BANK OF CANADA
BANQUE DU CANADA

Remarks by Tiff Macklem

Governor
Opening Statement to the Standing Senate Committee on Banking, Commerce and the Economy
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Ottawa

Good morning. I'm pleased to be here with Senior Deputy Governor Carolyn Rogers to discuss our recent policy announcement and the Bank of Canada's *Monetary Policy Report*.

Last week, we raised the policy interest rate by 25 basis points, bringing it to 2.5%. This was the first interest rate increase since July 2023. We also published our outlook for the Canadian economy.

In raising our policy rate, we outlined two important economic developments since our July Report.

First, the outlook for inflation has deteriorated. With the war in the Middle East persisting, global oil prices have increased and are expected to remain higher for longer. This is hitting Canadians at the gas pump and increasing costs for many businesses.

Second, the growth outlook for Canada has improved modestly, despite continued trade actions by the United States. Growth picked up through the middle of the year, and exports and business and government investment are expected to support a further recovery.

With the outlook for inflation substantially higher and the economy showing resilience, an increase in the policy rate was needed to reduce the risk that elevated energy prices could spill over and become generalized inflation.

We are mindful that uncertainty is still elevated. Developments in the Middle East and Canada-US trade relations both remain fluid. There is also uncertainty about the impact of new US tariffs and how much energy costs will seep into consumer prices more broadly.

Let me expand on what we're seeing in the economy and what we expect in the months ahead.

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. Consumer spending has been solid, and exports and business investment have rebounded. The unemployment rate has remained around 6½% for several

months. A broad set of indicators continues to point to some excess supply in the economy.

Looking ahead, growth will likely slow in the fourth quarter as new US tariffs weigh on activity. But growth should pick up again in 2027 as consumer spending continues, exports pick up and business investment strengthens, supported by fiscal measures. Following GDP growth of 1% in 2026, the economy is projected to grow by about 2% in 2027 and 2028.

Given persistently high oil prices and elevated refinery margins, CPI inflation has been around 3% since April and is expected to rise to about 3½% by year-end. Inflation is projected to remain at or above 3% through much of 2027 before returning close to the 2% target by the middle of 2028.

The prices of gasoline, diesel and heating oil are elevated and are expected to remain higher for longer. This is hitting consumers directly and raising business costs for production and transportation. While businesses have mostly absorbed higher input costs so far, past experience and Bank surveys suggest that cost pass-through will increase over the next year. The combination of higher energy prices and pass-through increases the persistence of inflation. In addition, with the economy expected to recover, there is less downward pressure on prices to offset these cost pressures.

With elevated inflation expected to last longer and the economy showing resilience, Governing Council agreed that risks to inflation had increased and there was less scope for monetary accommodation. Looking ahead, Governing Council agreed we would take future decisions one meeting at a time. There could be a need to raise the policy rate further, but given the uncertainties, we will proceed carefully.

The Bank remains committed to maintaining Canadians' confidence in price stability through this period of global upheaval.

With that, the Senior Deputy Governor and I are pleased to take your questions.