Carolyn Rogers: An anchor of stability in uncertain times

Remarks by Ms Carolyn Rogers, Senior Deputy Governor of the Bank of Canada, to the Brandon Chamber of Commerce, Brandon, Manitoba, 26 March 2026.

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Introduction

Good afternoon. Thanks for that warm introduction. I'm very pleased to be back here in Brandon.

These visits are an important part of our work at the Bank of Canada. They're even more important when we're all living through periods of uncertainty, like now. Understanding the challenges on the ground makes us better at our job.

This is also one of my favourite parts of the job. Yesterday, on the way from Winnipeg, I visited a seed company and farm about half an hour south of here as well as one of the local manufacturing firms. Over the next couple of days, I'll get the opportunity to meet with business and community leaders and-something I am very excited about-pay a visit to my alma mater, Brandon University.

I also hope to hear from you, so let me get going on my prepared remarks so we leave some time for discussion.

I'm going to touch on three things in the next 20 minutes or so. I will talk about some of the big economic forces that are driving change in our economy. Then I'll spend a bit of time on the topic of central bank independence and how we put that into practice in Canada. And I will end with a few words about something that is on many Canadians' minds right now: affordability. It's a lot of ground to cover, so let's get to it.

Drivers of change

The three big forces shaping our economy that I want to talk about today are global trade policy and, more to the point, US protectionism; demographic shifts; and artificial intelligence (AI).

Governor Macklem gave a full speech on these forces last month, so I won't go into a lot of detail. But I do want to bring these home and show how they might be playing out here in southwest Manitoba.

Global trade policy has lurched back and forth over the past year, and this region has certainly felt the impact. Perhaps the most direct impact here in Manitoba has come not from US tariffs, but from Chinese tariffs. I'm sure producers across the prairies were relieved to see the canola tariffs come down. Unfortunately, we can't say the same for pork producers.

The sectors hardest hit by current US policy-autos, steel and aluminum-are concentrated in other parts of the country. But local businesses are feeling it too.

Brandon, for example, is home to manufacturers that are important partners in steel supply chains.

Fortunately, though, much of this region's trade with the United States remains protected by the Canada-United States-Mexico Agreement. That agreement is up for renewal this year. It's difficult to predict the outcome of that process, or any process that involves US trade policy these days.

That uncertainty is putting a chill on business investment across the country, and that chill has a knock-on effect. When businesses aren't investing, it means fewer jobs, and it adds to the long-standing productivity challenge we have in Canada.

It's not all bad news, though. Trade tensions are spurring us to get our own house in order. Canadian businesses are diversifying trading relationships and supply chains, and we see this here in Manitoba. The province has been diversifying markets for some of its top US exports, like farm machinery and pork products.

We've also seen an encouraging focus on removing interprovincial trade barriers. These effectively act like tariffs and penalties between provinces that prevent goods and services from moving around the country efficiently. There is still much more we could do on this to help our economy, and none of it requires us to negotiate with President Trump. It's an obvious place to put more effort.

While our economy adjusts to shifting trade policy, it's also adjusting to big demographic changes. In part, this isn't a new story. Our aging population and low birth rate have long meant that Canada has relied on immigration to keep our economy growing and our communities vibrant.

What is new is that after a period of extremely rapid growth, immigration has been reduced substantially. This means relatively fewer workers and consumers in the economy-and less potential for the economy to grow. Our forecasts suggest the Canadian labour force will see almost no growth at all over the next few years.

That's a sharp change from the past two decades, and it's posing a challenge for the economy. Our immigration policy needed to rebalance. Rapid population growth in recent years put pressure on public services like education and health care as well as on housing markets.

But many businesses, particularly in smaller communities, rely on immigration for workers that are difficult to find locally. And colleges and universities rely on international students to help fund their costs and contain tuition for Canadian students. Like the adjustments we are making to a new trade reality, adapting to a lower level of immigration will take some time.

Finally, let me say a few words about AI.

AI has the potential to unleash tremendous productivity gains and lower costs for many services.

