
Monthly forecast update



March 11,
2026

RBC Economics

**North American growth outlook stable
as Middle East tensions boost inflation**

Highlights:



Geopolitical risk rises: We expect on balance a neutral impact from higher oil prices on the Canadian and U.S. economic growth in 2026 (both net energy exporters) as conflict in the middle east pushes oil prices higher, but with significant regional variations.



Trade backdrop stabilizing: Amid a Supreme Court ruling on IEEPA measures and new U.S. Section 122 tariffs, CUSMA exemptions continue to keep Canada's average tariff rate among the lowest of major U.S. trade partners. U.S. tariffs remain elevated but are gradually declining.



The oil shock situation remains fluid: Headline inflation forecasts were upgraded, but the outlook remains stable. We have left our projections of other key economic indicators—including GDP growth, unemployment rates, and central bank calls—unchanged from February.

Issue in focus:



Recent energy price spikes lack the structural permanence to spark a rebound in Canadian oil and gas investment that's been soft for a decade. Without an investment response, the net impact on the Canadian economy is likely neutral. We don't expect the Bank of Canada will rush to respond.

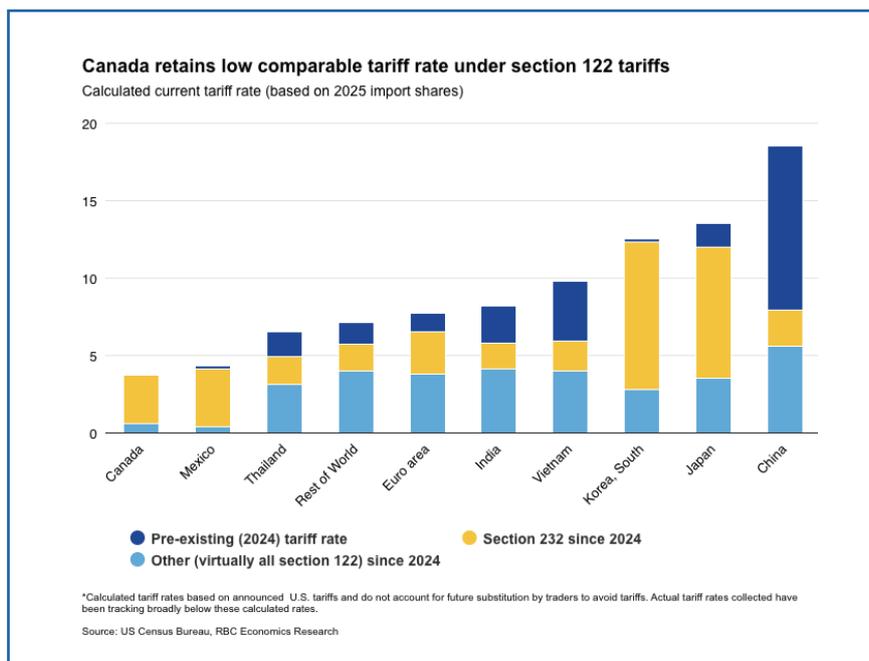
Forecast changes:

The situation in the Middle East keeps evolving, and its ultimate impact on economic growth, inflation and central bank decisions in Canada and the U.S. will depend on the final scope, duration and details of the development—none which are clear at the time of writing.

On balance, we expect higher oil prices to have a net-neutral effect on Canadian and U.S. GDP growth, though with significant regional variations. Oil-producing regions benefit from higher revenues that boost corporate profits and government royalties, while consumers across the board face elevated energy costs.

In this round of forecast update, we have raised our headline Consumer Price Index projections in 2026, but left our forecast of GDP growth and unemployment rates mostly unchanged. We do not expect central banks to rush to respond to what is fundamentally a supply shock, and see both the Bank of Canada and U.S. Federal Reserve remaining on hold through 2026.

