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# Monthly forecast update



February 11,  
2026

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**RBC** Economics

**U.S. tariff collection may have slowed  
but expect impact to linger**

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## Highlights:



**U.S. tariff collection has slowed but their economic impact has not fully played out.** Slow passthrough to the real economy means more build up in inflationary pressure in the U.S. amid already-heightened affordability concerns.



**Our forecast adjustments this month are minor.** We revised Q4 Canadian GDP growth in 2025 down slightly, and moved the U.S. unemployment rate forecast this year marginally lower.



**However, our core views are unchanged.** We still expect broadly positive Canadian growth in 2026 supported by real per-capita improvements, and stabilizing labour market conditions in the U.S. to limit the need for additional central bank easing – both the Bank of Canada and the U.S. Federal Reserve are expected to remain on hold this year.

## Issue in focus:

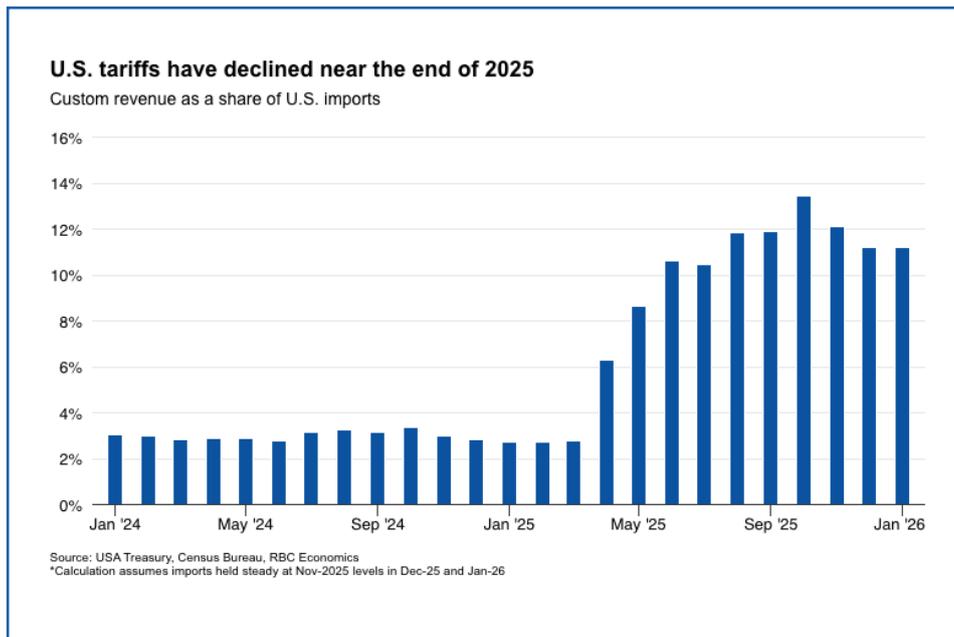


A Supreme Court ruling on U.S. IEEPA tariffs could affect Canada's competitive position in the U.S. import market. Still, we don't expect a substantial change from the ruling to our Canadian outlook, provided exemptions from IEEPA measures for CUSMA compliant trade remain intact.

## Forecast changes:

We are tracking signs that historically elevated U.S. tariff collections may have slowed near the end of 2025, consistent with our cautiously optimistic outlook for Canada and the U.S. this year.

Customs duties received by the U.S. Department of the Treasury came in just under US\$29 billion in January, still more than triple the US\$8 billion collected in January 2025, but down from a peak US\$33 billion last October. Declines were driven by reduced tariffs on China, and an expanding list of exempted products from reciprocal tariffs, both in effect from November.



That said, uncertainty surrounding U.S. protectionist trade policy lingers, and the lagged effects of tariffs are still very much in play. An imminent U.S. Supreme Court ruling on the legal status of IEEPA tariffs remains a key source of volatility to our forecast, as we seek clarity on tariff pass-through (with reduced data visibility) to core goods inflation that's still expected to rise into Q2.

In Canada, we expect fewer implications from the IEEPA ruling as long as crucial tariff exemptions tied to CUSMA-compliant trade are preserved (see more in Issue in Focus below). Trade-exposed manufacturing sectors continue to underperform, but spillover to the rest of the economy remains limited.

