak. Inflation is still seen close to the 2% target going forward as excess supply offsets trade-related price pressures.
- The concluding paragraph is tweaked slightly, but maintains the overall tone of uncertainty as expected, saying that "Monetary policy is focused on keeping inflation close to the 2% target while helping the economy through this period of structural adjustment. Governing Council judges the current policy rate remains appropriate, conditional on the economy evolving broadly in line with the outlook we published today. However, uncertainty is heightened and we are monitoring risks closely. If the outlook changes, we are prepared to respond."
- Previously in December it said "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."

Macklem: Difficult To Predict Timing Or Direction Of Next Rate Move: Noting in the January Press Conference Opening Statement that "Uncertainty around this outlook is unusually high" (the "unusually" is new here vs December), Gov Macklem reiterated that the BOC is still unsure whether its next rate move will be up or down. That said there isn't much sense here that the BOC is angling for a hike anytime soon, with little apparent concern over inflation pressures and pointing out once again that "Monetary policy cannot compensate for the structural damage caused by tariffs, and it cannot target hard-hit sectors of the economy. But it can play a supporting role, helping the economy through this period of structural change, while maintaining inflation close to the 2% target."

- The main ambiguity about the BOC's rate outlook remains: "Considering both our baseline forecast and the risks, Governing Council discussed the future path of monetary policy. While Council judges the current policy rate is appropriate based on our outlook, the consensus was that elevated uncertainty makes it difficult to predict the timing or direction of the next change in the policy rate."
- He offered a bit more colour on the main potential macroeconomic impacts of trade risk in the coming quarters: "Geopolitical risks are elevated and the upcoming review of the Canada-United States-Mexico Agreement is an important risk to the outlook. It's also too early to tell how well the Canadian economy will adjust to current tariffs and ongoing uncertainty. The transition to the new trade environment could be smoother than we expect, with stronger business and household spending. Alternatively, the labour market could weaken further as trade impacts deepen, leading to lower household spending. Financial conditions could also tighten if volatility returns to markets."

Gov Macklem Highlights "Obvious" Risks On Trade Front: The BOC press conference Q&A opened with multiple questions for Governor Macklem about uncertainty over the trade outlook and its impact on BOC policy. In short, CUSMA renegotiations present "obvious" risks.

- The first question for BOC Gov Macklem is whether the BOC is saying via its communications that the outcome of CUSMA trade negotiations with the US and Mexico will dictate the next move in interest rates. Macklem says "what we are saying is that uncertainty around our forecast is unusually high". The BOC's projections assume that tariffs currently in place remain in place, including CUSMA exceptions for Canadian exports. "The other thing we have in our projection is, the uncertainty is already having an impact on the economy. That's built into our projection. We have that gradually diminishing over time" but "the outcome of [CUSMA negotiations], there's obvious risks to the projection. The outcome may not be no change."
- Asked about why the BOC now says that the range of possible outcomes is wider than usual, Macklem says: "I think there's a sense that geopolitical risks are heightened. I'm not going to go through every event, but the month of January has been pretty packed with new geopolitical risks.... through the summer, I don't want to say uncertainty was low, but there was, you saw a little more stability, I think, you know, recently, you've seen more unpredictability in US policy, with all sorts of threats including on Canada...CUSMA is coming more into focus."

Multiple US-Related Questions: As such it was unsurprising there were several US-focused questions for the BOC leadership. MNI's Greg Quinn asks about the BOC's forecasts showing robust US growth with moderating inflation, and whether that vindicates Pres Trump's assessment that tariffs don't do much damage to the economy. Deputy Gov Rogers replies that "just as it's too early to tell in our economy, these things feed through gradually".