There are examples of AI's promise locally, in the agriculture sector. I expect many Canadians don't appreciate the extent to which agriculture is truly a tech sector. AI is helping farmers combine variables like weather patterns, soil moisture and yield variation to make better decisions about what to plant, where, and when. And images from satellites, drones and sensors are being used to spot diseases earlier so that farmers can target fertilizer and pesticide application only where needed and often by autonomous machinery. There's a lot to be optimistic about.

But there is also growing anxiety about the potential for AI to be highly disruptive to our economy and our lives. People worry that AI could displace workers, drive up the cost of energy, concentrate power into the hands of a few big technology firms and widen inequality. There are concerns about the potential for model errors or automated decision-making that results in misinformation or fraud.

Both the benefits and the potential risks of AI depend a lot on the breadth and pace of adoption. Canadian businesses tell us they are using AI, but most are not yet seeing big leaps in productivity or fundamental changes in how they do business. It's early days, though, and history has taught us that major technological innovations impact our daily lives well before they show up in official economic statistics. History has also taught us that the degree of disruption these changes bring depends a lot on the ability of firms, workers and regulators to prepare for and keep pace with the change.

What's important to know about these big forces is that we don't see their impacts as temporary. We expect they will permanently alter Canada's economic landscape, affecting what and how much our economy produces. That's what we mean when we say the economy is going through a structural change.

Structural changes are different than cyclical changes-the regular booms and recessions of an economy that go with shifts in demand. A cyclical change moves the economy up or down along the same basic path, whereas a structural change puts the economy on an entirely different path.

This has implications for us at the Bank of Canada. We can smooth the ups and downs of cyclical changes by raising or lowering interest rates. When faced with a structural change, our job is like everyone else's-we have to adapt. We have to adjust our thinking, our forecasting and our decisions to the new reality.

So, like many of you in this room, my colleagues and I at the Bank are steeling ourselves for a tough job ahead. We will be assessing the economy carefully, trying to separate cyclical from structural impacts. We can't undo the damage caused by US tariffs or offset changing demographics or potential disruptions from AI. What we can-and must-do is ensure that Canadians continue to have confidence in low and stable inflation through a period of change.

Trust and independence

And that brings me to my second topic-central bank independence, a key ingredient that helps us preserve that confidence. This is a topic that has attracted some debate in the past year. It's also a topic that can be a bit abstract. But it's important. So, what I

want to do today is make it a little less abstract by explaining how we put it into practice here in Canada.

Every five years, the Bank and the government of the day negotiate the renewal of what is called our monetary policy framework agreement. This agreement sets the overall objectives for monetary policy and defines how success will be measured. Since the middle of the 1990s, the objectives have included a target inflation rate of 2%, the midpoint of a band of 1% to 3%. We measure inflation using the consumer price index (CPI), which is tracked and published monthly by Statistics Canada.

Importantly, the agreement also gives the Bank operational independence to use its policy tools to achieve the agreed monetary policy objectives. In other words, it leaves the difficult, and sometimes unpopular, job of adjusting interest rates to maintain the inflation target to the judgement of the Bank. This is fundamentally what we mean when we talk about central bank independence.

This is the five-year anniversary of the last agreement, and, as we do with every renewal, we are looking back over the previous five years at how the framework has performed. We're also looking ahead at the next five years and asking ourselves what might be different. We're conducting in-depth research and, importantly, we're consulting Canadians across the country.

Looking back, over the past five years we saw the first meaningful surge in inflation in more than a generation. And looking ahead? Given what I covered in the first part of my speech, it's safe to say we are expecting a more variable inflation environment.

In this context, you might conclude that we need a major rethink of our monetary policy framework. But our assessment is that the framework doesn't need to change-how we implement it does. Let me explain.

The most important lesson from the past five years is the value of our inflation target. Even through the worst bout of inflation in decades, Canadians understood our target and continued to trust that we would get inflation back down. This trust was critical in keeping long-run inflation expectations under control and prevented a bad situation from getting worse. The 2% target proved its worth over the past five years, and we expect it will continue to serve as an anchor of stability.