Overall, we've not made big changes, but minor tweaks to our base case forecasts in February:

- **Canadian GDP growth for Q4 is tracking slightly below our prior expectation** of a 0.5% annualized increase. We lowered our quarterly forecast down to flat, but note that would still leave per-capita GDP on a path of gradual improvement. We expect this trend will persist in 2026.
- **Softer Canadian GDP growth near the end of 2025 was balanced by broad labour market improvements** as the unemployment rate trends lower, and above-target, but moderating, core inflation, leaving the BoC comfortable with its firm holding bias. We have growing conviction in this view.
- **Last month, we explained how upside U.S. GDP growth surprises in the second half of 2025** have come entirely from higher productivity growth rather than job/hours expansion. Still, concerns about deterioration were eased by signs of stabilizing labour markets in early 2026. We lowered our near-term unemployment rate forecast slightly, but expect no change in the 4.5% annual average for 2026.

- **Crucially, we continue to operate in reduced visibility** with the latest partial U.S. government shutdown delaying annual benchmark population adjustments (to data underlying the unemployment rate), and January's Consumer Price Index data. Repeated reports of price increases among business surveys left us comfortable with our view that core goods inflation will heat up more meaningfully into Q2.
- **We expect the Fed to stay on hold in 2026**, but its ongoing bias will be towards leaving the door open for future rate cuts from current "modestly restrictive" levels. The nomination of Kevin Warsh for FOMC Chair has mollified concerns about Fed independence, but will introduce new communication styles in June when Warsh presumably takes over from Jerome Powell.

Central bank	current policy rate	next decision	
	<b>2.25%</b> 0 bps in Jan/26	<b>0 bps</b> Mar/26	<p>The Boc held the overnight rate at 2.25% in January for a second consecutive meeting and reiterated that the level of the policy rate "remains appropriate" at the bottom of the neutral range. We continue to expect stabilizing labour conditions, building fiscal support, and moderating inflation pressures to limit need for further easing, keeping the BoC on hold through 2026.</p>
	<b>3.5-3.75%</b> 0 bps in Jan/26	<b>0 bps</b> Mar/26	<p>The Fed held rates steady in January, clearly back in a wait-and-see, meeting-by-meeting stance. It was tough to discern which way Chair Powell was leaning from his comments. He described rates as "loosely neutral or somewhat restrictive," and confirmed that previous cuts should be sufficient to address concerns around both sides of their mandate. We expect the Fed funds range will remain at 3.5%-3.75% through 2026.</p>
	<b>3.75%</b> 0 bps in Feb/26	<b>-25 bps</b> Mar/26	<p>The Bank of England's Monetary Policy Committee voted 5-4 to maintain the Bank Rate at 3.75% in February. The vote split was a much closer result than we expected, and was the fourth meeting out of the last five that ended in a 5-4 split. The BoE reiterated its easing bias but was again non-committal with the pace and timing of it. We expect two cuts this year (the next coming in March) bringing the Bank Rate to a terminal of 3.25%.</p>
	<b>2.00%</b> 0 bps in Feb/26	<b>0 bps</b> Mar/26	<p>The European Central Bank's February meeting was uneventful with rates unchanged. President Christine Lagarde downplayed recent strengthening in the euro while acknowledging that inflation is evolving in line with the ECB's expectations, and risks on both inflation and growth are now balanced. We remain comfortable with our forecast for the deposit rate to be held at 2% through 2026.</p>
	<b>3.85%</b> +25 bps in Dec/25	<b>0 bps</b> Mar/26	<p>The Reserve Bank of Australia hiked the cash rate to 3.85% in February with an unanimous decision. The tone of communication plus a quantum of quarterly forecast revisions all painted a more hawkish picture, suggesting clear willingness for further tightening to address growing inflation. We expect another hike in May to take the cash rate to 4.1%, and then, flat after for the year.</p>

# Issue in focus

## Preserving CUSMA related exemptions: Canada's real priority amid a U.S. IEEPA legal ruling

International Emergency Economic Powers Act (IEEPA) is the primary statutory authority that the U.S. administration used to impose broad-based, country-specific reciprocal tariffs last year. Focus on the legal status of these tariffs is growing with a U.S. Supreme Court decision imminent.

