WEEKLY COMMENTARY

Bank of Canada Preview: Everything Everywhere All at Once

By Royce Mendes, Managing Director and Head of Macro Strategy

The Bank of Canada is in uncharted territory. Canadian central bankers had contingency plans in place for either upside risks to inflation from higher-than-expected oil prices or downside risks to growth from an escalation in the trade war. Persistently elevated oil prices would lead to rate hikes, while a deterioration in trade relations with the US would lead to cuts. What they didn't say is how monetary policy would respond if both of those risks materialized simultaneously.

Brent oil prices remain around US$90 a barrel, well above the US$75 assumed in the July Monetary Policy Report. Elevated crack spreads are a separate issue also keeping gasoline prices high and adding upstream cost pressures for businesses.

The silver lining is that, on net, higher global oil prices are also supporting the Canadian economy. While there's significant regional disparity, the Bank of Canada sets policy for the national economy. Activity in the oil patch has increased, and the industry has signalled a greater appetite for investment in recent months such that Q2 and Q3 GDP are tracking above the Bank of Canada's July projections.

But another round of US tariffs has poured cold water on the economic outlook. The latest escalation in the US–Canada trade dispute will further discourage non-energy investment and leave household spending on shakier ground. If the dispute isn't resolved soon, non-oil-producing provinces could see their economic forecasts marked lower, taking the national outlook down with them. Should the tariffs persist, even the $7.5B in support for workers and businesses announced by the federal government won't be enough to fill the hole. At the same time, Canada's retaliatory tariffs will add further upward pressure on consumer prices.

The Bank of Canada hasn't recently outlined a playbook for dealing with both upside inflation risks and downside growth risks. At a time when the nation's economy is under assault, it could be argued that monetary policy needs to row in the same direction as fiscal policy. But taking a step back, the Bank of Canada's inflation mandate dictates that monetary policy respond to price pressures ahead of growth concerns when the two are in conflict.

So, while officials will signal a readiness to deliver easing if the economy shows severe signs of stress, they won't be lowering interest rates next week given the outlook for inflation. The most likely course of action is for central bankers to remain on the sidelines for the rest of 2026. Come 2027, it still seems like the Bank of Canada will need to raise rates rather than cut them.

Upstream inflationary pressures from energy and retaliatory tariffs will filter through to headline CPI. Moreover, a recovery in population growth and fading mortgage-renewal headwinds should provide at least a modest lift to consumer spending and regional housing markets that have been under pressure. As a result, despite the latest trade tensions, markets are right to still brace for rate hikes next year. However, the degree of tightening embedded in bond yields is too aggressive.

Markets now assume that the Bank of Canada will take the policy rate above 3.00%. However, as we've written before, permanently higher tariffs would lower the potential growth rate of the economy, putting downward pressure on the neutral rate of interest. Despite all of the crosscurrents, we still see the Bank of Canada only raising rates to 2.75% in 2027. As a result, there's room for bonds to rally even if the Bank of Canada doesn't cut rates.

CONTENTS

Jimmy Jean, Vice-President, Chief Economist and Strategist • Randall Bartlett, Deputy Chief Economist
Benoit P. Durocher, Director and Principal Economist • Royce Mendes, Managing Director and Head of Macro Strategy
Mirza Shaheryar Baig, Foreign Exchange Strategist • Marc-Antoine Dumont, Senior Economist • Tiago Figueiredo, Macro Strategist
Francis Généreux, Lead Economist • Florence Jean-Jacobs, Principal Economist • Kari Norman, Senior Economist • Sonny Scarfone, Principal Economist
Oskar Stone, Macro Strategy Associate • LJ Valencia, Economist
Desjardins Economic Studies: 514-281-2336 or 1-866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

What to Watch For

UNITED STATES

TUESDAY September 1 - 10:00	
August	
Consensus	55.1
Desjardins	55.1
July	**55.6**

ISM Manufacturing Index (August) – The ISM Manufacturing index has been on a remarkable run. It climbed to 55.6 in July, the highest since May 2022. The July increase was mainly driven by solid gains in the production, new orders and backlog of orders components. This suggests US manufacturing may be accelerating, although this has yet to show up in recent employment and industrial production data. We expect the ISM Manufacturing index to remain fairly high (above 55) in August. That's the signal we're getting from the regional manufacturing indexes released to date.

THURSDAY September 3 - 10:00	
August	
Consensus	54.1
Desjardins	53.1
July	**54.1**

ISM Services index (August) – While the ISM Manufacturing index is trending upward, the Services index has remained largely flat. Despite rising by a tenth of a point to 54.1 in July, it has remained mostly unchanged since the year began. That said, the index remains firmly in expansion territory, pointing to fairly solid US economic growth. But a decline in the Services index is expected for August. That's what currently available regional non-manufacturing indexes and the drop in consumer confidence indexes this month suggest. We believe the index may fall by one point.

