Monthly forecast update

November 12, 2026

RBC Economics

Cyclical rebound in Canada and structural strength in the U.S.

Highlights:

- Canada's near-term growth and labour-market data have softened, but strengthening business investment and resilient consumer spending support a cautiously positive outlook.
- U.S. core-inflation pressures are building, while the labour market remains historically tight.
- We expect both the BoC and the Fed to raise interest rates again in December, followed by further increases in 2027.
- Risks are balanced around our BoC forecast but tilted toward a larger U.S. hiking cycle, given stronger-than-expected U.S. growth, labour-market conditions and inflation pressures.

We expect policy rates to rise further in both Canada and the United States, although the rationale continues to differ.

In Canada, recent GDP growth and labour-market data have been softer than expected, and there has been little evidence to date that higher energy prices are spilling over into broader measures of consumer-price inflation.

There is no obvious urgency for the BoC to raise interest rates quickly. And further downside surprises in economic growth, labour-market indicators, or inflation could still justify a pause following its first hike since 2023 in October. But the central bank remains sufficiently concerned about upside inflation risks, and sufficiently confident that economic growth will remain resilient, to push interest rates higher.

In the United States, the case for higher interest rates is stronger. The September surge in U.S. government bond yields largely reversed in October and November. However, rising core-inflation pressures, strong Q3 GDP growth, and a historically tight labour market continue to point to a need for additional Fed tightening to contain inflationary pressure.

We expect both the BoC and the Fed to hike in December. Further tightening in 2027 would bring Canada's overnight rate to 3.25% and the federal funds target range in the United States to 4.25%-4.5%. Risks are relatively balanced around our BoC forecast but tilted toward a larger hiking cycle in the United States.

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Canada's outlook remains cautiously positive

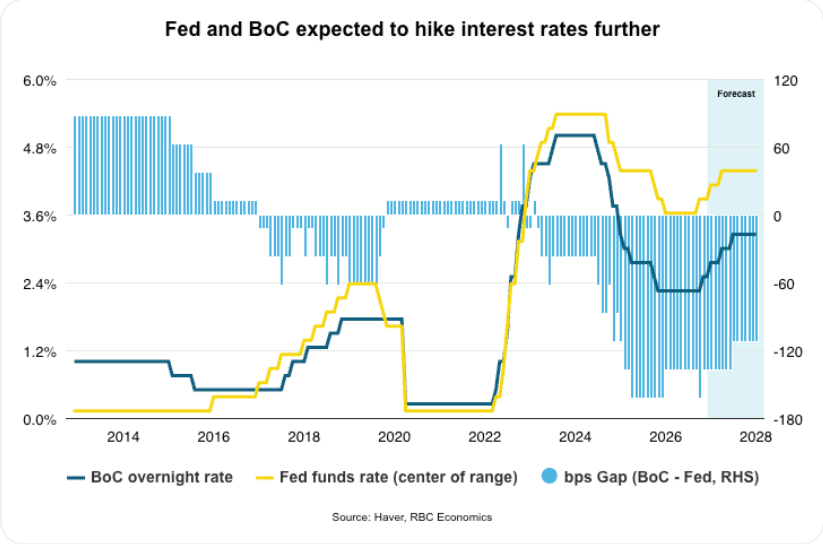
Four main developments have left our Canadian growth forecasts broadly unchanged while supporting our outlook for 2027.

1. **Softening in recent GDP and labour-market data has not had sufficient breadth or persistence to change our cautiously optimistic outlook.** Q3 GDP growth is tracking below our prior expectations and those of the BoC. Three consecutive months of job losses pushed unemployment to 6.7% in October. However, early data on Indeed.com job postings do not signal a pullback in hiring demand, and our own card-spending tracker points to continued resilience in consumer spending. Early evidence that the AI infrastructure buildout is spreading to Canada is unlikely to add much to near-term GDP growth, but it supports a firmer business-investment outlook.