Although we don't expect a significant reduction in tariffs as the political will to maintain them persists, the decision still comes at a critical juncture, and could shape sentiment around trade frameworks the U.S. administration is actively negotiating with various countries, including Canada.

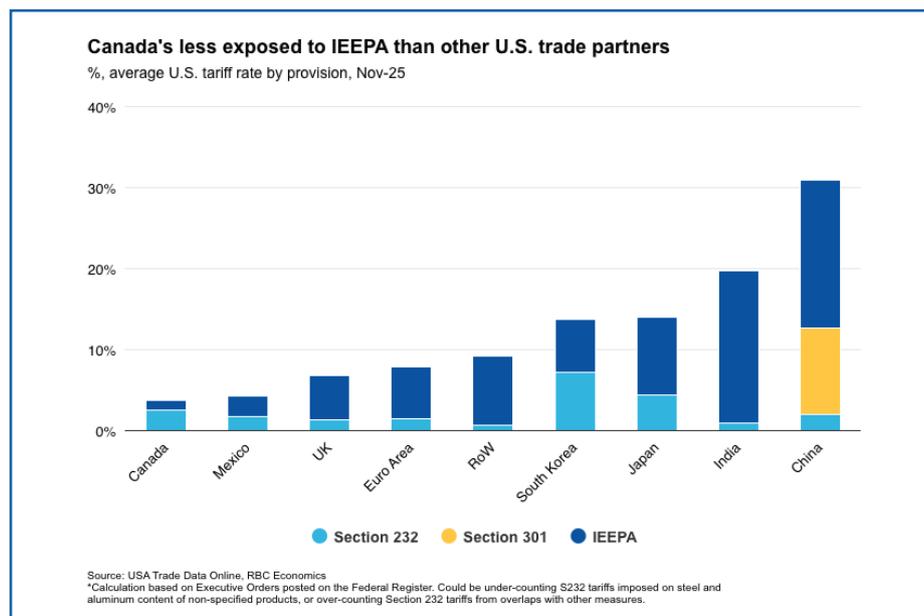
For Canada, the IEEPA ruling is with little economic implications, without the context of CUSMA exemptions that are given to goods compliant with the free trade agreement. In the past, these exemptions have effectively shielded most Canadian exports to the U.S. from IEEPA measures.

Here, there's an important distinction to be made between these exemptions and the CUSMA agreement itself, which is scheduled for a review in July. While the longer-run implications of a CUSMA content review could be meaningful, we see limited near-term impact. Our 2026 forecast is instead much more contingent on related exemptions being preserved to maintain lower-friction bilateral trade with the U.S.

### U.S. Supreme Court IEEPA ruling won't meaningfully change tariff backdrop

The U.S. administration has vowed to re-instate tariffs if IEEPA measures are struck down. Statutorily, there are various other channels that allow the administration to do so. In the meantime, non-IEEPA measures that account for about half of U.S. tariffs will remain unaffected by the upcoming court decision.

Other measures include Section 232 tariffs that have been imposed on a key range of Canadian products like metals, autos, and lumber have accounted for the bulk of duties collected from Canadian exports so far. Importantly, these measures are not currently under review by the U.S. Supreme Court.



### Canada has limited exposure to IEEPA tariffs

By our count, 88% of Canadian exports to the U.S. in November were not charged with tariffs likely because they're compliant with rules of origin requirements in CUSMA. That leaves IEEPA measures really only effective on less than 5% of exports to the U.S. In November, Canada faced an average effective U.S. tariff rate of 3.7%, the lowest of all major U.S. trade partners.

Moving forward, there are reasons to be optimistic that exemptions will remain, largely because they benefit businesses on both sides of U.S.-Canada border. We counted in the past that they effectively lower the U.S. average tariff by 6%, particularly benefitting importers in the 23 U.S. states where Canada is the largest importer. Still, potential for changes remains a key risk to our baseline forecast.

### Canada may lose competitive advantage globally but could see increased U.S. demand

For other major U.S. trade partners (outside of Mexico, which also benefits from a low tariff rate thanks to CUSMA/USMCA exemptions), IEEPA tariffs tend to account for a much larger share, if not the majority of U.S. tariffs, making the upcoming Supreme Court ruling more consequential.

If IEEPA tariffs are struck down and not replaced, other countries could see significant tariff reductions, and Canada could lose status as the lowest tariffed U.S. trade partner. On the flip side, U.S. tariffs will be halved, leading to increases in U.S. industrial activities and foreign demand.