FRIDAY September 4 - 8:30	
August	
Consensus	58,000
Desjardins	60,000
July	**-23,000**

Change in nonfarm payrolls (August) – The establishment survey's first estimate showed the labour market fell short of expectations in July, with the loss of 23,000 jobs. The decline was mainly in the public sector, but hiring in the private sector remained weak at just 30,000 jobs. A stronger reading is expected in August. Unemployment claims have been low in recent weeks, and consumers are growing more confident about their job prospects. Weekly ADP data also showed moderate gains up to mid-August. We expect a net gain of 60,000 jobs, with unemployment holding steady at 4.1%.

CANADA

WEDNESDAY September 2 - 9:45	
September	
Consensus	2.25%
Desjardins	2.25%
July 15	**2.25%**

Bank of Canada decision (September) – Despite a deterioration in trade relations between Canada and the US, the Bank of Canada is widely expected to keep monetary policy unchanged at 2.25% next week. The central bank finds itself in a difficult position. Escalating trade tensions are likely to weigh on economic activity and increase downside risks to growth. That said, elevated oil prices and retaliatory tariffs are adding upward pressure to consumer prices. Against this backdrop, policymakers are likely to take the most prudent course of action and remain on the sidelines until there is greater clarity on the outlook for both growth and inflation.

THURSDAY September 3 - 8:30	
July	**$B**
Consensus	n/a
Desjardins	2.30
June	**3.86**

International trade (July) – Canada's trade surplus likely narrowed in July, although the trade balance should remain in positive territory. Canadian exports probably declined more sharply than imports, due in part to a notable drop in seasonally adjusted oil prices and lower motor vehicle production. We expect that Canadian imports decreased in the month, partially attributed to an anticipated decline in seasonally adjusted motor vehicle sales in Canada.

THURSDAY September 3 - 8:30	
Q2 2026	**q/q**
Consensus	n/a
Desjardins	0.8%
Q1 2026	**-0.5%**

Labour productivity (Q2) – Business sector labour productivity likely rebounded in Q2 2026 (0.8% q/q), following a 0.5% decrease in the prior quarter. An anticipated sharp increase in business sector real GDP (0.9%) and modest growth in business sector total hours worked (0.2%) probably drove the rebound. As stated in our latest research, the economy could face lower growth in the coming months as trade tensions intensify.

FRIDAY September 4 - 8:30	
August	
Consensus	17,500
Desjardins	15,000
July	**75,100**

Net change in employment (August) – The August Labour Force Survey is expected to show that approximately 15k people found work in Canada this month. That would mark the fourth consecutive month of hiring and leave the unemployment rate still at the two-year low of 6.4%. The escalation in trade tensions between Canada and the US occurred after the survey week. Should the tariffs remain in place, manufacturing jobs in Ontario, Quebec and British Columbia could be at risk in the months to come.

OVERSEAS

SUNDAY August 30 - 21:30

August	
Consensus	n/a
July	**49.3**

China: Composite PMI (August) – China's official manufacturing PMI is expected to remain close to the 50-point threshold in August after falling to 49.2 in July. Growth in industrial production slowed from 5.3% in June to 4.5% in July, signalling that manufacturing activity has slowed under the influence of US tariffs and high energy prices. Sluggish domestic demand and a decline in investment have added to the pressure. But strength in exports and AI-related sectors should continue to provide some support. All things considered, this is in line with the expected slowdown in Chinese economic growth.

TUESDAY September 1 - 5:00

August	y/y
Consensus	3.3%
July	**2.9%**

Eurozone: Consumer price index (August – preliminary) – Headline inflation in the eurozone edged up last month, rising from 2.8% in June to 2.9% in July. This is still below the recent peak of 3.2% reached in May, but it's also well above the sub-2% inflation seen before the conflict in the Persian Gulf began. Inflation has also been fuelled by the extreme heat that has taken hold of Europe in recent months. Nevertheless, core CPI fell month on month in July. If it goes down again in August, this will partly offset the persistently strong upward pressure from energy prices. Gasoline prices also appear to have risen in August compared with July. European Central Bank officials will obviously be keeping a close eye on the situation. They're still watching out for the indirect and second-round effects of price increases caused by the conflict in the Middle East.

