CIBC CAPITAL MARKETS

Economics

ECONOMIC FLASH!

economics.cibccm.com

September 2, 2026

Bank of Canada: More waiting and seeing

by **Avery Shenfeld** avery.shenfeld@cibc.com **Andrew Grantham** andrew.grantham@cibc.com

To no surprise, amidst the fog of a trade war, the Bank of Canada opted to leave its overnight rate unchanged at 2.25% today and, in a meeting that doesn't require a new economic projection, didn't really provide one. Instead, the Bank largely detailed the lengthening list of uncertainties tied to oil and tariffs. While the Governor appeared to place more emphasis on upside inflation risks than on the downside risks to growth, with limited prospect for immediate clarity regarding either of these risks, look for policymakers to remain in this wait-and-see stance for the remainder of the year.

The statement noted solid US growth, global resilience, an improvement in the labour market, and the evident and broadly based rebound in the Canadian economy in Q2. However, it also noted that, even after the Q2 improvement, demand for labour was still "subdued," and indicators pointed to continued excess supply or slack in the economy. Looking forward, the Bank simply stated that the outlook for growth was "more uncertain" due to the recent escalation of US trade policy, and that policymakers would be assessing the sustainability of the recovery. In the opening remarks for the press conference, Governor Macklem stated that, while new tariffs will hit affected sectors hard, they aren't expected to have a large direct impact on the overall level of economic activity.

However, heightened uncertainty could delay investment and hiring decisions even in sectors that are not directly impacted by the tariffs, and Macklem didn't cite, but will be aware of, the ongoing risks to sectors hit by tariffs in 2025 that were not lowered in August due to a failure to reach an agreement with the US. We wonder if the Governor was attempting to sound less alarmed about the recent breakdown in talks to avoid conflicting too much with the Prime Minister's message, which has emphasized that Canadians can be masters in our own house and cope with a further dent in exports to the US.

Regarding inflation, the Bank pointed to "increased" upside risks tied to a potential spillover from rising oil prices and tariffs, with Macklem threatening multiple hikes within the Q&A portion of the press conference if that was the outcome. However, the Bank also continued to state that, at the moment, there is "little evidence" of higher energy prices spreading into other parts of the CPI basket. While Canada's counter tariffs will raise prices for some businesses and be passed through into consumer prices, the Bank stated that this would happen slowly "over time". In the Q&A portion of the press conference, Macklem stated that most of Canada's counter-tariffs were on intermediate goods, not in areas that would directly impact consumer prices, and that the impact on CPI should be modest. He re-emphasised that the main source of uncertainty for the inflation outlook was from energy prices and the potential spillover effects to other goods and services the longer energy prices stay elevated.

Re: Economic forecast — Given the tone of the statement and press conference, the market is putting more weight on the inflation concerns than on the lack of confidence over growth prospects. However, we see little prospect for a policy change in either direction over the rest of the year given that both the oil and trade war stories could still shift in the months ahead. Moreover, what Macklem didn't emphasize, but which will play a role in BoC forecasts, is that if downside risks to growth materialize, the increase in economic slack will further insulate the economy from a spillover from oil prices into a broader upside to inflation.

Re: Markets — Markets viewed the statement and press conference as hawkish, given the emphasis placed on "upside" risks to inflation, which led to a rise in bond yields and the Canadian dollar appreciating.

CIBC Capital Markets – PO Box 500, 161 Bay Street, Brookfield Place, Toronto, Canada M5J 2S8 – Bloomberg @ CIBC