

WEEKLY COMMENTARY

Bank of Canada Preview: Tipping Point

By Royce Mendes, Managing Director and Head of Macro Strategy

Benign core inflation readings likely won't stop the Bank of Canada from raising rates next week. A host of indicators suggest that the second-round effects of the energy price shock are coming down the pike. Prices for raw materials, industrial products and transportation have remained persistently high. Firms will need to pass along more of those costs in the months to come.

Overall, more than 40% of businesses surveyed by the central bank now see inflation averaging above 3% over the next two years. Such a high reading is more consistent with core inflation running closer to 3% than 2%. Firms are, in part, basing those expectations on how much of the recent cost increases they plan on passing through to consumers. According to that same survey, businesses expect cost passthrough to almost double over the next 12 months.

Consumers' inflation expectations have also reset higher. Longer-term inflation expectations have risen towards already-elevated short-term expectations of around 4%. Prior to the COVID-related spike in prices, 5-year-ahead inflation expectations last hovered near 4% during the Bank of Canada's 2017–18 hiking cycle.

Central bankers view anchored longer-term inflation expectations as key to keeping price growth near target. With both businesses and households beginning to build in higher inflation expectations, it would be very difficult for Canadian central bankers to keep interest rates unchanged. Monetary policy must be forward-looking, and the Bank of Canada has a single inflation mandate. As a result, unsettling forward-looking measures of price pressures outweigh backward-looking inflation

data and have tipped the scales in favour of a rate hike next week.

A closer look at other backward-looking data also suggests the performance of the economy has been better than headlines imply. Despite reported employment declines in August and September, labour market slack has not widened significantly. The size of Canada's labour force has been stagnant for over a year, with data for the latest two months revealing contractions in the eligible workforce. As a result, the almost 110k fall in employment over the past two months has resulted in just a one-tick increase in the unemployment rate. Surveys also suggest that the labour market is stabilizing and wage growth is firming.

The latest breakdown in trade negotiations with the US is likely to cause a period of economic weakness. But as with past rounds of tariffs, the negative impact on the national economy should be temporary and manageable, as both businesses and consumers find dynamic ways of navigating the challenges. That's particularly true given the more optimistic outlook for business investment. Changes in government policy and high commodity prices have led to an increase in investment intentions and sentiment among Canadian firms.

Nevertheless, central bankers must be careful not to move too aggressively, with downside risks to the economy very much present. The current situation is clearly more nuanced than the high oil price scenario that the Bank of Canada outlined in its April Monetary Policy Report. That leaves us expecting one further hike in January 2027, after some of the trade-induced near-term weakness passes, rather than the several consecutive

CONTENTS

Musing of the Week.....	1	What to Watch For.....	3	Economic Indicators.....	5
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hikes that officials outlined as possible in response to their April 2026 high oil price scenario.

While the muted starting point for core inflation isn't enough to keep central bankers on hold, it does leave more scope for a dovish set of communications to accompany a rate hike. Governor Macklem could both raise rates and guide towards fewer hikes than the four currently embedded in market pricing. Elevated term premia, wider credit spreads and more volatile equity prices suggest Macklem may very well provide a calming message to markets, even as he raises rates to control inflation.

What to Watch For

TUESDAY October 27 - 8:30

September	m/m
Consensus	1.7%
Desjardins	1.9%
August	-0.1%

TUESDAY October 27 - 9:00

August	y/y
Consensus	2.70%
Desjardins	2.70%
July	2.47%

TUESDAY October 27 - 10:00

October	
Consensus	80.5
Desjardins	82.0
September	81.9

TUESDAY October 27 - 10:00

September	ann. rate
Consensus	650,000
Desjardins	650,000
August	684,000

WEDNESDAY October 28 - 14:00

October	
Consensus	4.00%
Desjardins	4.00%
September 16	4.00%

THURSDAY October 29 - 8:30

Q3 2026 - 1st est.	ann. rate
Consensus	3.2%
Desjardins	3.4%
Q2 2026	2.2%

UNITED STATES

Durable goods orders (September) – Durable goods orders fell in August, weighed down by a decline in transportation. However, transportation likely boosted growth in September, as Boeing orders point to a solid gain in nondefense aircraft. Another decline in motor vehicle orders is expected to offset some of that increase. The uptrend in other durable goods orders probably continued, supported by further gains in tech goods and machinery. The new orders component of the ISM Manufacturing index also ticked higher in September. As a result, we expect orders excluding transportation to increase 0.5%. Overall, look for durable goods orders to rise 1.9%.

S&P/Case-Shiller home price index (August) – In July, existing home prices posted their strongest monthly gain since December 2025. We expect prices rose another 0.3% in August, matching the increase in July. Existing home sales edged down in August, but not enough to suggest a sharp slowdown in price growth. An anticipated monthly gain of 0.3% would push the year-over-year change in the S&P/Case-Shiller index up again, from 2.5% to 2.7%. Home price growth could nevertheless soften in the coming months, as rising mortgage rates seem to be weakening demand.