- Gov Macklem is asked about implications for monetary policy in Canada if confidence in the Fed's independence was lost. He says of Fed Chair Powell, "he is doing a good job at leading the Fed based on evidence, based on facts, based on the best economic judgments of the FOMC. I hope it stays that way, that's going to be important for everyone. "
- Macklem comments on what he thinks has been driving recent USD vs CAD movements, saying that the US greenback's safe haven status has been "dented":
- "I think it's largely geopolitical events, and that's really been whether it's trade or other geopolitical events.... They're not being driven very much by commodity prices, interest rate differentials, the sort of normal types of things that would drive the exchange rate... the US dollar, has depreciated over last year by about 10%... US equity markets have been strong, but that safe haven role of the of the US dollar has been dented. People don't want as much exposure to the US dollar, they're hedging more of that that is being reflected in the value of the US dollar. And at the same time, you're seeing other safe havens, but most notably, gold up a lot."

Macklem: Broad Range Of Possible Outcomes Clouds Rate Direction And Timing

Macklem was asked whether elevated uncertainty raises the bar for either cutting or hiking, and offered a little bit more colour on Governing Council's deliberations without revealing any particular lean:

- "We did discuss the future path of interest rates in our deliberations. And bottom line is, we agree that the current policy rate is appropriate if the economy evolves broadly in line with the the outlook we just published, but we also recognized that uncertainty is is heightened. It's unusually high. There's a broader range of possible outcomes. And so against that background, as we discussed it, the clear consensus was, it's very difficult to predict either the direction or the timing of next move in our policy rate."
- "In order to assign probabilities as to the direction of the next move in the interest rate, you need to be able to assign probabilities to the risks. And I think the way we were feeling is, given high uncertainty, that that's difficult. So I think that the real takeaway is, yes, uncertainty is high. We are monitoring those risks very closely, and if a new shock comes along, or an accumulation of evidence that that materially changes our outlook, we're prepared to respond. So, you know, we are very alive to those risks. But you know we need to see if something crystallizes, we'll assess the implications for the projections, and then we'll be considering what the monetary policy implications are."

MPR Projections Mark-To-Market GDP, Show CPI Inflation Converging With 2%

The Bank of Canada's January Monetary Policy Report shows almost no change in the fundamental outlook vs the October MPR, largely marking-to-market the recent fluctuations in GDP growth. Importantly the inflation outlook is little changed, continuing to show convergence with 2%, with no change in the estimated current output gap.

- It reflects the much-stronger-than-expected Q3 GDP reading (2.6% Q/Q SAAR, vs 0.5% in the October MPR expectation), and is actually a little below current consensus on Q4 at 0.0% (0.3% Bloomberg consensus). On the other hand, the initial forecast for Q1 2026 GDP growth is 1.8% which is above the 1.3% consensus.
- For the annual estimates, 2025 was revised up to 1.7% (1.2% in October) with 2026 steady at 1.1% (we'd seen a risk of a slightly higher forecast), while 2027 got a slightly downgraded assessment (1.5% vs 1.6%).
- Potential growth was revised up in line with recent annual revisions, with the range of potential output upped 0.2pp at either end for 2026 (0.6-1.6%), though 2027's was revised down 0.6pp (0.7-1.7%).
- With potential growth revised up by almost as much as GDP, "the amount of slack in the economy remains largely unchanged." The current estimate of the output gap for Q4 2025 "is in the range of -1.5% to -0.5%" which is unchanged from October, a modest surprise given that many had expected a narrower gap given the shift in growth data. And of course the neutral policy rate range remains 2.25% to 3.25%.
- The CPI profile is little changed as expected, though the moves were largely in a downward direction (apparently reflecting higher base effects from Q4 2025; the MPR notes "reflecting recent fluctuations in food and energy prices" while recognizing that the BOC's preferred inflation gauges slowed to 2.5% in December from about 3% in October.

- That includes 1.9% Y/Y headline CPI in Q4 2026 (was 2.2%) with core down to 2.1% (was 2.3%) but overall the message remains the same: inflation is seen returning sustainably to 2% given current macro expectations.

