

WEEKLY COMMENTARY

Bank of Canada: It's the Least They Can Do

By Royce Mendes, Managing Director and Head of Macro Strategy

Monetary policymakers won't be lowering interest rates next week, but they could still offer a milder form of support for Canadians. Inflation looks far from threatening. Across a range of measures, underlying price growth appears tame. After adjusting for known biases in the Bank of Canada's preferred core inflation metrics, our analysis suggests underlying inflation is only marginally above 2%.

From a strictly data-driven perspective, there is little reason for the Bank of Canada to sound hawkish on inflation. Yet, in the absence of clear evidence, policymakers have continued to bake in assumptions of future price pressures stemming from businesses reorienting supply chains and seeking new export markets. As we have noted before, that hypothesis has not been borne out in the data.

Now, as storm clouds begin to gather once again over the global economy, central bankers should worry less about theoretical upside inflation risks and more about the economy's current condition. Fewer than 50% of industries have posted positive payroll growth over the past twelve months—a pattern rarely observed outside of recessions. At the same time, there has been a notable spike in the share of individuals reporting they are likely to miss a debt payment within the next three months.

Housing markets continue to soften across most of the country. Prices are declining, inventories are rising, and while affordability has improved modestly, confidence remains fragile. Fewer than 15% of renters plan to purchase a home over the next twelve months, the smallest share since data collection began in 2020.

Businesses are faring somewhat better. Profit margins are finally ticking higher, but firms remain hesitant to commit to new investment or expand payrolls. With CEOs largely in wait-and-see mode ahead of the upcoming CUSMA review, uncertainty is reinforcing a vicious cycle—one where households grow increasingly concerned about job security.

To be sure, Budget 2025 outlined a sizable increase in fiscal stimulus. However, that support is unlikely to meaningfully boost activity until late 2026 or early 2027. Population growth should also re-emerge next year, and mortgage renewals will start providing a tailwind to the economy too. But the risk in the near term is that the economy hits an air pocket.

The Bank of Canada's Governing Council will reiterate that the current policy rate is low enough to bring the economy back to full health—assuming everything goes according to plan. But policymakers should begin to soften their rhetoric on inflation and more openly discuss the downside risks that would spur them back into action. Even if rate cuts aren't in the offing any time soon, a dovish tone in next week's communiqué could help lower borrowing rates. It's the least they can do given the current situation.

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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, Principal 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

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What to Watch For

UNITED STATES

* Due to the federal government shutdown in the United States, there may be some changes to the data release schedule.

TUESDAY January 27 - 9:00

	y/y
Consensus	1.20%
Desjardins	1.20%
October	1.31%

TUESDAY January 27 - 10:00

Consensus	90.0
Desjardins	92.0
December	89.1

S&P/Case-Shiller home price index (November) – Home prices on the resale market seem to be rising. After the index declined several times between March and July, we're now seeing an upward trend. October's 0.3% gain was the biggest since January 2025. We expect a similar print for November as existing home sales continued to rise last fall, and the number of listed properties fell. Another 0.3% increase would bring year-over-year price growth down from 1.3% to 1.2%.

Conference Board Consumer Confidence Index (January) – We expected to see the Conference Board Index improve in December, mirroring other confidence indicators, but it ultimately declined. December's drop was primarily due to the Present Situation Index, which plummeted to its lowest level since March 2021. We're looking for a better January print, although uncertainty is rife and could continue to undermine consumer sentiment. Other indicators improved again this month, including the University of Michigan and TIPP indexes. Despite the turmoil caused by the situation in Venezuela, Trump's designs on Greenland and attacks on the Fed, stock markets have been rising so far this year and could boost consumer confidence. Lower gasoline prices and mortgage rates in recent weeks are also good news. We expect the Conference Board Index to increase to 92.0.

WEDNESDAY January 28 - 14:00

Consensus	3.75%
Desjardins	3.75%
December 10	3.75%

Federal Reserve meeting (January) – After cutting rates at each of its last three meetings, we expect the Fed to maintain the status quo. Most forecasters and the federal funds futures market are anticipating the same. That said, the Fed continues to have to drive through the fog. Inflation slowed over the final months of 2025, although it's not yet clear how much the government shutdown affected the figures. There's also a risk that tariffs will be increasingly reflected in consumer prices over the coming months. On the labour market, monthly data are showing a slowdown in net hiring, but unemployment claims have remained very low over the past few weeks. Real GDP growth is also still strong and could remain so in the very short term. As a result, it would be surprising if Fed officials deviated from their pre-holiday guidance, which suggested they were likely to pause rate cuts for at least a few months, despite ongoing pressure from the Trump administration to slash rates.