Indeed, we continue to view Canada's international trade risks as a function of one: Canada's competitive position in the U.S. import market; and two: broader, overall resilience in U.S. import demand tied to the severity of tariffs—balancing the impact of the IEEPA ruling on Canada's economy.

## Interest rate outlook | February 2026

## Policy rates and government bond yields, end of period

	Q1-25	Q2-25	Q3-25	Q4-25	Q1-26	Q2-26	Q3-26	Q4-26	Q1-27	Q2-27	Q3-27	Q4-27
<b>Canada</b>												
Overnight rate	2.75	2.75	2.50	2.25	2.25	2.25	2.25	2.25	2.50	2.75	3.00	3.25
3-month	2.62	2.65	2.42	2.15	2.20	2.20	2.20	2.25	2.55	2.80	3.00	3.20
2-year	2.46	2.59	2.47	2.58	2.80	2.90	3.00	3.10	3.25	3.45	3.55	3.65
5-year	2.61	2.83	2.74	2.96	3.15	3.20	3.25	3.30	3.45	3.55	3.65	3.70
10-year	2.97	3.28	3.18	3.42	3.50	3.55	3.60	3.65	3.70	3.75	3.75	3.80
30-year	3.23	3.56	3.64	3.85	3.85	3.85	3.90	3.90	3.90	3.95	3.90	3.90
<b>United States</b>												
Fed funds midpoint	4.38	4.38	4.13	3.63	3.63	3.63	3.63	3.63	3.38	3.13	2.88	2.88
3-month	4.32	4.41	4.02	3.67	3.63	3.66	3.68	3.68	3.38	3.16	2.93	2.93
2-year	3.89	3.72	3.60	3.47	3.60	3.60	3.55	3.50	3.35	3.25	3.20	3.25
5-year	3.96	3.79	3.74	3.73	3.80	3.85	3.90	3.80	3.65	3.60	3.55	3.60
10-year	4.23	4.24	4.16	4.18	4.25	4.35	4.40	4.35	4.25	4.20	4.25	4.30
30-year	4.59	4.78	4.73	4.84	4.90	4.95	4.95	4.90	4.85	4.80	4.80	4.85
<b>United Kingdom</b>												
Bank Rate	4.50	4.25	4.00	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25
2-year	4.20	3.81	3.99	3.71	3.50	3.40	3.40	3.40	3.30	3.30	3.25	3.20
5-year	4.29	3.95	4.14	3.93	3.80	3.75	3.75	3.80	3.90	3.90	3.90	3.90
10-year	4.70	4.48	4.70	4.47	4.40	4.40	4.45	4.50	4.75	4.75	4.70	4.65
30-year	5.29	5.25	5.49	5.21	5.15	5.20	5.25	5.30	5.50	5.50	5.50	5.50
<b>Euro area*</b>												
Deposit rate	2.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
2-year	2.05	1.85	2.02	2.12	2.15	2.25	2.40	2.50	2.40	2.50	2.50	2.50
5-year	2.34	2.15	2.31	2.45	2.50	2.60	2.70	2.80	2.75	2.75	2.75	2.75
10-year	2.74	2.59	2.72	2.86	3.00	3.10	3.20	3.25	3.20	3.25	3.30	3.40
30-year	3.09	3.12	3.30	3.48	3.60	3.75	3.80	3.90	4.00	4.10	4.20	4.30
<b>Australia</b>												
Cash rate	4.10	3.85	3.60	3.60	3.85	4.10	4.10	4.10	4.10	4.10	4.10	3.85
2-year	3.68	3.21	3.49	4.06	4.25	4.20	4.10	4.00	4.00	3.90	3.90	3.90
10-year	4.39	4.16	4.30	4.75	4.75	4.75	4.70	4.60	4.50	4.45	4.45	4.50
<b>New Zealand</b>												
Cash rate	3.75	3.25	3.00	2.25	2.25	2.25	2.25	2.25	2.50	2.75	2.75	2.75
2-year swap	3.33	3.18	2.60	2.92	3.10	3.15	3.10	3.00	3.00	3.00	3.00	3.00
10-year swap	4.05	4.03	3.66	4.08	4.15	4.25	4.30	4.25	4.20	4.20	4.25	4.30