2. **Fiscal policy supports stronger 2027 growth.** Spending and tax incentives in the 2026 federal budget will take time to affect the economy, but their scale is meaningful. We estimate that the new measures will add 0.2-0.3 percentage points to GDP growth in 2027.

3. **Immigration policy supports modestly faster population growth.** Canada's refreshed immigration plan should allow for slightly stronger population growth than previously expected. Higher population growth supports the headline GDP outlook by adding consumers and workers, although it will not change our outlook for output per person, output per worker, or labour-market conditions.

4. **U.S. tariffs are having significant targeted impacts, but not enough to derail broader economic growth.** The share of Canadian exports targeted by U.S. tariffs has increased following new measures imposed in August, but more than 80% of exports remain duty-free.



Forecast changes since last month

- **Canadian GDP growth has been revised lower in H2 2026 but is still expected to strengthen in 2027.** Growth is expected to slow to 1.5% (quarter-over-quarter annualized) in Q3, reflecting softer production-side data, and to 1% in Q4 before picking up again in 2027. Annual GDP is now expected to rise 0.9% in 2026 and 1.7% in 2027, not meaningfully different from the previous forecasts of 1.0% and 1.6%, respectively.

- **Canadian unemployment-rate forecasts have been revised higher in the near term but are still expected to decline thereafter.** A rise in unemployment to 6.7% in October led us to mechanically revise our Q4 2026 unemployment-rate forecast higher to 6.5%. We maintain our base case for further labour-market improvement to bring the unemployment rate below 6% by the end of 2027.

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- **U.S. growth and labour-market momentum continue.** GDP forecasts have been revised higher again, averaging 2.4% in 2026 and 2027, up from previous forecasts of 2.1% and 2.2%, respectively. We continue to expect the unemployment rate to average near historical lows, at 4.2% in both 2026 and 2027.
- **The BoC is expected to hike three more times.** Having hiked once already in October, when core inflation remained low, the BoC appears to see benefits in moving earlier rather than later to get ahead of spillover from higher energy prices. We expect another 25-basis-point increase in December and two additional hikes by mid-2027, bringing the overnight rate to 3.25%, provided the economy continues to improve.
- **We continue to expect a cumulative 50 basis points of additional Fed tightening in this cycle, including one hike at the next meeting in December.** Recent producer-price data suggest that further inflation pressures are building in supply chains. We see risks of a larger tightening cycle than currently assumed.

Central bank	current policy rate	next decision	
BoC	2.50% +25 bps in Oct/26	+25 bps Dec/26	The Bank of Canada in October raised its overnight rate to 2.5%. The decision was well-telegraphed and despite current labour market slack and steady core inflation. It is widely seen as a preventative move to address future inflation risks from high energy prices. Revised projections show a problematic increase in CPI in 2027. We expect three more hikes, including one at the next meeting in December.
Fed	3.75-4.00% 0 bps in Oct/26	+25 bps Dec/26	Fed held rates steady with two dissents (for a hike) in October. Statement upgraded growth to "strong," but Warsh's press conference lacked substance, returning to pre-September vagueness. Post meeting labour market and inflation data continue to surprise on the strong side, adding to market pricing of sooner/more Fed hikes relative to our base case, that expects two additional hikes at the December and March meeting.
BoE	4.00% +25 bps in Nov/26	0 bps Dec/26	The Bank of England raised rates 25bps to 4.00% in November in a surprisingly hawkish 8-1 vote, with the sole dissenter favouring 50bps. CPI is projected near 5% through mid-2027, driven largely by energy prices. Governor Bailey signalled another hike is likely absent softer inflation news. We now expect a second 25bps increase in February, bringing Bank Rate to 4.25%, but don't anticipate a prolonged hiking cycle thereafter.
ECB	2.50% 0 bps in Oct/26	+25 bps Dec/26	ECB held at 2.50% in October. The statement was dovish, acknowledging tighter financial conditions with little mention of energy risks. President Lagarde later in the press conference signalled a hike could have been justified at the meeting, setting a low bar for December move. This supports our call for one more hike at the next December meeting, with the path beyond that determined by future inflation and wage development.
RBA	4.85% +25 bps in Nov/26	0 bps Dec/26	The RBA lifted the cash rate to 4.85% in November, with three members dissenting in favour of holding steady. The statement was balanced, with mentions of energy related upside inflation risks but also softer recent labour and housing data. Governor Bullock later remarked that now is a "good point to take stock for a minute", consistent with our view that the cash rate has reached its peak in this cycle.