Economic Indicators

Week of August 31 to September 4, 2026

Date	Time	Indicator	Period	Consensus	Desjardins forecast	Previous reading
UNITED STATES						
MONDAY 31	---	---				
TUESDAY 1	10:00	Construction spending (m/m)	July	0.0%	-0.3%	-0.1%
	10:00	ISM Manufacturing index	Aug.	55.1	55.1	55.6
	---	Total vehicle sales (ann. rate)	Aug.	16,300,000	16,500,000	16,330,000
WEDNESDAY 2	10:00	Factory orders (m/m)	July	0.6%	0.6%	-0.3%
	14:00	Release of the Beige Book				
THURSDAY 3	8:30	Initial unemployment claims	Aug. 24–28	205,000	207,000	203,000
	8:30	Trade balance – Goods and services (US$B)	July	-89.6	-91.3	-73.3
	8:30	Nonfarm productivity – final (ann. rate)	Q2	1.4%	1.4%	1.4%
	8:30	Unit labor costs – final (ann. rate)	Q2	1.3%	1.3%	1.3%
	8:30	Speech by Federal Reserve Governor C. Waller				
	10:00	ISM Services index	Aug.	54.1	53.1	54.1
FRIDAY 4	8:30	Change in nonfarm payrolls	Aug.	58,000	60,000	-23,000
	8:30	Unemployment rate	Aug.	4.1%	4.1%	4.1%
	8:30	Average weekly hours	Aug.	34.3	34.3	34.3
	8:30	Average hourly earnings (m/m)	Aug.	0.2%	0.3%	0.1%
CANADA						
MONDAY 31	---	---				
TUESDAY 1	---	---				
WEDNESDAY 2	9:45	Bank of Canada decision	Sep.	2.25%	2.25%	2.25%
	10:30	Speech by Bank of Canada Governor T. Macklem and Senior Deputy Governor C. Rogers				
THURSDAY 3	8:30	International trade ($B)	July	n/a	2.30	3.86
	8:30	Labour productivity (q/q)	Q2	n/a	0.8%	-0.5%
FRIDAY 4	8:30	Net change in employment	Aug.	17,500	15,000	75,100
	8:30	Unemployment rate	Aug.	6.4%	6.4%	6.4%

NOTE: Each week, Desjardins Economic Studies takes part in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT -4 hours). Desjardins Economic Studies forecast.

Economic Indicators

Week of August 31 to September 4, 2026

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
SUNDAY 30							
Japan	19:50	Industrial production – preliminary	July	-0.7%	3.3%	1.9%	4.9%
Japan	19:50	Retail sales	July	1.6%	3.3%	-4.1%	0.5%
China	21:30	Composite PMI	Aug.	n/a		49.3	
China	21:30	Manufacturing PMI	Aug.	49.5		49.2	
China	21:30	Non-manufacturing PMI	Aug.	49.5		49.0	
MONDAY 31							
Japan	1:00	Housing starts	July		7.6%		18.6%
Germany	8:00	Consumer price index – preliminary	Aug.	0.3%	3.0%	0.8%	2.8%
TUESDAY 1							
Japan	1:00	Consumer confidence	Aug.	35.3		34.9	
United Kingdom	2:00	Nationwide house prices	Aug.	0.1%	2.1%	0.1%	1.8%
Germany	2:00	Retail sales	July	0.4%	0.5%	-0.7%	0.0%
Italy	3:45	Manufacturing PMI	Aug.	51.6		51.3	
France	3:50	Manufacturing PMI – final	Aug.	51.5		51.5	
Germany	3:55	Manufacturing PMI – final	Aug.	54.1		54.1	
Eurozone	4:00	Manufacturing PMI – final	Aug.	52.8		52.8	
Italy	4:00	Real GDP – final	Q2	0.2%	1.0%	0.2%	1.0%
United Kingdom	4:30	Manufacturing PMI – final	Aug.	51.5		51.5	
Eurozone	5:00	Consumer price index – preliminary	Aug.	0.5%	3.3%	0.2%	2.9%
Eurozone	5:00	Unemployment rate	July	6.3%		6.3%	
Italy	5:00	Consumer price index – preliminary	Aug.	0.4%	3.2%	0.3%	2.9%
New Zealand	22:00	Reserve Bank of New Zealand meeting	Sep.	2.75%		2.50%	
WEDNESDAY 2							
Japan	20:30	Composite PMI – final	Aug.	n/a		53.4	
THURSDAY 3							
Italy	3:45	Composite PMI	Aug.	53.0		52.5	
Italy	3:45	Services PMI	Aug.	53.2		52.5	
France	3:50	Composite PMI – final	Aug.	48.8		48.8	
France	3:50	Services PMI – final	Aug.	48.4		48.4	
Germany	3:55	Composite PMI – final	Aug.	51.0		51.0	
Germany	3:55	Services PMI – final	Aug.	48.5		48.5	
Eurozone	4:00	Composite PMI – final	Aug.	52.1		52.1	
Eurozone	4:00	Services PMI – final	Aug.	51.7		51.7	
United Kingdom	4:30	Composite PMI – final	Aug.	52.5		52.5	
United Kingdom	4:30	Services PMI – final	Aug.	52.8		52.8	
Eurozone	5:00	Producer price index	July	1.3%	5.4%	-0.3%	4.6%
FRIDAY 4							
Germany	2:00	Factory orders	July	0.4%	10.6%	3.1%	6.5%
Eurozone	5:00	Retail sales	July	0.3%	1.1%	-0.3%	0.7%

Note: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT -4 hours).