CANADA

WEDNESDAY January 28 - 9:45

Consensus	2.25%
Desjardins	2.25%
December 10	2.25%

Bank of Canada decision (January) – The Bank of Canada will keep rates unchanged next week, but the tone of the central bank's communications should turn more cautious. Inflation is less of a threat—underlying price pressures look like they have fallen below 2.5%, with limited upside risk. As a result, central bankers can pay more attention to economic activity. Businesses are pressing pause amid CUSMA uncertainty, and that hesitancy is impacting households. Individuals are concerned about job losses, and more households are reporting that they could miss a debt payment. The Labour Force Survey has thrown up a few bright spots, but it's noisy and the broader environment still paints a picture of a soft labour market. The Governing Council will argue the current stance is accommodative enough to do the job, assuming the economy evolves according to plan. But with inflation under control, they should start pushing back against market pricing for a hike later this year.

THURSDAY January 29 - 8:30

	\$B
November	-0.69
Consensus	-1.00
Desjardins	-0.58

International trade (November) – Canada's trade deficit likely deepened in November. We expect a modest decline in exports, probably due to lower imports of motor vehicles stateside. A slight appreciation in the Canadian dollar may have contributed to lower export numbers. On the other hand, imports were likely unchanged. However, it should be noted there is a lot of data still unavailable that feeds into our trade estimates as a result of the US government shutdown last year.

FRIDAY January 30 - 8:30

	m/m
November	0.1%
Consensus	0.1%
Desjardins	-0.3%

Real GDP by industry (November) – We anticipate that monthly real GDP increased in November, in line with Statistics Canada's flash estimate. Gains likely came from educational services, construction and transportation. In addition, the November [Labour Force Survey](#) posted sizable job gains. In contrast, manufacturing sales fell in November. We also anticipate weakness in resource extraction. Looking ahead to the December 2025 real GDP release, we expect Statistics Canada's flash estimate will show a modest increase.

OVERSEAS

FRIDAY January 30 - 5:00

	q/q
Consensus	0.2%
Q3 2025	0.3%

Eurozone: Real GDP (Q4 – preliminary) – The eurozone economy decelerated slightly in the third quarter, with non-annualized real GDP growth of 0.3%. Available data, including retail sales and PMIs, suggest that growth remained modest in the fourth quarter of 2025 amid ongoing financial uncertainty. While some numbers indicate that the economy held up fairly well, particularly in the services sector, overall performance likely remained lacklustre. A modest rise in GDP would confirm that the eurozone economy is still struggling to return to steady growth.

FRIDAY January 30 - 20:30

	n/a
January	50.7

China: Composite PMI (January) – China's composite PMI should provide more information on the country's economic situation at the start of the year after real GDP rose 1.2% (non-annualized quarterly change) in the fourth quarter of 2025. The information available points to an economy that remains hobbled by weak domestic demand and an uncertain external environment. Despite the support measures announced by the authorities, conditions are still not conducive to a rapid improvement in the manufacturing cycle. If the index stays close to or below 50, it will confirm that the economic recovery remains gradual and uneven.

Economic Indicators

Week of January 26 to 30, 2026

* Due to the federal government shutdown in the United States, there may be some changes to the data release schedule.

Day	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 26	8:30	Durable goods orders (m/m)	Nov.	3.0%	7.9%	-2.2%
TUESDAY 27	9:00	S&P/Case-Shiller home price index (y/y)	Nov.	1.20%	1.20%	1.31%
	10:00	Consumer confidence	Jan.	90.0	92.0	89.1
WEDNESDAY 28	14:00	Federal Reserve meeting	Jan.	3.75%	3.75%	3.75%
	14:30	Speech by Federal Reserve Chair J. Powell				
THURSDAY 29	8:30	Initial unemployment claims	Jan. 19–23	n/a	210,000	200,000
	8:30	Trade balance – Goods and services (US\$B)	Nov.	-45.0	-38.8	-29.4
	8:30	Nonfarm productivity – final (ann. rate)	Q3	4.9%	4.9%	4.9%
	8:30	Unit labor costs – final (ann. rate)	Q3	-1.9%	-1.9%	-1.9%
	10:00	Factory orders (m/m)	Nov.	0.5%	n/a	1.3%
	10:00	Wholesale inventories – final (m/m)	Nov.	n/a	n/a	0.2%
FRIDAY 30	8:30	Producer price index				
		Total (m/m)	Dec.	0.3%	0.1%	0.2%
		Excluding food and energy (m/m)	Dec.	0.3%	0.1%	0.0%
	9:45	Chicago PMI	Jan.	44.0	44.0	43.5
	13:30	Speech by Federal Reserve Bank of St. Louis President A. Musalem				