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Interest rate outlook | November 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
Canada												
Overnight rate	2.75	2.75	2.50	2.25	2.25	2.25	2.25	2.75	3.00	3.25	3.25	3.25
3-month	2.62	2.65	2.42	2.15	2.31	2.26	2.39	2.75	2.95	3.25	3.25	3.20
2-year	2.46	2.59	2.47	2.58	2.82	2.74	3.32	3.25	3.30	3.35	3.35	3.35
5-year	2.61	2.83	2.74	2.96	3.09	3.01	3.66	3.45	3.50	3.55	3.50	3.45
10-year	2.97	3.28	3.18	3.42	3.46	3.38	3.97	3.70	3.75	3.75	3.70	3.60
30-year	3.23	3.56	3.64	3.85	3.88	3.77	4.29	4.05	4.05	4.00	3.95	3.85
United States												
Fed funds midpoint	4.38	4.38	4.13	3.63	3.63	3.63	3.88	4.13	4.38	4.38	4.38	4.38
3-month	4.32	4.41	4.02	3.67	3.70	3.87	4.20	4.27	4.47	4.46	4.57	4.60
2-year	3.89	3.72	3.60	3.47	3.79	4.14	4.88	4.75	4.85	4.70	4.80	4.85
5-year	3.96	3.79	3.74	3.73	3.92	4.19	5.09	4.90	4.95	4.80	4.90	5.00
10-year	4.23	4.24	4.16	4.18	4.30	4.44	5.29	5.05	5.10	5.00	5.05	5.15
30-year	4.59	4.78	4.73	4.84	4.88	4.91	5.64	5.40	5.40	5.35	5.40	5.45
United Kingdom												
Bank Rate	4.50	4.25	4.00	3.75	3.75	3.75	3.75	4.00	4.25	4.25	4.25	4.25
2-year	4.20	3.81	3.99	3.71	4.37	4.22	4.90	4.75	4.50	4.25	4.10	4.20
5-year	4.29	3.95	4.14	3.93	4.43	4.31	4.99	4.80	4.60	4.40	4.30	4.40
10-year	4.70	4.48	4.70	4.47	4.88	4.76	5.43	5.25	5.00	4.80	4.90	5.00
30-year	5.29	5.25	5.49	5.21	5.49	5.51	5.96	5.75	5.70	5.80	5.90	6.00
Euro area*												
Deposit rate	2.50	2.00	2.00	2.00	2.00	2.25	2.50	2.75	2.75	2.75	2.75	2.75
2-year	2.05	1.85	2.02	2.12	2.58	2.53	3.20	3.20	3.10	3.00	3.00	3.00
5-year	2.34	2.15	2.31	2.45	2.69	2.60	3.34	3.25	3.15	3.10	3.10	3.10
10-year	2.74	2.59	2.72	2.86	2.98	2.92	3.59	3.30	3.20	3.25	3.30	3.40
30-year	3.09	3.12	3.30	3.48	3.46	3.44	3.95	3.90	4.00	4.10	4.20	4.30
Australia												
Cash rate	4.10	3.85	3.60	3.60	4.10	4.35	4.60	4.85	4.85	4.85	4.85	4.60
2-year	3.68	3.21	3.49	4.06	4.66	4.42	4.95	4.75	4.70	4.65	4.60	4.55
5-year	3.86	3.46	3.75	4.29	4.70	4.40	4.96	4.80	4.75	4.75	4.70	4.70
10-year	4.39	4.16	4.30	4.75	4.98	4.72	5.34	5.10	5.05	5.00	4.95	4.90
30-year	4.97	4.84	4.96	5.22	5.36	5.25	5.78	5.50	5.50	5.45	5.45	5.35
New Zealand												
Cash rate	3.75	3.25	3.00	2.25	2.25	2.25	2.75	3.00	3.00	3.00	3.00	3.00
2-year swap	3.33	3.18	2.60	2.92	3.45	3.31	4.02	3.75	3.70	3.65	3.65	3.65
10-year swap	4.05	4.03	3.66	4.08	4.34	3.99	4.72	4.40	4.40	4.40	4.40	4.40

