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**Tiff Macklem**

Governor

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Senior Deputy Governor

## **Monetary Policy Report - Press Conference Opening Statement**

### **Transcript**

Good morning. I'm pleased to be here with Senior Deputy Governor Carolyn Rogers to discuss today's monetary policy decision.

Governing Council maintained the policy interest rate at 2.25%.

Since our April decision, the economic impact of the ongoing conflict in the Middle East has increased. Higher energy prices and disruptions in global supply chains are weighing on global growth and pushing up inflation. At the same time, the US administration continues to propose new tariffs and trade policy uncertainty remains elevated.

Against this backdrop, the Canadian economy has remained soft and inflation has increased. Monetary policy continues to be focused on ensuring higher energy prices do not turn into persistent inflation, while helping the economy adjust to headwinds. We are committed to keeping inflation low and stable over time.

Let me expand on what we're seeing since the *April Monetary Policy Report* and the monetary policy implications.

The conflict in the Middle East is slowing economic activity in the Gulf region and in many oil-importing countries, and sending inflation higher worldwide. At the same time, AI-related investment is boosting growth in the United States and some Asian economies, and equity markets have been buoyant.

In Canada, GDP edged down 0.1% in the first quarter, weaker than expected at the time of the April Report. Consumer spending grew by 1.4% but there was an unexpected pullback in government spending. Housing activity also declined and business investment remained weak.



While the labour market strengthened in May and the unemployment rate fell to 6.6%, there has been a lot of volatility in the monthly job numbers. When you look through the bumpiness, employment in Canada is little changed since the start of the year, and the unemployment rate has been fluctuating in the 6½%-7% range.

Recent data suggests that GDP growth will resume in the second quarter, with continued increases in consumer spending and more stability in housing activity. Even with some rebound in GDP growth, we expect the economy to remain in excess supply.

As anticipated, CPI inflation rose in April, reaching 2.8%. The increase reflects energy prices—both higher global oil prices and the impact of the elimination of the Canadian consumer carbon tax falling out of the 12-month rate of inflation. So far, there has been limited evidence of broad-based pass-through of higher energy prices to other consumer prices. Measures of core inflation have moved down to around 2% and the share of CPI components growing above 3% is close to its historical average. Food price inflation moderated but remains high, and shelter inflation continued to slow.

With the conflict in the Middle East persisting, oil prices have remained elevated. Market expectations have shifted up since April, and oil prices are roughly \$10 a barrel higher than we assumed in the MPR. Based on this, we expect CPI inflation to hover close to 3% in coming months before easing gradually toward 2%. We will be watching closely for evidence of a broadening in price pressures. The Bank of Canada is committed to keeping inflation close to the 2% target over time.

At our meeting this week, we decided to maintain the policy rate at 2.25%. Governing Council agreed to look through the war's near-term impact on inflation but if energy prices stay high, we will not let their effects become broad-based persistent inflation.

Economic weakness combined with rising inflation is a dilemma for monetary policy. Raising rates to dampen inflation could further slow the economy. Easing rates to support growth increases the risk that higher inflation becomes persistent. For now, holding the policy rate unchanged balances those risks.

However, uncertainty is unusually elevated, and the risks could shift. Monetary policy may need to be nimble.

If the United States imposes significant new trade restrictions on Canada, we may need to cut the policy rate further to support economic growth. Alternatively, if the conflict in the Middle East continues and higher energy prices start leading to ongoing generalized inflation, monetary policy will have more work to do—there may be a need for consecutive increases in the policy rate.

Of course, these are not the only possible outcomes. The Canadian economy is working through a period of structural change. Shifting trade relationships, the adoption of AI and changes in demographics complicate the assessment of the economy. We will be watching all



these developments closely and assessing their implications for growth and inflation. As the outlook evolves, we stand ready to respond as needed.

The Bank is committed to ensuring that Canadians continue to have confidence in price stability through this period of global upheaval.