Conference Board Consumer Confidence Index (October) – In September, the Conference Board index posted its steepest monthly drop since April 2025. This was driven by both the Present Situation Index (-7.9 points) and the Expectations Index (-5.9 points). This was also the index's third consecutive decline, bringing it to its lowest level since April 2014. After such a sharp drop, we don't expect much of a change for October. The University of Michigan consumer sentiment index fell again, but the TIPP index increased slightly. Gasoline prices have also fallen in recent weeks. Although the stock market remains volatile, it's still higher than it was a month ago. We therefore expect the Conference Board index to hold steady.

New home sales (September) – New single-family home sales jumped 6.4% in August, after falling 4.3% in July. These swings reflect the indicator's high volatility. This seesaw pattern probably continued in September with a decline in sales. Weak builder confidence, a slowdown in building permits for single-family homes and decreases in both online searches and mortgage applications for home purchases are all sending the same signal. Sales could fall to an annualized pace of 650,000 units.

Federal Reserve meeting (October) – At its September meeting, Federal Reserve officials voted unanimously to raise key rates by 25 basis points. It was the first rate hike since the summer of 2023. Although we can't rule out another increase at the October 28 meeting, it would come as a surprise. At the time of writing, the futures market was pricing in an implied 8% probability of another increase. Weak job creation in September also offset a stronger inflation reading. The Fed is therefore expected to stand pat at this meeting. We'll be checking the press release to see whether it leaves the door open for another rate hike in December, in line with the Fed's September forecast. Fed Chair Warsh's comments at the press conference will also be closely watched.

Real GDP (Q3 – advance estimate) – The third estimate and annual update of the National Economic Accounts brought annualized real GDP growth to 2.2% in the second quarter. We expect to see better performance in the third quarter. As in the previous quarter, consumer spending and business investment are expected to make fairly strong contributions. Inventory investment could turn positive again, providing another boost. But these factors will likely be offset by another sharp increase in imports and a decline in residential investment. We're forecasting annualized real GDP growth of 3.4%.

WEDNESDAY October 28 - 9:45
October

Consensus	2.25%
Desjardins	2.50%
September 2	2.25%

FRIDAY October 30 - 8:30
August

Consensus	m/m
Desjardins	0.2%
July	0.0%

THURSDAY October 29 - 9:15
October

Consensus	2.50%
Desjardins	2.50%
September 10	2.50%

FRIDAY October 30 - 21:30
October

Consensus	n/a
September	50.7

CANADA

Bank of Canada decision (October) – We expect the Bank of Canada to raise rates next week despite recent benign core inflation readings. Policymakers are likely to focus on forward-looking indicators that point to mounting inflation pressures, including elevated input costs, rising transportation prices and a notable increase in business and household inflation expectations. That said, we expect the accompanying communications to strike a cautious tone. Trade tensions with the US pose downside risks to growth, leaving the Bank unlikely to endorse the four additional hikes currently priced by markets.

Real GDP by industry (August) – Real GDP probably increased in August, in line with Statistics Canada's flash estimate. Growth likely came primarily from retail trade, construction and manufacturing. In contrast, weak performance in oil and gas extraction and wholesale trade may have provided some headwind to growth. Looking ahead to September, we expect real GDP to be broadly flat.

OVERSEAS

Eurozone: European Central Bank meeting (October) – We expect the ECB to remain on hold next week. So far, there is little evidence that the energy shock is generating second-round inflationary effects. Moreover, the rise in long-term yields, especially in France and Italy, has delivered additional tightening in financial conditions. This reduces the need for an immediate rate hike. December appears a more natural point for a policy shift, when the ECB will have more data and updated projections to assess.

China: Composite PMI (October) – Although Chinese real GDP posted solid non-annualized quarterly growth of 1.2% in the third quarter, high energy prices could test the economy's resilience. The manufacturing index could slip into contraction territory after reaching 50.1 in September. Strength in both exports and tech should support production, but persistently weak domestic demand and the correction in the property market will likely limit the potential for gains. The new orders and employment indexes will help shed light on the state of China's economy.

Economic Indicators

Week of October 26 to 30, 2026

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 26	---	---				
TUESDAY 27	8:30	Durable goods orders (m/m)	Sep.	1.7%	1.9%	-0.1%
	9:00	S&P/Case-Shiller home price index (y/y)	Aug.	2.70%	2.70%	2.47%
	10:00	Consumer confidence	Oct.	80.5	82.0	81.9
	10:00	New home sales (ann. rate)	Sep.	650,000	650,000	684,000
WEDNESDAY 28	8:30	Goods trade balance – preliminary (US\$B)	Sep.	-130.5	-139.1	-132.6
	8:30	Retail inventories (m/m)	Sep.	n/a	n/a	0.3%
	8:30	Wholesale inventories – preliminary (m/m)	Sep.	0.4%	n/a	0.5%
	14:00	Federal Reserve meeting	Oct.	4.00%	4.00%	4.00%
	14:30	Speech by Federal Reserve Chair K. Warsh				
THURSDAY 29	8:30	Initial unemployment claims	Oct. 19–23	199,000	199,000	194,000
	8:30	Real GDP (ann. rate)	Q3f	3.2%	3.4%	2.2%
	8:30	Personal income (m/m)	Sep.	0.3%	0.3%	0.2%
	8:30	Personal consumption expenditures (m/m)	Sep.	0.6%	0.7%	0.9%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	Sep.	0.5%	0.5%	0.3%
		Excluding food and energy (m/m)	Sep.	0.3%	0.3%	0.2%
		Total (y/y)	Sep.	3.6%	3.6%	3.4%
		Excluding food and energy (y/y)	Sep.	3.1%	3.1%	3.0%
FRIDAY 30	8:30	Employment cost index (q/q)	Q3	0.8%	0.9%	0.9%
	9:45	Chicago PMI	Oct.	54.6	53.0	58.8
	12:00	Speech by Federal Reserve Bank of San Francisco President M. Daly				
	12:30	Speech by Federal Reserve Bank of St. Louis President A. Musalem				