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

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Economic outlook | November 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	2025	2026	2027
Canada*	2.89	-0.97	1.90	-0.98	0.33	3.32	1.5	1.0	2.0	1.7	1.7	1.9	1.85	0.9	1.7
United States*	0.14	4.02	3.88	0.21	2.49	2.22	3.37	2.2	2.2	2.3	2.3	2.2	2.34	2.4	2.4
United Kingdom	0.60	0.01	0.18	0.01	0.64	0.53	0.74	0.3	0.2	0.3	0.3	0.4	1.21	1.6	1.4
Euro area	0.49	0.03	0.32	0.23	0.00	0.64	0.42	0.0	0.2	0.4	0.3	0.4	1.30	1.0	1.2
Australia	0.39	0.78	0.50	0.91	0.29	0.42	0.4	0.4	0.4	0.3	0.3	0.4	1.98	2.0	1.5

*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	2025	2026	2027
Canada	2.29	1.78	1.98	2.25	2.15	2.95	3.05	2.8	3.0	2.5	2.2	2.1	2.07	2.7	2.4
United States	2.74	2.45	2.88	2.69	2.69	3.86	3.50	3.9	3.4	2.4	2.4	1.8	2.63	3.5	2.5
United Kingdom	2.80	3.49	3.80	3.38	3.11	2.77	3.11	3.5	3.7	3.3	2.8	2.6	3.37	3.1	3.1
Euro area	2.34	2.01	2.10	2.07	2.04	2.98	3.32	3.7	3.4	2.8	2.4	1.9	2.13	3.0	2.6
Australia	2.40	2.10	3.22	3.63	4.09	3.94	3.92	4.2	3.8	3.9	3.2	2.9	2.84	4.0	3.4

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

US dollar cross rates, end of period

	Q1-24	Q2-24	Q3-24	Q4-24	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	1.35	1.37	1.35	1.44	1.44	1.36	1.39	1.37	1.40	1.42	1.42					
EUR/USD	1.08	1.07	1.11	1.04	1.08	1.18	1.17	1.17	1.15	1.14	1.13					
GBP/USD	1.26	1.26	1.34	1.25	1.29	1.37	1.34	1.34	1.32	1.33	1.33			Under review		
USD/JPY	151	161	143	157	150	144	148	157	159	163	157					
AUD/USD	0.65	0.67	0.69	0.62	0.62	0.66	0.66	0.67	0.69	0.69	0.70					

Canadian dollar cross rates

	Q1-24	Q2-24	Q3-24	Q4-24	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	1.46	1.47	1.50	1.49	1.55	1.60	1.63	1.61	1.61	1.62	1.61					
GBP/CAD	1.71	1.73	1.80	1.80	1.86	1.87	1.88	1.84	1.84	1.88	1.88			Under review		
CAD/JPY	112	117	106	109	104	106	106	114	114	114	111					
AUD/CAD	0.88	0.91	0.93	0.89	0.90	0.89	0.92	0.91	0.96	0.98	0.99					

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

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