The U.S. administration imposed new Section 122 tariffs after the Supreme Court struck down IEEPA, but nearly half of U.S. imports are exempt, along with CUSMA-compliant goods. This should leave the average effective U.S. tariff rate still slightly lower under the new tariffs, even if the administration were to follow through on threats to raise the Section 122 rate to 15% from the current 10%.



For Canada, international trade has changed little under the new tariff rules. Most Canadian exports were already exempt from prior IEEPA measures due to CUSMA exemptions that continue to hold. The Supreme Court ruling didn't affect product-specific Section 232 tariffs on steel, aluminum, and autos.

We continue to highlight the importance of CUSMA and related exemptions for our Canadian outlook. The U.S. administration's decision to uphold these exemptions against new Section 122 measures underscores the agreement's mutual benefits to businesses on both sides of the border, which is why we expect them to be preserved in our base case forecasts.

With international trade unfolding largely as expected and geopolitical risks remaining incredibly fluid, we have retained most forecasts this month. More specifically:

- **We raised our headline inflation profile for Canada and the U.S.** following an upgrade to our oil price assumptions. Headline CPI is projected to be about 0.2% percentage points higher at 2.4% for Canada and 2.9% for the U.S. on average for the whole year compared to our prior forecast. Core (excluding food and energy) CPI projections are held steady.
- **Other key macro variables were little changed.** Canadian Q4 GDP growth came in below our prior expectations, but with solid details. Spending from households, governments and businesses expanded, offset by a large drawdown in inventory by businesses. Overall, we retain our outlook for improving per-capita GDP growth, and a falling unemployment rate this year.
- **Signs of stabilizing labour markets and rising producer prices in the U.S.** support our base case forecast of an unemployment rate trending sideways around 4 ½ % in 2026. Core U.S. CPI is still expected to heat up toward a 3% peak in Q2 due to delayed tariff pass-through.
- **We expect the BoC and Fed will look through near-term volatility in energy prices** rather than rush to a response. Risk of persistently elevated oil prices as the conflict continues or due to the destruction of oil facilities may require different responses down the road.

Central bank	current policy rate	next decision	
 BoC	2.25% 0 bps in Jan/26	0 bps Mar/26	<p>The BoC held the overnight rate at 2.25% in January for a second consecutive meeting and reiterated the policy rate “remains appropriate” at the bottom of the neutral range. We don’t expect a soft Q4-25 GDP print to alter that stance as the details were strong. We continue to expect limited need for further monetary easing, and believe the BoC will remain on hold through 2026.</p>
 Fed	3.5-3.75% 0 bps in Jan/26	0 bps Mar/26	<p>The Fed held rates steady in January as it shifted back in a wait-and-see, meeting-by-meeting stance. Chair Jerome Powell described rates as “loosely neutral or somewhat restrictive.” Recent U.S. data should reaffirm the Fed’s on an extended hold as labour markets continue to stabilize, while some tariff related price pressures start to build. We expect the Fed funds range will remain at 3.5%-3.75% through 2026.</p>
 BoE	3.75% 0 bps in Feb/26	0 bps Mar/26	<p>The Bank of England’s Monetary Policy Committee voted 5-4 to hold the Bank Rate at 3.75% in February, reiterating its easing bias while remaining non-committal on the pace and timing of future cuts. Labour market is still softening, but the Committee is unlikely to move amid an energy price shock that raises inflation. We now expect a hold in March.</p>

Central bank

current policy rate

next decision

**2.00%**

0 bps in Feb/26

0 bps

Mar/26

The European Central Bank's February meeting was uneventful with rates unchanged. President Christine Lagarde acknowledged inflation was evolving in line with expectations, and risks on both inflation and growth are balanced. We are comfortable with our forecast for the deposit rate to be held at 2% through 2026 with growth expected to remain above trend and inflation below target.

**3.85%**

+25 bps in Feb/26

+25 bps

Mar/26

The Reserve Bank of Australia raised the cash rate to 3.85% in February. The hawkish tone of communication and quarterly forecast revisions suggest a clear willingness for further tightening to address growing inflation. Governor Michele Bullock's recent speech suggested a live March meeting. Risk to inflation expectations from recent oil price developments led us to expect a hike now in March.