Table 3: Summary of the quarterly projection for Canada*

	2025				2026			
	Q2	Q3	Q4	Q1	2024 Q4	2025 Q4	2026 Q4	2027 Q4
CPI inflation (year-over-year percentage change)	1.7 (1.7)	2.0 (2.0)	2.2 (2.0)	2.0	1.9 (1.9)	2.2 (2.0)	1.9 (2.2)	2.1 (2.1)
Core inflation (year-over-year percentage change)[†]	3.1 (3.1)	3.1 (3.2)	2.9 (2.9)	2.5	2.6 (2.6)	2.9 (2.9)	2.1 (2.3)	2.1 (2.1)
Real GDP (year-over-year percentage change)	1.6 (1.2)	1.4 (0.7)	0.7 (0.5)	0.6	3.1 (2.3)	0.7 (0.5)	1.4 (1.6)	1.7 (1.6)
Real GDP (quarter-over-quarter percentage change at annual rates)[‡]	-1.8 (-1.6)	2.6 (0.5)	0.0 (1.0)	1.8				

* See details in the **Tariff and other assumptions** section. Numbers in parentheses are from the October Report.

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

‡ At the time of the projection, 2025Q4 and 2026Q1 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 2**.

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

BOC Links:

- **Interest Rate Announcement:** <https://www.bankofcanada.ca/2026/01/fad-press-release-2026-01-28/>
- **Press Conference Statement:** <https://www.bankofcanada.ca/2026/01/opening-statement-2026-01-28/>
- **Monetary Policy Report:** <https://www.bankofcanada.ca/publications/mpr/mpr-2026-01-28/>
- **Press Conference Video:** <https://www.bankofcanada.ca/multimedia/press-conference-monetary-policy-report-january-2026/>

Instant Answers For BOC Rate Decision

- Overnight Rate Target **2.25%**
- Does the Bank signal it is prepared to lower rates in the future? **Yes. "Uncertainty around this outlook is unusually high. Geopolitical risks are elevated and the upcoming review of the Canada-United States-Mexico Agreement is an important risk to the outlook."**
- Does the Bank say the policy rate appears appropriate if its economic forecast is realized? **Yes**
- Does the Bank signal it intends to leave rates on hold? **Yes**
- Does the Bank mention added risk from recent global geopolitical changes? **Yes**

Changes In The Rate Decision Statement – Jan vs Dec

Bank of Canada maintains policy rate at 2¼%

December 10, 2025

January 26, 2026

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 The outlook for the global and Canadian economies around the world continue to show resilience is little changed relative to the projection in the October Monetary Policy Report (MPR). However, the outlook is vulnerable to unpredictable US trade protectionism, but uncertainty is still high. In policies and geopolitical risks.

Economic growth in the United States, economic growth is being supported by strong consumption and a surge in continues to outpace expectations and is projected to remain solid, driven by AI-related investment. The US government shutdown caused volatility in quarterly growth and delayed the release of some key economic data, and consumer spending. Tariffs are causing some upward pressure on pushing up US inflation, although their effect is expected to fade gradually later this year. In the euro area, economic growth has been stronger than expected, with the services sector showing particular resilience. In China, soft supported by activity in service sectors and will get additional support from fiscal policy. China's GDP growth is expected to slow gradually, as weakening domestic demand, including more weakness offsets strength in exports. Overall, the housing market, is weighing on Bank expects global growth to average about 3% over the projection horizon.

Global financial conditions, oil prices, and have remained accommodative overall. Recent weakness in the US dollar has pushed the Canadian dollar are all above 72 cents, roughly unchanged where it had been since the Bank's October Monetary Policy Report (MPR). Oil prices have been fluctuating in response to geopolitical events and, going forward, are assumed to be slightly below the levels in the October report.

Canada's economy grow 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 US 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 restrictions and uncertainty remains high and large swings in trade may continue to cause quarterly volatility.

Canada's labour market is showing some signs of improvement disrupt growth in Canada. After a strong third quarter, GDP growth in the fourth quarter likely stalled. Exports continue to be buffeted by US tariffs, while domestic demand appears to be picking up. Employment has shown solid gains in the past three risen in recent months and. Still, 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 remains elevated at 6.8% and relatively few businesses say they plan to hire more workers.