But we have also learned from things that didn't go as well, and I'll mention three in particular. First, like most central banks around the world, we underestimated how high and how persistent inflation would become after the pandemic. The pandemic produced a unique combination of economic shocks, including strong demand and severe supply disruptions. And just as we were coming out of the pandemic, we saw a spike in food, energy and commodity prices caused by Russia's invasion of Ukraine.

Our forecasting models were built on decades-long experience with low and stable inflation. They suggested that the shocks would be temporary and that we shouldn't raise interest rates quickly and risk delaying the economic recovery.

In hindsight, the supply constraints proved much more persistent, and the surge in demand that followed the reopening of the economy after the pandemic was bigger and

lasted longer than we had expected. Once this became clear, the Bank of Canada, like other central banks, tightened rates forcefully. Combined with public confidence in our inflation target, this helped get inflation back to target.

But while the outcome was good, the experience was difficult. We've consulted Canadians on the framework renewal, and they've told us that they value stability in both inflation and interest rates. This is not a surprise, of course, but hearing it directly from Canadians is a good reminder.

So, what are we doing differently? First, we're improving our ability to detect and assess supply shocks. Second, we're incorporating more real-time data and more frequent outreach to businesses to help us gauge what's going on in the economy. And third, when big shocks are hitting the economy, we're looking beyond a single baseline forecast and using scenario analysis. We did this last year after the initial US tariff announcements.

A second challenge we faced over the past few years was communicating our assessment of inflation when different measures of inflation were sending different signals.

We target total CPI inflation, but this headline number was heavily affected by volatility in components like food and energy because of the shocks to our economy. It was also affected by the cost of mortgage interest-a direct effect of our rate increases to tame inflation.

This wasn't entirely a new problem. At any given time, prices for different components in the CPI can fluctuate, and some prices-energy, for example-are often volatile. We deal with this by having a series of supplementary measures that help us filter out temporary or volatile price movements. We refer to these as our core inflation measures. Taken together, they help us gauge what we call underlying inflation. We use these core measures because it's not enough for us to know where inflation is-we also need to know where it's heading. And that requires looking at more than just headline inflation.

But why the Bank focuses on core measures-and sometimes focuses more on one core measure than another-has not always been intuitive for the public. My colleagues and I on Governing Council put a premium on transparency, so we tried to include this broader set of inflation indicators in our communications to better explain our assessment of inflationary pressures. But what we intended as more transparency added complexity that sometimes led to confusion or even a sense that we were moving the goalposts. So, we are reflecting on what we learned and on how we can improve our communications to guide expectations.

The third challenge we put to ourselves as part of this review is to take a hard look at the effects of monetary policy on housing demand and supply and on how imbalances in the housing market affect inflation.

Housing affordability is a big concern for Canadians. It's a problem that has been with us for a long time. And it's not just house prices that have increased; rents have also gone up.

Most people who buy a home need a mortgage. So, of course, interest rates play a big role in how people think about the cost of housing. And there is no question that a long period of very low interest rates before the pandemic contributed to higher house prices. When interest rates are low, people can afford a bigger mortgage. This raises the competition for homes and naturally pushes prices up.

The reverse is also true. When interest rates go up, mortgages become more expensive. However, house prices don't correct downward as quickly. So, homebuyers face higher mortgage interest costs and more expensive homes.

But interest rates are not the only thing affecting the price of homes and the cost of rent. These are influenced by a wide range of factors that operate on both the supply side-how many homes or rental units exist-and the demand side-how many people want them. These factors include zoning and land-use regulations, tax policies, the price of land and construction inputs, population growth, financing conditions and regulations, and infrastructure and location amenities.

More importantly, interest rates are not the ideal tool to address housing affordability. Monetary policy is designed to control economy-wide inflation, not sector-specific inflation. When the Bank increases or decreases interest rates, that affects borrowing costs for everyone, not just mortgage holders. Using interest rates to manage housing affordability would impose broad economic costs on the entire economy.

Interest rates also do little to address housing supply issues. They can affect construction financing costs, but they have no direct impact on the long list of other factors I mentioned.