Issue in focus

Crude calculations: Assessing Canada's vulnerability to higher oil prices

A surge in oil prices driven by conflicts in the Middle East raises questions about what these developments mean for Canada's oil-exporting economy. We examined this following the 2025 oil price spike, and are refreshing our analysis in light of recent events.

Ultimately, the economic impact of oil price changes depends crucially on what's driving them. As in June 2025, price volatility driven by geopolitical events are unlikely to be viewed as structural enough to reverse the decade-long decline in Canadian oil and gas investment.

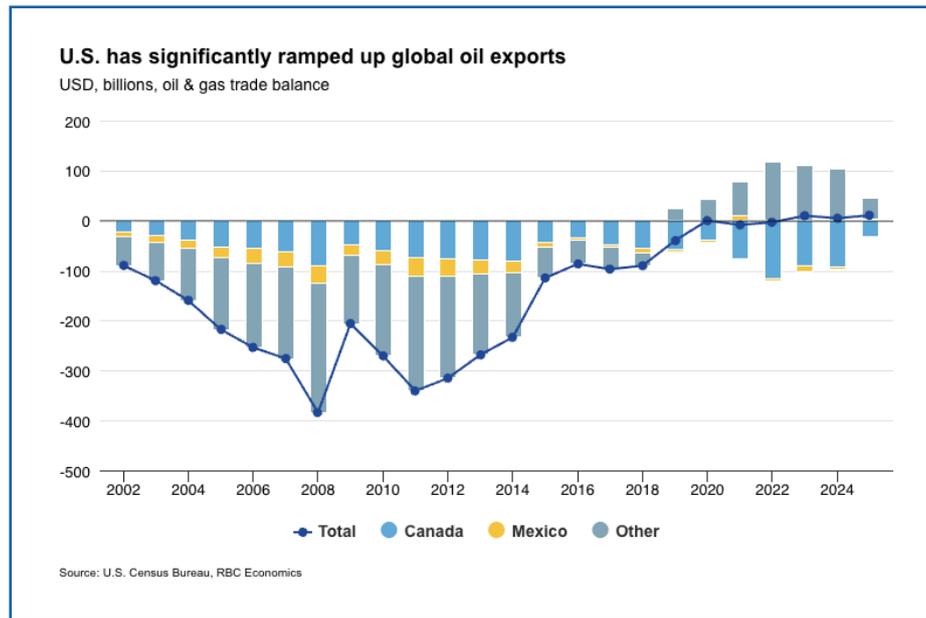
Without an investment response, the near-term impact on gross domestic product will likely be more neutral. The size and duration of the oil price surge will matter in determining a policy response from the Bank of Canada. We expect a muted response from the BoC without more clarity on future developments.

Canada and U.S. to see net-neutral GDP impact with varying regional effects

When oil prices rise, consumers face higher prices at the pump almost instantly. As more dollars are allocated toward energy purchases, the buying power for other goods and services decline – and the longer prices remain high, the greater those challenges become. Heightened economic uncertainty may also reduce households' willingness to spend, further dampening demand.

Higher energy costs curtail household spending, but other areas of the economy tied directly to energy production benefit. Corporate profits and government natural resource royalties rise alongside oil prices, and this is true for Canada and the U.S. as oil exporters.

In Canada, the sector is smaller than a decade ago, but still accounts for 6.6% of gross domestic product and 15% of total goods exports in 2025.



Despite economic benefits from higher oil prices, a flood of new investment in Canadian oil and gas remains unlikely. Large oilsands projects—the kind that dominated decades ago—require high costs and lengthy construction timelines, making them viable only at structurally elevated price levels. And transportation capacity out of the landlocked Canadian oil sands is still limited.