CANADA

MONDAY 26	---	---				
TUESDAY 27	---	---				
WEDNESDAY 28	9:45	Bank of Canada decision	Oct.	2.25%	2.50%	2.25%
	9:45	Release of the Bank of Canada's Monetary Policy Report				
	10:30	Speech by Bank of Canada Governor T. Macklem and Senior Deputy Governor C. Rogers				
THURSDAY 29	---	Speech by Bank of Canada External Deputy Governor N. Vincent				
FRIDAY 30	8:30	Real GDP by industry (m/m)	Aug.	0.2%	0.2%	0.0%

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 October 26 to 30, 2026

Country	Time	Indicator	Period	Consensus		Previous reading	
				m/m (q/q)	y/y	m/m (q/q)	y/y
OVERSEAS							
MONDAY 26							
Japan	1:00	Leading index – final	Aug.	n/a		118.0	
Japan	1:00	Coincident index – final	Aug.	n/a		118.7	
Germany	5:00	ifo Business Climate Index	Oct.	89.9		89.9	
Germany	5:00	ifo Current Assessment Index	Oct.	89.9		89.5	
Germany	5:00	ifo Expectations Index	Oct.	90.0		90.4	
New Zealand	21:00	Reserve Bank of New Zealand meeting	Oct.	3.00%		2.75%	
TUESDAY 27							
France	3:45	Consumer confidence	Oct.	85		86	
Eurozone	5:00	M3 money supply	Sep.		3.4%		3.5%
WEDNESDAY 28							
Germany	3:00	Consumer confidence	Nov.	-30.1		-30.6	
THURSDAY 29							
Japan	---	Bank of Japan meeting	Oct.	1.25%		1.25%	
Japan	1:00	Consumer confidence	Oct.	35.1		35.4	
Italy	5:00	Unemployment rate	Sep.	6.2%		6.2%	
Eurozone	6:00	Consumer confidence – final	Oct.	-17.9		-17.9	
Eurozone	6:00	Industrial confidence	Oct.	-3.8		-3.8	
Eurozone	6:00	Services confidence	Oct.	5.7		6.1	
Eurozone	6:00	Economic confidence	Oct.	97.5		97.9	
Italy	7:00	Consumer confidence	Oct.	90.9		91.2	
Eurozone	9:15	European Central Bank meeting	Oct.	2.50%		2.50%	
Japan	19:30	Tokyo Consumer Price Index	Oct.		2.7%		2.7%
Japan	19:30	Unemployment rate	Sep.	2.5%		2.5%	
Japan	19:50	Industrial production – preliminary	Sep.	1.2%	1.5%	-2.4%	2.7%
Japan	19:50	Retail sales	Sep.	0.3%	3.3%	-1.2%	2.7%
FRIDAY 30							
Japan	1:00	Housing starts	Sep.		2.8%		6.1%
France	2:30	Personal consumption expenditures	Sep.	0.2%	n/a	-0.5%	0.8%
France	2:30	Real GDP – preliminary	Q3	0.1%	0.3%	0.0%	0.5%
United Kingdom	3:00	Nationwide house prices	Oct.	-0.2%	0.6%	-0.2%	0.8%
France	3:45	Consumer price index – preliminary	Oct.	0.2%	3.2%	-0.3%	3.1%
Germany	5:00	Real GDP – preliminary	Q3	0.1%	1.1%	0.3%	1.0%
Italy	5:00	Real GDP – preliminary	Q3	0.1%	0.9%	0.2%	1.0%
Eurozone	6:00	Real GDP – preliminary	Q3	0.2%	1.0%	0.6%	1.2%
Eurozone	6:00	Unemployment rate	Sep.	6.4%		6.4%	
Italy	6:00	Consumer price index – preliminary	Oct.	0.0%	4.5%	0.7%	4.2%
Germany	9:00	Consumer price index – preliminary	Oct.	0.1%	3.0%	0.6%	3.3%
China	21:30	Composite PMI	Oct.	n/a		50.7	
China	21:30	Manufacturing PMI	Oct.	50.1		50.1	
China	21:30	Non-manufacturing PMI	Oct.	n/a		50.2	

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).