So the challenge we are trying to solve in our framework review is not what can monetary policy do to solve housing affordability. We know we don't have the tools for that. But we could do more to explain the interaction of monetary policy and housing imbalances. We are also taking a close look at how shelter inflation is measured in Canada. Different countries approach this differently. Our initial assessment is that every methodology has its pros and cons-there is no perfect solution.

I've given you a quick tour of the work we have underway to inform the renewal of our monetary policy framework. The conclusions of this work will be published, along with all the background research. If my tour has left you wanting more, you will be able to find it all on our website later this year. And once the government and the Bank have completed the review, you will also be able to find a copy of the letter that renews our framework for a further five years.

Inflation and affordability

Before I wrap up, I want to say a few words about affordability.

Total inflation has been near the 2% target for almost two years now, since the middle of 2024. Yet many people still feel that life is too expensive. This can be hard to square. How is it possible for inflation to be around 2% and yet everyone is talking about an affordability crisis?

I mentioned that we have been holding conversations with Canadians in communities across the country as part of our consultations to renew our framework. We often start these discussions by explaining how Statistics Canada measures inflation-that is, how the CPI works. The CPI tracks the price of a basket of goods and services that represents the typical spending pattern of a household and measures how the total cost of that basket changes in a year. One Canadian expressed her skepticism very clearly: she told us that if we thought inflation was 2%, she wanted to know what was in our basket and where we were shopping.

This sense of frustration is easy to understand. Inflation does a good job of measuring price changes for the average household. But none of us is average. Everyone's basket of goods and services is different. And prices for necessities-food, for example-have been increasing faster than we'd like.

It's also true that inflation is designed to measure the change in prices over the previous 12 months. So, inflation can be low today even as prices for many goods and services are at much higher levels than three or four years ago.

Among economists, the topic of affordability has sparked a bit of a debate lately. One side says that Canada is on the road to a K-shaped economy, where a few are seeing their prospects improve, but for a large segment of the population, affordability is a crisis that needs a policy response. On the other side of the debate are those who point to data showing that wage gains, on average, have exceeded inflation for a while now.

There's that word again-average. It's true that aggregate wages are exceeding inflation. But the aggregate is made up of millions of individuals with unique circumstances. Not everyone's wages have kept pace with inflation. And I expect most Canadians think of a wage increase as a way to get ahead, maybe save for a house or take a vacation, not as a lifeline to help them pay for necessities.

So how does affordability get better? It starts with keeping inflation in check so that over time wage gains allow people to catch up and even get ahead. And over the long run, the best way to improve affordability is to raise Canada's productivity. Productivity gains that are shared with workers deliver higher incomes. They can also lower costs, making goods and services more affordable. And an economy that is more productive can weather shocks and uncertainty better, too. This is why my colleagues and I at the Bank have talked a lot about the need to improve productivity in Canada. To quote a famous economist, productivity isn't everything, but in the long run it's almost everything.

This is where I planned to conclude my speech-and I promise I still plan to do that very shortly. But I can't really do that without saying a few words about the latest shock to hit our economy, the war in Iran.

It's too early to assess the impacts of the war on growth in Canada. If higher oil prices continue, this will boost income from energy exports. But higher oil prices will also squeeze consumers and businesses. And tighter financial conditions and yet more uncertainty will also weigh on spending and investment.

We do expect the recent increase in energy prices to push inflation higher in the near term. What we need to guard against is that higher energy prices start to spread to other goods and services and become ongoing, persistent inflation.

The Bank kept its policy rate at 2.25% last week. It's early days, and we will be monitoring the unfolding conflict in the Middle East closely, assessing its effect on growth and inflation. As the outlook evolves, we stand ready to respond as needed.

Conclusion

I covered a lot of ground today and a variety of topics. If there's one message I hope you take away, it's this: Canadians have faced a lot of economic upheaval over the past five years, and the next five may not be much calmer. Our economy is still facing shocks, and it's undergoing a series of structural changes that will require us all to adapt.

But I think we're up to the task. Canadians have proven their resilience in recent years and they're doing it again, in the face of yet more change. The Bank will continue to support the economy through a period of adjustment while ensuring Canadians can rely on low and stable inflation. Our goal is to be an anchor of stability in uncertain times.