October 30, 2026

Up, up and away

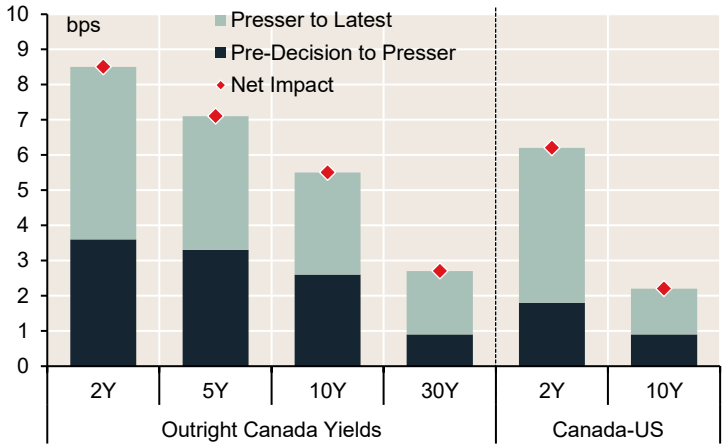
By Taylor Schleich & Ethan Currie

Decision Details:

- The **Bank of Canada** raised its target for the overnight rate 25 basis points to 2.50%. While the consensus forecast was split (NBC called for a hike), the decision comes in-line with OIS market pricing, which priced the outcome with 80% certainty.
    - This is the BoC's first rate hike since July 2023. The policy rate continues to reside in the lower half of the Bank's estimated neutral range (2.25% to 3.25%).
    - The BoC's overnight target stands 150 basis points below the Fed's upper-bound policy target.
    - The deposit rate will continue to set 5 bps below the target rate (now at 2.45%). The Bank rate remains 25 bps above the overnight target.
- There were no changes made to balance sheet policy.

Yields climb as tightening begins, inflation seen hotter

Change in yields/differentials: Pre-decision to presser, presser to latest



Source: NBC, Bloomberg | Note: Latest as of 12:00 PM EST

Press Release:

- Supporting the decision to hike was "higher and more persistent" inflation and growth that has "picked up and is expected to recover further". To the Bank, this move reduces the risk that higher energy prices spread more broadly.
- Looking ahead, the statement explains that there "could" be a need to hike further but "given uncertainties, Governing Council agreed to proceed carefully".
- Inflation projections are detailed below but qualitatively; the statement explains that "cost pressures are building". They acknowledge that firms have absorbed higher costs for now, but they expect pass through to increase over the next year. The Bank also sees "no clear path to resolution" in the Middle East conflict.
- The Bank cites stronger than expected growth in Q2 and Q3, buoyed by solid consumer spending, rebounding investment and stronger exports. Once again, they note that businesses are adapting to the changing trade environment. Still, they expect growth to temporarily slow in Q4 due to new US tariffs. Presumably on the back of tighter policy, the Bank sees consumption moderating and housing remaining "relatively weak". The revised growth outlook is detailed below.
- On the labor market, the statement simply points to a jobless rate "around 6.5%". They add that "a broad set of indicators continue to point to some excess supply in the economy"

How are the BoC's latest forecasts shaping up?

BoC and NBC forecasts for real GDP growth and CPI inflation

	Projection	Q2:26	Q3:26	Q4:26	2026	2027
GDP	April MPR	1.5	-	-	1.2	1.6
	July MPR	2.5	1.5	-	0.7	1.8
	October MPR	3.3	2.0	0.8	1.0	2.0
	NBC / Actual	3.3	2.0	0.9	1.0	1.6
CPI	April MPR	2.6	-	-	2.3	2.1
	July MPR	3.0	2.5	-	2.5	2.0
	October MPR	3.0	3.0	3.4	2.9	3.1
	NBC / Actual	2.1	1.9	2.2	2.7	2.2

	Projection	Q1:26	Q2:26	Q3:26	Q4:2026	Q4:2027
CPI Core	April MPR	2.5	-	-	2.1	2.1
	July MPR	2.4	2.1	-	2.0	2.2
	October MPR	Core inflation projections not published				

Monetary Policy Report:

Revisions to the BoC July projections resulted in a stronger economic outlook coupled with warmer inflation for 2026 and 2027.