Sources: Refinitiv, BoC, Fed, BoE, ECB, RBA, RBNZ, RBC Economics, RBC Capital Markets | \*German government bond yields

## Economic outlook | February 2026

## Real GDP, quarter-over-quarter percent change

	Q1-25	Q2-25	Q3-25	Q4-25	Q1-26	Q2-26	Q3-26	Q4-26	Q1-27	Q2-27	Q3-27	Q4-27	2024	2025	2026	2027
Canada*	2.2	-1.8	2.6	0.0	1.3	1.7	1.8	1.5	1.3	1.3	1.5	1.7	2.0	1.7	1.2	1.5
United States*	-0.6	3.8	4.4	3.5	1.7	1.5	1.7	1.8	1.8	1.9	1.9	1.8	2.8	2.3	2.5	1.8
United Kingdom	0.7	0.2	0.1	0.2	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.4	1.1	1.4	1.0	1.5
Euro area	0.6	0.1	0.3	0.3	0.5	0.5	0.4	0.3	0.2	0.3	0.3	0.3	0.8	1.5	1.5	1.3
Australia	0.4	0.7	0.4	0.8	0.6	0.7	0.5	0.5	0.6	0.6	0.5	0.5	1.0	1.9	2.5	2.3

\*annualized

## Inflation, year-over-year percent change

	Q1-25	Q2-25	Q3-25	Q4-25	Q1-26	Q2-26	Q3-26	Q4-26	Q1-27	Q2-27	Q3-27	Q4-27	2024	2025	2026	2027
Canada	2.3	1.8	2.0	2.2	2.2	2.4	2.2	2.0	2.0	2.0	2.0	2.1	2.4	2.1	2.2	2.0
United States	2.7	2.4	2.9	2.7	2.6	2.9	2.7	2.6	2.5	2.3	2.3	2.3	2.9	2.7	2.7	2.3
United Kingdom	2.8	3.5	3.8	3.4	3.2	2.4	2.3	2.2	2.3	2.2	2.1	2.1	2.5	3.4	2.5	2.3
Euro area	2.3	2.0	2.1	2.1	1.6	2.0	1.9	1.9	2.0	2.0	2.1	2.2	2.4	2.1	1.9	2.1
Australia	2.4	2.1	3.2	3.6	3.8	4.0	3.4	3.5	3.2	3.0	2.9	2.8	3.2	2.8	3.7	3.0

Sources: StatCan, BLS, ONS, EuroStat, ABS, RBC Economics, RBC Capital Markets

## Currency outlook | February 2026

## US dollar cross rates, end of period

	Q1-25	Q2-25	Q3-25	Q4-25	Q1-26	Q2-26	Q3-26	Q4-26	Q1-27	Q2-27	Q3-27	Q4-27
USD/CAD	1.44	1.36	1.39	1.37	1.37	1.37	1.36	1.34	1.33	1.32	1.31	1.3
EUR/USD	1.08	1.18	1.17	1.17	1.16	1.17	1.18	1.2	1.21	1.22	1.23	1.24
GBP/USD	1.29	1.37	1.34	1.34	1.33	1.34	1.34	1.36	1.38	1.39	1.39	1.39
USD/JPY	150	144	148	157	156	153	150	147	144	141	138	135
AUD/USD	0.62	0.66	0.66	0.67	0.67	0.68	0.69	0.7	0.7	0.69	0.7	0.72

## Canadian dollar cross rates

	Q1-25	Q2-25	Q3-25	Q4-25	Q1-26	Q2-26	Q3-26	Q4-26	Q1-27	Q2-27	Q3-27	Q4-27
EUR/CAD	1.55	1.60	1.63	1.61	1.59	1.60	1.60	1.61	1.61	1.61	1.61	1.61
GBP/CAD	1.86	1.87	1.88	1.84	1.83	1.84	1.82	1.83	1.84	1.83	1.82	1.81
CAD/JPY	104	106	106	114	114	112	110	110	108	107	105	104
AUD/CAD	0.90	0.89	0.92	0.91	0.92	0.93	0.94	0.94	0.93	0.91	0.92	0.94

Sources: Federal Reserve Board, Bank of Canada, RBC Economics, RBC Capital Markets

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