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Bank of Canada Interest Rate Announcement – October 28, 2026

The Bank of Canada raised its policy rate by 25 basis points this morning to 2.5%. In the statement accompanying the decision, the Bank noted that growth in the Canadian economy has been stronger than expected, though there remains some excess slack in the labour market. The Bank expects growth to slow in the fourth quarter due to new US tariffs before strengthening in 2027. On inflation, the Bank expects high oil prices to push CPI inflation to 3.5 per cent by the end of the year and suggests that underlying inflation pressures could rise as higher fuel prices and tariffs are increasingly passed through to consumer prices. The Bank is forecasting that CPI inflation will average 3 per cent in 2027, a full percentage point above its previous projection. Given stronger growth and higher inflation, the Bank raised the policy rate to reduce the risk that elevated inflation becomes more broadly based. While the Bank stated that further rate increases could be necessary, it also emphasized that, given the uncertainty surrounding the outlook, it will proceed carefully.

There is no doubt that the Bank has a difficult challenge ahead. On the one hand, the relative price shock from higher energy prices has the potential to spill over into broader inflation. On the other, the labour market has weakened, with the Canadian economy shedding 110,000 jobs over the past two months, while trade tensions with the United States have yet to abate. Perhaps the more prudent choice would have been to wait for the outcome of the US midterm elections and another month of employment and inflation data before embarking on a new tightening cycle. Instead, the Bank acted sooner, while also signalling that this does not necessarily mark the beginning of a sustained tightening cycle. Prior to today's announcement, financial markets had priced in up to four rate increases from the Bank of Canada. The Bank's decision and the cautious language in today's statement may cause some of those expectations to be pared back, putting downward pressure on longer-term yields.

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