

Tiff Macklem: Release of the Monetary Policy Report

Opening statement by Mr Tiff Macklem, Governor of the Bank of Canada and Ms Carolyn Rogers, Senior Deputy Governor of the Bank of Canada, at the press conference following the monetary policy decision, Ottawa, Ontario, 15 July 2026.

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Good morning. I'm pleased to be here with Senior Deputy Governor Carolyn Rogers to discuss our quarterly *Monetary Policy Report* and today's decision.

Governing Council maintained the policy interest rate at 2.25%.

We have three key messages.

First, after stalling over the past year, economic growth looks to have resumed in Canada. While US trade policy continues to be a headwind, consumers have been resilient and businesses are adapting.

Second, inflation in Canada is poised to ease gradually provided global oil prices decline from elevated levels.

Third, uncertainty remains elevated. The conflict in the Middle East has re-escalated in recent days and trade discussions with the United States are ongoing.

Let me expand on the outlook, the risks and the implications for monetary policy.

Global growth has been dented by the conflict in the Middle East, but with oil prices coming part way back down, growth is expected to recover. Equity markets have been buoyant, and credit spreads remain compressed.

Canada's GDP growth was flat over the past year as the economy adjusted to new tariffs, elevated uncertainty and slower population growth. The economy remains in excess supply. The labour market has been soft, with the unemployment rate hovering in a range of 6½% to 7%.

GDP growth in the second quarter is estimated to have picked up to 2½%. While this rebound from the first quarter largely reflects the unwinding of temporary factors, sources of economic growth appear to be broadening.

Recent indicators point to continued solid consumer spending. Housing activity, which has been weak, looks to be stabilizing. Export growth has resumed and is expected to continue to strengthen, albeit along a lower path. Business investment is picking up, 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. Government spending also contributes to higher economic activity over the projection.

Overall, our growth outlook is similar to our April forecast, but the data we have received since April have increased our confidence that the economy is indeed working its way through this period of global upheaval.

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

CPI inflation rose further to 3.2% in May, mainly because of higher gasoline prices linked to the conflict in the Middle East. Excluding gasoline, inflation was 2.2% and measures of core inflation remained close to 2%-so far, we're not seeing broad spillovers of higher energy prices. 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. In addition, the recent depreciation of the Canadian dollar will make our exports more competitive but increase the cost of our imports.

Inflation is expected to stay elevated in June then ease gradually in the coming months, returning to the 2% target in early 2027. This forecast is highly dependent on the path for oil and gasoline prices-it assumes oil prices come down and stabilize between US\$70-US\$75 per barrel. Since finalizing our forecast on Friday, the futures curve for oil prices has moved higher.

We've been looking through the direct effects of higher oil prices on inflation, but the longer they remain elevated, the bigger the risk they spill over to other goods and services. As we have said before, we will not let higher oil prices become persistent inflation.

The two biggest risks to the projection are still the conflict in the Middle East and our trade relationship with the United States. There are also domestic risks to our inflation outlook.

As inflation comes down, there is risk that it gets stuck above the 2% target. If cost increases and their pass-through are larger than expected or the economy recovers faster than expected, inflationary pressures will increase. On the other hand, there's a risk that the second-quarter pickup in growth is not sustained. The recovery in exports could stall, which would likely weigh on business investment and hiring. A weaker economy would put more downward pressure on inflation.

Based on the MPR projection published today, Governing Council judges the current policy rate remains appropriate to sustain the economic recovery and bring inflation back to the 2% target. However, 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 is 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.