Economic growth is projected to be modest in the near term as population growth slows and Canada adjusts to US protectionism. In the projection, consumer spending holds up and business investment strengthens gradually, with fiscal policy providing some support. The Bank projects growth of 1.1% in 2026 and 1.5% in 2027, broadly in line with the October projection. A key source of uncertainty is the upcoming review of the Canada-US-Mexico Agreement.

CPI inflation slowed to 2.2% in October, as gasoline prices fell and food prices rose more slowly. CPI picked up in December to 2.4%, boosted by base-year effects linked to last winter's GST/HST holiday. Excluding the effect of changes in taxes, inflation has been slowing since September. The Bank's preferred measures of core inflation have eased from 3% in October to around 2½% in December. Inflation was 2.1% in 2025 and the Bank expects inflation to stay close to the 2% target for more than a year, while measures of core inflation remain in the range of 2¼% 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 over the projection period, with trade-related cost pressures associated with the reconfiguration of trade, offset by excess supply.

Monetary policy is focused on 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. Governing Council judges the current policy rate remains appropriate, conditional on the economy evolving broadly in line with the outlook we published today. However, uncertainty is heightened and we are monitoring risks closely. If the outlook changes, we are prepared to respond. The Bank is focused on committed to ensuring that Canadians continue to have confidence in price stability through this period of global upheaval.

Press Conference Opening Statement

Good morning. I'm pleased to be here with Senior Deputy Governor Carolyn Rogers to discuss today's monetary policy decision. Today, Governing Council maintained the policy interest rate at 2.25%.

Our forecast for economic growth and inflation in Canada has not changed significantly since our October projection. As the Canadian economy continues to adjust to US trade restrictions, we expect GDP to grow modestly and inflation to stay close to the 2% target. However, uncertainty around our forecast is heightened, and the range of possible outcomes is wider than usual. US trade policy remains unpredictable, and geopolitical risks are elevated.

Our monetary policy decisions are focused on keeping inflation close to the 2% target while helping the economy through this period of structural change. Governing Council judges the current policy rate remains appropriate, conditional on the economy evolving broadly in line with the outlook we published today. With heightened uncertainty, we are monitoring risks closely. If the outlook changes, we are prepared to respond.

Let me expand on what we've seen in the economy since we published our October Monetary Policy Report, and what we see ahead.

Tariffs and uncertainty continue to disrupt the Canadian economy. After a strong third quarter, economic growth likely stalled in the fourth quarter. Exports continue to be buffeted by US tariffs, while domestic demand appears to be picking up. Household spending is expected to continue growing moderately, supported by past cuts in interest rates and rising disposable incomes.

US tariffs and related uncertainty have held back business investment. But we expect some modest strengthening in investment as businesses adjust to the new trade environment and governments increase infrastructure spending.

The impact of US tariffs can also be seen in the labour market. Employment weakened in the first half of 2025 as sectors hit hard by US tariffs cut production and jobs. In recent months, overall employment has risen, led by hiring in services like health care, and slowing population growth is reducing the number of new entrants into the labour market. Still, the unemployment rate remains high at 6.8%, youth unemployment is particularly elevated, and relatively few businesses say they plan to hire more workers in coming months.

Overall, economic growth is expected to pick up gradually. The Bank of Canada projects annual average GDP growth of 1.1% in 2026 and 1.5% in 2027, broadly in line with our October projection.

Turning to inflation, it averaged 2.1% last year, and has now been within the 1% to 3% band for two years. If we focus on recent movements, CPI inflation rose to 2.4% in December, boosted by base-year effects linked to last winter's GST/HST holiday. The Bank's preferred measures of core inflation have eased from 3% in October to around 2½% in December. The Bank expects CPI inflation to stay close to the 2% target over the projection as tariff-related cost pressures are offset by excess supply.

Uncertainty around this outlook is unusually high. Geopolitical risks are elevated and the upcoming review of the Canada-United States-Mexico Agreement is an important risk to the outlook.

It's also too early to tell how well the Canadian economy will adjust to current tariffs and ongoing uncertainty. The transition to the new trade environment could be smoother than we expect, with stronger business and household spending. Alternatively, the labour market could weaken further as trade impacts deepen, leading to lower household spending. Financial conditions could also tighten if volatility returns to markets.