- **GDP Growth**: The BoC revised its 2026 GDP forecast up by 3 ticks relative to the prior MPR to 1.0%, while 2027 real growth was upgraded to 2.0% (from 1.8%). Overall, the 2026 upward revisions were driven primarily by consumption and exports. Potential output is also higher "due to an upward revision to Canada's population", though projections for the range for potential output was unchanged throughout the forecast horizon.
- **Output Gap:** In the BoC's view, the estimated output gap narrowed slightly in the third quarter (from -1.5% to -0.5% to -1.25% to -0.25%, which was "in line with [estimates from] the July report". Spare capacity is noted to have "declined somewhat" since the start of the year.

- **CPI Inflation:** The Bank's projection of 2026 all-items CPI inflation was revised up an additional 4 ticks to 2.9% (after being 'upgraded' by half that amount in the July MPR). Meantime, the 2027 CPI projections was revised over a percentage point higher (from 2.0% to 3.1%), reflecting higher oil prices and refinery margins, which are "expected to remain elevated for longer because of conflicts abroad". Canadian counter-tariffs were also cited to add modestly to upward price pressures, while the suspension of the federal fuel excise tax provides a partial offset until April 2027.
- **Oil price assumptions:** The Bank notes that energy prices have risen "sharply" since the prior MPR, while other commodity performance has been mixed. Brent futures are higher across the projection horizon, with the prompt contract trading at about $115/bbl (or ~$35/bbl higher than in July). Backwardation in the projections is still shown, with Brent assumed to be ~$80/bbl by mid-2028. The MPR also cites longer-dated (Oct-27) contracts having moved higher.

Press Conference:

Below, we outline some of the highlights from the Q&A segment of the press conference. The opening statement can be found **here**. Notably, the governor explained that there are many 'lenses' decisionmakers must look through when assessing whether to change course on / raise policy. In this regard, today's move higher was 1) consistent with a higher growth / warmer inflation outlook, 2) a way to manage risk going forward, and 3) a reflection of the shifting balance of risks in the intermeeting period (which sees the risks to broadening inflation increasing). Unsurprisingly, Macklem noted that the economic / geopolitical outlook remains uncertain. As such, the Bank won't pre-commit to further moves. The rate statement offers a similar message: "There could be a need to increase the policy rate further, but given uncertainties, Governing Council agreed to proceed carefully."