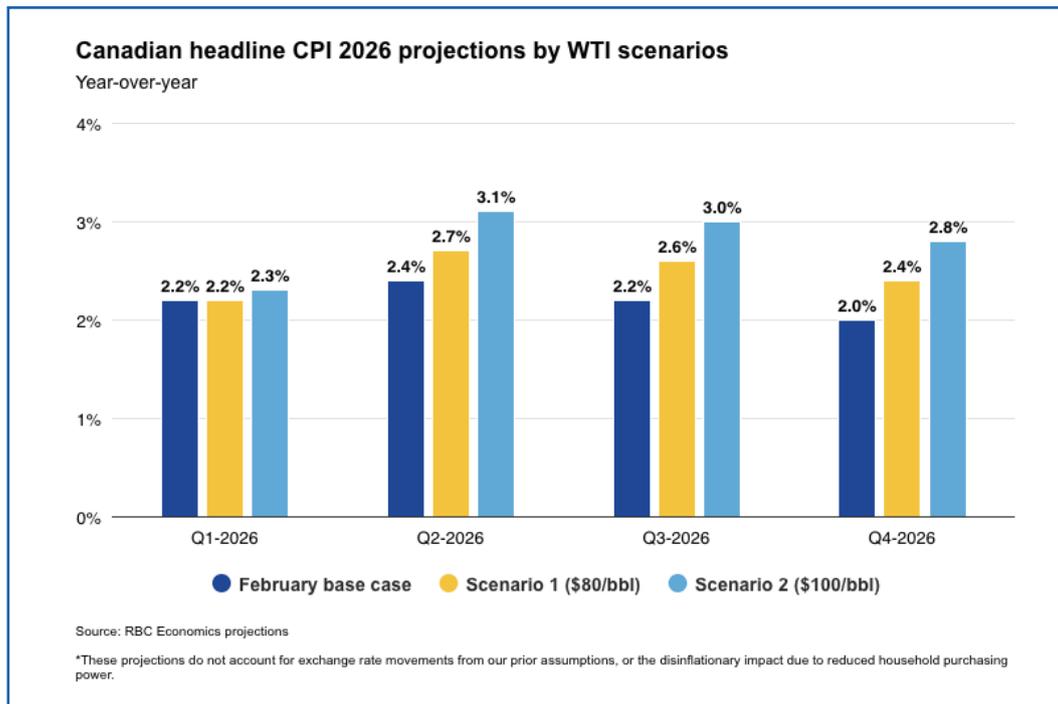
In the U.S., vulnerability to oil price shocks have diminished dramatically in recent decades with production ramping up following the shale revolution—from 5.4 million barrels a day in 2004 to 13.5 million barrels a day in 2025, according to U.S. Energy Information Administration estimates. The U.S. has swung from being a net importer of energy products to a net exporter over the last decade.

While the overall impact on economic growth may be neutral, regional effects will likely vary considerably. Benefits of higher oil prices will be concentrated in producing regions, while costs of higher gasoline prices will affect consumers nationwide.

Inflationary impacts outside direct energy costs take time to materialize

Outside of the direct effect on fuel prices, rising energy prices increase packaging expenses, and fertilizer prices among other critical business inputs across different sectors. However, these pressures take time to materialize. Oil prices must remain elevated for months rather than days or weeks to cascade through supply chains and influence business pricing decisions.

Indeed, historical patterns suggest caution when forecasting with the persistence of geopolitically driven price increases. Conflicts can trigger dramatic spikes that often moderate just as quickly when alternative energy supply sources emerge, or conditions de-escalate.