CANADA

MONDAY 26	---	---				
TUESDAY 27	---	---				
WEDNESDAY 28	9:45	Bank of Canada decision	Jan.	2.25%	2.25%	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	8:30	International trade (\$B)	Nov.	-0.69	-1.00	-0.58
FRIDAY 30	8:30	Real GDP by industry (m/m)	Nov.	0.1%	0.1%	-0.3%

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 Standard Time (GMT -5 hours).  Desjardins Economic Studies forecast.

Economic Indicators

Week of January 26 to 30, 2026

Country	Time	Indicator	Period	Consensus m/m (q/q)	y/y	Previous reading m/m (q/q)	y/y
OVERSEAS							
DURING THE WEEK							
Germany	---	Retail sales	Dec.	0.1%	n/a	-0.6%	-1.8%
MONDAY 26							
Japan	0:00	Leading index – final	Nov.	n/a	110.5		
Japan	0:00	Coincident index – final	Nov.	n/a	115.2		
Germany	4:00	ifo Business Climate Index	Jan.	88.2	87.6		
Germany	4:00	ifo Current Assessment Index	Jan.	86.0	85.6		
Germany	4:00	ifo Expectations Index	Jan.	90.3	89.7		
TUESDAY 27							
France	2:45	Consumer confidence	Jan.	90	90		
WEDNESDAY 28							
Germany	2:00	Consumer confidence	Feb.	-26.0	-26.9		
Italy	4:00	Consumer confidence	Jan.	97.0	96.6		
Italy	4:00	Economic confidence	Jan.	n/a	96.5		
Brazil	16:30	Central Bank of Brazil meeting	Jan.	15.00%	15.00%		
THURSDAY 29							
Japan	0:00	Consumer confidence	Jan.	37.0	37.2		
Sweden	3:30	Bank of Sweden meeting	Jan.	1.75%	1.75%		
Eurozone	4:00	M3 money supply	Dec.		3.0%	3.0%	
Eurozone	5:00	Consumer confidence – final	Jan.	n/a	-12.4		
Eurozone	5:00	Industrial confidence	Jan.	-8.3	-9.0		
Eurozone	5:00	Services confidence	Jan.	5.9	5.6		
Eurozone	5:00	Economic confidence	Jan.	97.0	96.7		
Japan	18:30	Tokyo Consumer Price Index	Jan.		1.7%	2.0%	
Japan	18:30	Unemployment rate	Dec.	2.6%	2.6%		
Japan	18:50	Industrial production – preliminary	Dec.	-0.4%	2.2%	-2.7%	-2.2%
Japan	18:50	Retail sales	Dec.	-0.4%	0.8%	0.6%	1.0%
FRIDAY 30							
Japan	0:00	Housing starts	Dec.		-4.4%	-8.5%	
France	1:30	Personal consumption expenditures	Dec.	-0.4%	-0.6%	-0.3%	0.0%
France	1:30	Real GDP – preliminary	Q4	0.2%	1.2%	0.5%	0.9%
Germany	4:00	Real GDP – preliminary	Q4	0.2%	0.3%	0.0%	0.3%
Italy	4:00	Real GDP – preliminary	Q4	0.2%	0.5%	0.1%	0.6%
Eurozone	5:00	Real GDP – preliminary	Q4	0.2%	1.3%	0.3%	1.4%
Eurozone	5:00	Unemployment rate	Dec.	6.3%	6.3%		
Italy	5:00	Unemployment rate	Dec.	5.8%	5.7%		
Germany	8:00	Consumer price index – preliminary	Jan.	0.0%	2.0%	0.0%	1.8%
China	20:30	Composite PMI	Jan.	n/a	50.7		
China	20:30	Manufacturing PMI	Jan.	50.2	50.1		
China	20:30	Non-manufacturing PMI	Jan.	50.8	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 Standard Time (GMT -5 hours).