- Macklem was asked how difficult a decision to hike was. In his reply, the Governor explained that it's always difficult when considering a 'change in direction' for policy, and it's important to look through multiple lenses to come to a decision. In that vein, policymakers justified the move by citing a warmer inflation outlook, a shifting balance of risks towards that outlook, and by suggesting this is a good way to manage risks. While they don't want to stifle growth with higher rates, they also don't want to be too slow to react to inflation that risks broadening.
- What would 25 bps of tightening do to combat price shocks in the energy and AI industries? Macklem conceded there's plenty that monetary policy can't change (like how much Canadians will pay at the pump), but they can ensure consumers don't have to 'pay twice'. The war in the Middle East has entered its eighth month, with no resolution (to the war, or elevated energy costs) in sight. The Governor noted that 'past behaviour' shows that businesses can absorb these higher costs for a while but will tend to pass them on over time. Today's rate hike will help to lean against this pass through and will help guide inflation back to target in a timelier fashion.
- In several instances, the Governor was asked to provide forward-looking guidance on the path for monetary policy. And in several instances, Macklem said they won't pre-commit to a move, citing that uncertainty still remains—MPR forecasts are not the only scenario that could play out for prices or growth. A handful of questions (paraphrased) related to this are cited below:
    - Since midpoint of neutral range is 2.75%, do you want to get to midpoint ASAP, or does 25 bps give you more breathing room? Macklem states that 'neutral is a range' and that they won't' pre-judge future moves.
    - Why weren't you more hawkish in the statement this time? The Governor pointed to his September communications (Halifax) which supported a hike, but also mentioned that uncertainty is high—there's no pre-determined path for policy.
    - According to MPR, inflation will remain above target until mid-2028 (with oil prices elevated as well)… will more tightening be required over the medium term? Macklem doesn't 'want to get too far ahead' of himself… there's no pre-determined path for policy.
    - What would need to happen for a single-hike cycle to materialize, and is there historical precedent for that? There's plenty of uncertainty that remains ahead in the economy and the policy response.
- Did the decision to hike stem from what was a delayed reaction to the COVID inflation shock? The Bank of Canada learned lots from the pandemic, especially how to 'look under the hood' of incoming economic data. The BoC's new model, Prima, will also help them to interpret economic indicators going forward. But today's situation is different than 2022 for a few reasons—the economy isn't overheating and while economic slack is being absorbed, there is still slack present.
- On the growth outlook, the Governor fielded a few questions. First, Macklem mentioned that government policies are taken as a 'given' in their forecasts and that one of the reasons for a stronger growth outlook is due to the fed's investment-intensive agenda. The Bank expects that projects approved by the MPO will begin to 'take shape' next year and that the productivity mega deduction will contribute positively to investment as well. Additionally, higher energy prices have led to strong performance (and investment) in that sector. When asked whether a stronger energy sector would have positive spillover effects into other areas of the economy, Macklem explained that energy is not the only source of growth—household spending is still the largest contributor, and there's positive export growth (energy or otherwise) as well.
- With tightening started (and potentially more hikes in the pipeline), what will this mean for an already subdued housing market? Rogers mentioned that uncertainty weighs on large purchase (i.e., house-buying) decisions. Notionally higher borrowing rates will add to some pressures in the market on the margin. The MPR gives a good indication of their thinking going forward.
- What is your message to Canadian businesses facing tariffs? The Governor concedes that a rate hike might not seem like the best thing for these businesses in the near-term, but the best thing the BoC can do for Canadians is keep inflation under control over the long run. This will create a more stable business environment and reduce uncertainties about future costs and investment decisions.
- There were no questions asked on the absence of a core inflation projection in the MPR.

Bottom Line:

There was *some* uncertainty leading into this decision, but Governing Council ultimately opted to hike, in line with OIS market expectations. Supporting the move was "higher and more persistent" inflation and risk management considerations aimed at preventing the spread of energy prices more broadly. Further, the economy was judged to be on firmer footing and proving more resilient, consistent with earlier comments from the Governor. While there was an acknowledgement that the economy could slow in Q4 due to tariffs, this doesn't even dent the GDP growth outlook which was revised up at least two ticks in 2026, 2027 *and* 2028. But most striking was the Bank's fundamental rethink on the inflation outlook, underscored by a 1.1%-pt upward revision to their 2027 CPI projection. To be clear, price stability is not expected to be achieved anytime soon. Going into the decision, some were speculating the Bank would deliver a 'dovish hike' but it was far from that in our view. Macklem and Rogers indicated as much when they noted there was a strong consensus around the decision.

With the tightening cycle underway, the attention turns to the next meeting on December 9th. The communique fails to explicitly tee up a follow-on move and even suggests that they would "proceed carefully". But judging by their updated forecasts and fundamental rethink on inflation, it's hard to make the case to go slowly. Ultimately, incoming data and the evolving balance of risks will guide the Bank, but baring a *de-escalation* in the Middle East and/or a material *escalation* in the Canada-US trade war, we'd lean toward them hiking again in December. And **as we explored recently**, the Bank has a strong tendency to begin tightening cycles with consecutives hikes. What would've made the near-term outlook easier to discern are updated core inflation projections. Unfortunately, the Bank chose not to publish these in their updated MPR. It's unclear why and reporters didn't press the Governor on this omission. That leaves us speculating whether it's due to incoming changes to their preferred core measures, a lack of confidence in their projections or a signal that all-items CPI is the only relevant inflation measure. We'd guess that CPI-Trim and -Median are on their way out given that they are not mentioned in the MPR, but we await clarity.