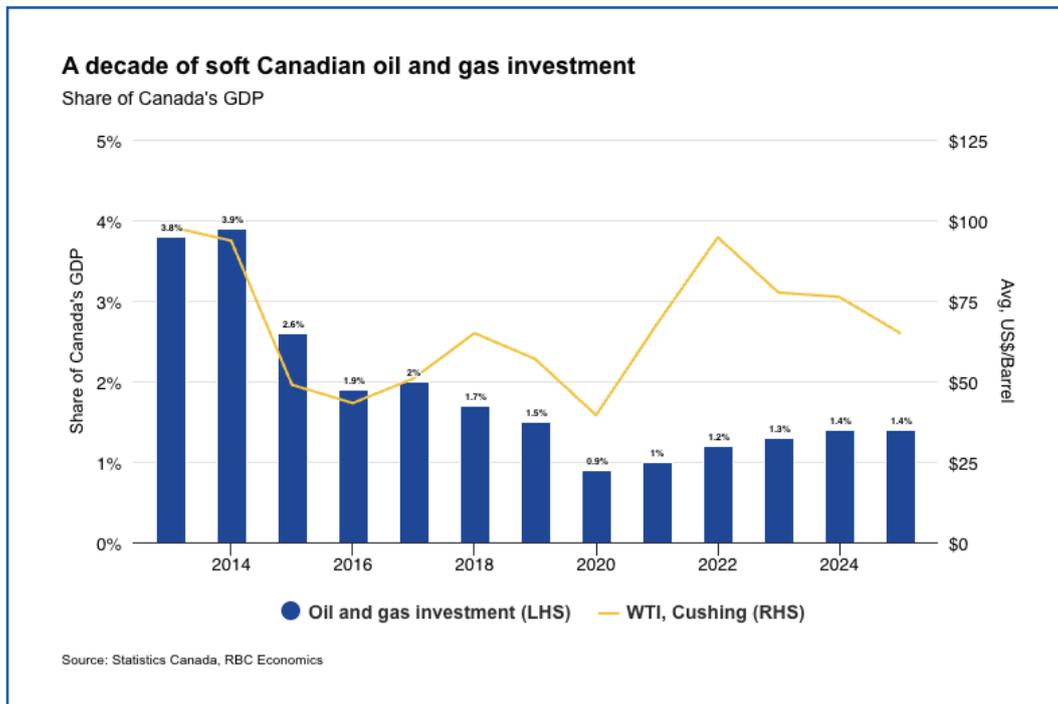
In a scenario where the West Texas Intermediate benchmark price remains at \$100 a barrel, it could raise headline Consumer Price Index by three quarters of a percentage point from our February forecast (before the recent conflict emerged) to a peak around 3% in Canada, and 3.5% in the U.S. this year.

These estimates don't account for disinflationary pressures from reduced household demand for non-energy goods and services, which may result in a more muted inflation impact.

Higher oil prices unlikely to trigger investment or central bank response

The BoC has responded to oil price changes in the past with rate adjustments. It cut the overnight rate by 50 basis points when prices collapsed in 2015. However, the shock at the time was fundamentally different from now. The 2015 decline was driven by a surge in U.S. production capacity widely viewed as structural and permanent.

Current oil supply disruptions and rising oil prices, by contrast, are unlikely to be viewed as the same. There is the risk the conflict persists, and oil prices remain elevated for longer. That, however, is still unlikely to be viewed as stable or persistent enough to warrant a reversal in large-scale business investment mostly dormant in the Canadian oil sands since collapsing a decade ago.



Oil and gas investment in 2025 accounted for less than half of what it was in 2014 as a share of Canada's GDP. The remaining investment in the sector is now largely devoted to maintaining existing production capacity, making it insensitive to oil price fluctuations.

Earlier this month, BoC Deputy Governor Sharon Kozicki reinforced in a speech that monetary policy response to supply shocks depend crucially on their size and duration. Short-lived supply shocks with limited economic implications typically invite a "look-through" response from the central bank.

If the supply shock persists long enough to warrant a policy response, the direction could also vary depending on the output-inflation trade-off. Higher energy prices mechanically raise headline inflation, but lower household purchasing power—potentially weakening demand for non-energy goods and services and widening the economy-wide output gap.

The recent run-up in oil prices has been sizable, but it's too early for the BoC to respond without greater clarity on future developments. Our forecast remains for the central bank to hold interest rates steady through 2026.

