

Dear clients,

For the sixth time in a row, Canada's central bank has opted to maintain its overnight policy interest rate at 2.25%, unchanged since October of 2025.

This hang-tight decision was widely anticipated, as was the Bank's accompanying statement of intent.

We capture the BoC's comments from its July 15, 2026 report below.

Canadian Economic Performance and Outlook

- Canada's GDP data over the past year was choppy and growth stalled as the economy adjusted to new tariffs, high uncertainty and slower population growth
- Labour market conditions have remained soft, reflecting ongoing economic slack
- The unemployment rate was 6.5% in June and has hovered in a range of 6.5%-7% since the end of 2024
- There are clear signs that economic growth has resumed in the second quarter, with growth estimated at 2.5% and while this largely reflects the unwinding of temporary factors, sources of economic growth appear to be broadening
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Inflation

- Consumer Price Index (CPI) inflation CPI rose further to 3.2% in May, mainly because of higher gasoline prices linked to the war in the Middle East
- Excluding gasoline, inflation was 2.2% and measures of core inflation remained close to 2%
- Near-term inflation expectations are sensitive to changes in gasoline prices but longer-term inflation expectations remain well anchored

- War-related cost pressures are still working their way through some consumer prices but are being offset by downward pressure on other prices from continued economic slack
- CPI inflation is expected to stay elevated in June and then ease gradually in the coming months, returning to around 2% in early 2027, although this forecast is dependent on the path for oil and gasoline prices





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- Inflation is forecast to average around 2% in 2027 and 2028, albeit with some monthly fluctuations because of base-year effects

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Canadian housing, employment, business investment

- The US economy is growing at about 2.5%, mostly because of strong consumption and booming artificial intelligence (AI) investment
- China's economy is expanding solidly thanks to robust exports
- Economic activity in the euro area has been weighed down by high energy prices, but is expected to strengthen in the second half of the year if energy prices come down as anticipated
- The Bank projects global GDP growth will slow to 2.75% in 2026, mostly because of the effects of the Middle East conflict, and recover to around 3.25% in 2027 and 2028

Financial conditions and bond yields

- Recent indicators point to continued solid consumer spending
- Housing activity has been weak "but looks to be stabilizing"
- Export growth has resumed and is expected to continue to strengthen, albeit on a lower path
- Business investment is projected to pick up modestly, boosted in the near term by the oil and gas sector
- Although the Canada-US-Mexico Agreement is now subject to annual reviews, more businesses report they are finding ways to navigate through the uncertainty

Global economic commentary

- Canadian financial conditions have eased since April and global equity markets have been buoyant



- US bond yields have risen, while those in Canada are little changed and this differential has contributed to the depreciation of the Canadian dollar



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The Bank's GDP outlook

Following GDP growth of 0.7% in 2026, the Bank projects the Canadian economy will grow by 1.8% in both 2027 and 2028. As the recovery proceeds, economic slack will be gradually absorbed.

Since the Bank's April Monetary Policy Report (MPR), global economic prospects have been "dented" by higher oil prices stemming from the Middle East conflict. At the same time, the build-out of AI is supporting economic activity in a growing number of countries, according to the Bank. Oil prices are still lower than their peak in April but the situation in the Middle East remains volatile. The path for global inflation is "highly dependent" on how the conflict unfolds.

In commenting on its decision to hold its policy rate steady, the BoC offered that its current policy rate remains appropriate to sustain the economic recovery and bring inflation back to its 2% target, in line with the MPR projections. However, economic uncertainty is still high. Governing Council will continue to assess the strength of the Canadian economy and the outlook for inflation, and is prepared to adjust monetary policy as needed. The Bank once again concluded that it is committed to maintaining Canadians' confidence in price stability through this period of "global upheaval."

Next up

The Bank is scheduled to make its next policy interest rate announcement on September 2, 2026. First National's executive summary will follow. In the meantime, please visit this website for other important insights.