The Bank's next decision will take place on December 9th and will not be accompanied by an *MPR*. The Summary of Deliberations for today's decision will be released on November 10th at 1:30 PM ET.

Interest Rate Statement:

Bank of Canada raises the policy rate by 25 basis points to 2½%

The Bank of Canada today increased its target for the overnight rate by 25 basis points to 2.5%, with the Bank Rate at 2.75% and the deposit rate at 2.45%.

Since the July Monetary Policy Report, global economic activity has remained resilient, despite higher energy prices. In the United States, the economy continues to grow at a robust pace, supported by consumer spending and AI-related investment. Growth in the euro area has been resilient and broad-based. After slowing in the second quarter, Chinese growth rebounded in the third quarter, owing to strength in exports and a pickup in fiscal spending. With persistently elevated oil prices and refinery margins, inflation has risen in most countries.

Given the ongoing resilience of the global economy, the Bank has revised up global GDP growth slightly to 3.1% in 2026, while growth in 2027 and 2028 remains unchanged from the July projection at 3.2%.

Global financial conditions have tightened since July. Advanced economy sovereign bond yields are higher. Equity and credit markets have been volatile due to uncertainty about the outlook for the AI sector. The Canadian dollar had weakened somewhat on US-dollar strength but has since recovered to around 71 cents – the same as assumed in the July Report.

Growth picked up in Canada through the middle of the year. GDP growth was 3.3% in the second quarter, and recent indicators point to growth of about 2% in the third quarter. This is stronger than expected in the July Report. Consumer spending has been solid, even with slow population growth. Business investment rebounded, reflecting oil and gas sector activity and spending on machinery and equipment. Despite ongoing weakness in sectors affected by US tariffs, exports overall have strengthened, owing to robust US demand, higher energy production and increasing signs that businesses are adapting to the changing trade environment. The unemployment rate has been around 6½% for several months. A broad set of indicators continue to point to some excess supply in the economy.

Owing to new US tariffs, growth is expected to slow in the fourth quarter of 2026, before picking up again in 2027. This rebound is supported by business investment, exports and fiscal measures. Consumption growth is expected to moderate and housing to remain relatively weak.

The Canadian economy is expected to grow 1% in 2026, and 2% in 2027 and 2028. This is a somewhat stronger overall growth projection than the July Report. This forecast is still subject to considerable uncertainty, particularly regarding Canada-US trade relations.

Given persistently high oil prices, CPI inflation has been around 3% since April and is expected to rise to about 3½% by the end of the year. Excluding gasoline, inflation was 2.2% in September and measures of core inflation remain close to 2%. But cost pressures are building, with high fuel prices raising the costs of production and transportation. Imported industrial and electronics input prices have also increased. While businesses have mostly absorbed higher input costs so far, Bank surveys suggest cost pass-through will increase over the next year. Near-term household and business inflation expectations have risen, while longer-term inflation expectations remain well anchored.

The conflict in the Middle East is now in its eighth month and there is no clear path to resolution. The combination of higher-for-longer energy prices and increased pass-through adds to the persistence of inflation in the projection. CPI inflation is expected to average 3% in 2027, a percentage point above the July projection, then come down to 2% in the middle of 2028. The main sources of uncertainty around this forecast are developments in the Middle East and businesses' responses to cost pressures.

In the outlook, inflation is higher and more persistent than in the July Report. Growth has picked up this year and is expected to recover further. Against this backdrop, Governing Council decided to increase the policy rate to reduce the risk that continuing high energy prices spread broadly to the prices of other goods and services. There could be a need to increase the policy rate further, but given uncertainties, Governing Council agreed to proceed carefully. The Bank remains committed to maintaining Canadians' confidence in price stability.

Information note

The next scheduled date for announcing the overnight rate target is December 9, 2026. The Bank's next Monetary Policy Report will be released on January 27, 2027.

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