Interest rate outlook | March 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	2.25	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	2.65	2.70	2.80	2.90	3.00	3.10	3.20	3.35
5-year	2.61	2.83	2.74	2.96	3.00	3.00	3.05	3.10	3.20	3.25	3.30	3.40
10-year	2.97	3.28	3.18	3.42	3.40	3.35	3.30	3.30	3.35	3.40	3.45	3.50
30-year	3.23	3.56	3.64	3.85	3.85	3.75	3.70	3.65	3.65	3.65	3.70	3.70
United States												
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	3.55	3.45	3.30	3.15	3.05	3.00	3.05
5-year	3.96	3.79	3.74	3.73	3.80	3.70	3.60	3.50	3.35	3.30	3.25	3.30
10-year	4.23	4.24	4.16	4.18	4.20	4.05	3.95	3.90	3.80	3.75	3.80	3.85
30-year	4.59	4.78	4.73	4.84	4.80	4.70	4.65	4.60	4.55	4.50	4.50	
United Kingdom												
Bank Rate	4.50	4.25	4.00	3.75	3.75	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
Euro area*												
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
Australia												
Cash rate	4.10	3.85	3.60	3.60	4.10	4.10	4.10	4.10	4.10	4.10	4.10	3.85
2-year	3.68	3.21	3.49	4.06	4.35	4.20	4.10	4.00	4.00	3.90	3.90	3.80
10-year	4.39	4.16	4.30	4.75	4.80	4.55	4.35	4.25	4.15	4.10	4.10	4.15
New Zealand												
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 | March 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*	2.1	-0.9	2.4	-0.6	1.3	1.7	1.8	1.5	1.3	1.3	1.5	1.7	1.7	1.1	1.5
United States*	-0.6	3.8	4.4	1.4	1.7	1.5	1.7	1.8	1.8	1.9	1.9	1.8	2.2	2.1	1.8
United Kingdom	0.7	0.2	0.1	0.1	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.4	1.3	1.0	1.5
Euro area	0.6	0.1	0.3	0.2	0.3	0.5	0.5	0.4	0.3	0.3	0.2	0.3	1.5	1.3	1.5
Australia	0.4	0.8	0.5	0.8	0.6	0.5	0.5	0.5	0.7	0.7	0.5	0.5	2.0	2.4	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	2025	2026	2027
Canada	2.3	1.8	2.0	2.2	2.3	2.8	2.4	2.2	2.0	1.8	1.9	2.0	2.1	2.4	1.9
United States	2.7	2.4	2.9	2.7	2.6	3.2	2.9	2.8	2.4	2.1	2.1	2.1	2.7	2.9	2.2
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	3.4	2.5	2.3
Euro area	2.3	2.0	2.1	2.1	2.0	2.7	2.6	2.6	2.3	2.2	2.2	2.2	2.1	2.5	2.2
Australia	2.4	2.1	3.2	3.6	3.8	4.2	3.5	3.6	3.2	2.8	2.8	2.7	2.8	3.8	2.9

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

Currency outlook | March 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								
EUR/USD	1.08	1.18	1.17	1.17								
GBP/USD	1.29	1.37	1.34	1.34					To be released			
USD/JPY	150	144	148	157								
AUD/USD	0.62	0.66	0.66	0.67								

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								
GBP/CAD	1.86	1.87	1.88	1.84								
CAD/JPY	104	106	106	114					To be released			
AUD/CAD	0.90	0.89	0.92	0.91								

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

For more information please visit:



[rbc.com/en/economics](https://www.rbc.com/en/economics)



[linkedin.com/company/rbc-economics](https://www.linkedin.com/company/rbc-economics)

The material contained in this report is the property of Royal Bank of Canada and may not be reproduced in any way, in whole or in part, without express authorization of the copyright holder in writing. The statements and statistics contained herein have been prepared by RBC Economics Research based on information from sources considered to be reliable. We make no representation or warranty, express or implied, as to its accuracy or completeness. This publication is for the information of investors and business persons and does not constitute an offer to sell or a solicitation to buy securities.

®Registered trademark of Royal Bank of Canada.

©Royal Bank of Canada.