Considering both our baseline forecast and the risks, Governing Council discussed the future path of monetary policy. While Council judges the current policy rate is appropriate based on our outlook, the consensus was that elevated uncertainty makes it difficult to predict the timing or direction of the next change in the policy rate.

Let me wrap up. The Canadian economy is adjusting to the structural headwinds of US protectionism. Businesses are reconfiguring supply chains and investing in new markets. We also expect to see some reallocation of capital and workers as new opportunities open up. This restructuring, including more diversified trade and a more integrated internal market, will support some recovery in our productive capacity. But it will all take some time.

Monetary policy cannot compensate for the structural damage caused by tariffs, and it cannot target hard-hit sectors of the economy. But it can play a supporting role, helping the economy through this period of structural change, while maintaining inflation close to the 2% target.

The Bank is committed to ensuring that Canadians continue to have confidence in price stability through this period of global upheaval.

Press Conference Transcript (Unedited, Check Against Delivery)

https://media.marketnews.com/BOC_Press_Conf_Jan2026_21e910ec6a.pdf

MNI POLICY TEAM

MNI BOC WATCH: Rate Hold And Focus On Growing Political Risk

By Greg Quinn (Jan 28, 2026)

OTTAWA - Canada's central bank kept its key interest rate 2.25% Wednesday and loaded the statement with references to risk from volatile U.S. policies and coming trade negotiations, while affirming borrowing costs can stay on hold in the baseline projection for modest growth and inflation.

"Geopolitical risks are elevated and the upcoming review of the Canada-United States-Mexico Agreement is an important risk to the outlook," Governor Tiff Macklem said in a press conference opening statement. "While Council judges the current policy rate is appropriate based on our outlook, the consensus was that elevated uncertainty makes it difficult to predict the timing or direction of the next change in the policy rate."

The Bank's rate decision and Macklem's statement contain two dozen references to volatile U.S. actions and much less commentary about upside inflation risks. Almost a year after U.S. tariffs started moving into place officials said it's too early to figure out how the economy will adjust. Officials reiterated they are prepared to respond if the baseline situation changes.

Canada's growth outlook is little changed from the Bank's October view, coming in at about 1.25% over the next few years while inflation holds around 2%. The Bank's preferred core inflation measures have slowed to 2.5% in December from about 3% in October, officials noted.

The decision to hold rates was expected by all 19 economists surveyed by MNI and a majority had expected no change for the rest of this year. Smaller groups were split between the need for a cut early this year to address damage from the trade dispute, or a hike late in 2026 as Canada gathered momentum.

The economy has avoided the recession many economists predicted, though the Bank cut its fourth quarter GDP forecast a stall citing a tumble of inventories after a buildup ahead of U.S. tariffs. Growth is seen picking up again this quarter with an expansion of 1.8% at annualized rate.

The Bank estimated Wednesday that U.S. tariffs and protectionism have reduced Canada's exports by 4% as of the third quarter, and excluding a surge in gold shipments things are even worse. Total GDP by the end of this year is expected to be 1.5 percentage points less than officials projected before the trade dispute.

Before President Donald Trump set tariffs on most global trade partners, Canada shipped three-quarters of its exports south of the border almost duty free. Last week Trump threatened a 100% tariff if Canada sought a free trade pact with China, something Prime Minister Mark Carney has said isn't happening.

Selected industries have suffered amid high tariffs on autos, steel and aluminum. Prices for Canada's main export of crude oil have also slipped since the U.S. seizure of Venezuelan oil production that's similar to Alberta's heavy crude. The U.S. has also cast a shadow over Canada's wider security with threats of taking Greenland and Trump's ambivalence about Canadian trade and military cooperation.

The Bank cut four times last year to what it calls the bottom of its neutral range, even when core indexes hovered near 3%. Growth is being supported by Carney's deficit spending including a plan to lift military expenditures to a NATO goal of 5% of GDP. Slowing population growth in Canada will also drag on growth this year.