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Economics

MORTGAGE RATE FORECAST



October 2026

HIGHLIGHTS

- Rising inflation risk has pushed yields higher and could drive the five-year fixed mortgage rate to above 5 per cent.
- The economy rebounded strongly in the second quarter, but growth is expected to slow as tariffs weigh on exports and add modest inflation pressure.
- Our baseline for the Bank of Canada overnight rate remains unchanged through 2026, but the risk of earlier rate hikes has increased if energy prices and inflation expectations continue to rise.

Mortgage Rate Outlook

The outlook for Canadian mortgage rates has shifted significantly over the past month. What had previously looked like a period of relative calm has been disrupted by yet another rise in global oil prices and renewed trade tension between the United States and Canada.

Higher oil prices resulting from the ongoing conflict with Iran and its consequences for global oil production and shipping are pushing global inflation expectations higher. As a result, expectations for central bank easing have largely disappeared. The US Federal Reserve has resumed tightening policy and signaled that additional rate increases may be required, while financial markets increasingly expect the Bank of Canada may face similar pressure if inflation continues to rise.

Added to those challenges, a new set of tariffs on Canadian exports to the US has gone into effect following a breakdown of trade negotiations.

The new tariffs affect about $28 billion of Canadian goods, and Canada has responded with a similar value of tariffs on imports from the US. The net effect is likely to be slower economic growth and modestly higher inflation on both sides of the border.

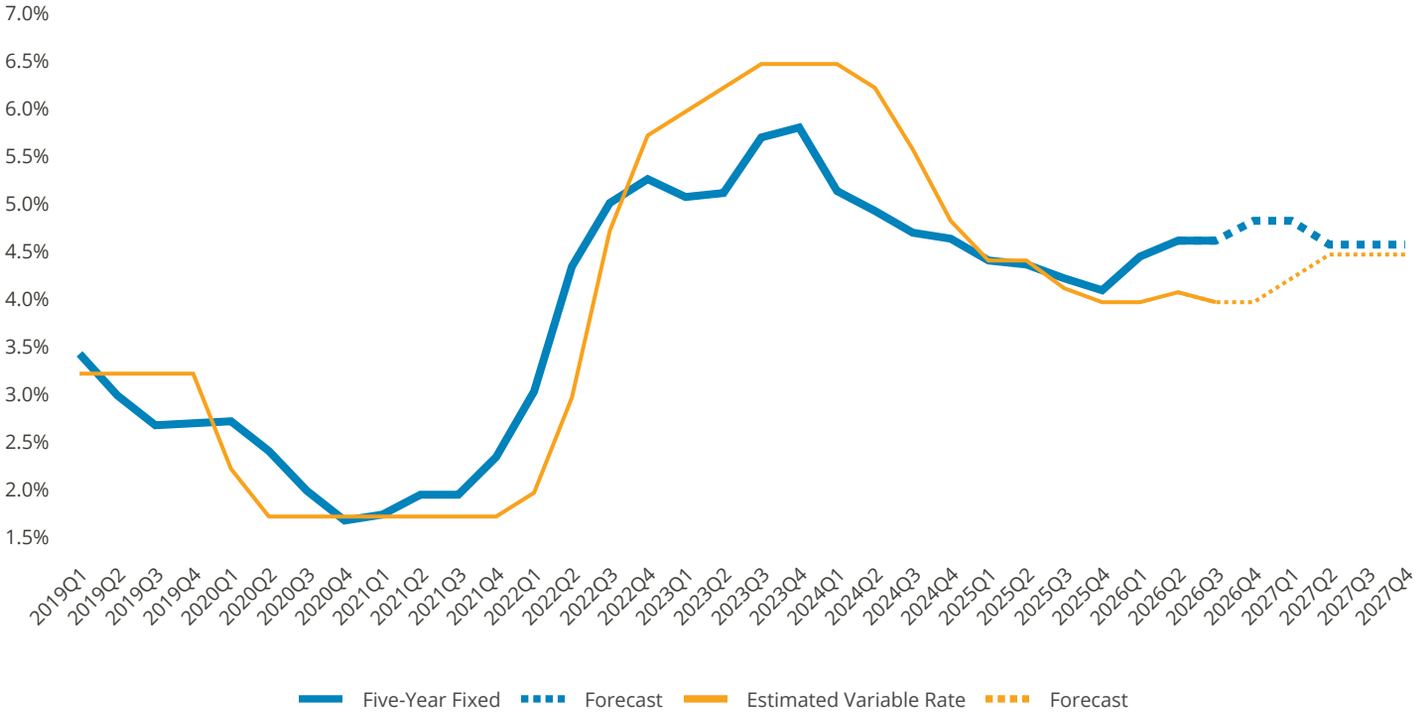
Amidst these trends, Canadian five-year bond yields have soared to a multi-year high near 3.7 per cent, which if sustained could mean a significant jump in five-year fixed mortgage rates, potentially to above 5 per cent.

Our baseline for the Bank of Canada's overnight rate is still two rate increases in 2027, to bring it back to the mid-point of what the Bank considers neutral for the economy. That would provide some insurance against higher inflation, while also not over-tightening in the face of trade uncertainty.

Mortgage Rate Forecast

	2026				2027			
Term	**Q1**	**Q2**	**Q3**	**Q4F**	**Q1F**	**Q2F**	**Q3F**	**Q4F**
Variable Rate	4.1	4.2	4.1	4.1	4.35	4.6	4.6	4.6
Five-Year Qualifying Rate	6.6	6.75	6.75	6.95	6.95	6.7	6.7	6.7
Five-Year Average Discounted Rate (Uninsured)	4.6	4.75	4.75	4.95	4.95	4.7	4.7	4.7

Forecast: Five-Year Fixed (Uninsured) and Variable Rate



Source: Ratehub; BCREA Economics

Economic Outlook

The Canadian economy roared back to life in the second quarter, posting annualized growth of 3.3 per cent, its highest level since the third quarter of 2024. That outsized growth was coupled with an upward revision to the previous quarter, erasing what was a technical recession of consecutive quarters of negative growth. Moreover, second quarter GDP growth was relatively broad based, although a significant portion of it reflected a rebound in exports that will likely fade through the second half of the year, particularly given the small but not immaterial impact of the new tariffs on exports to the US.

We estimate that the impact of US tariffs on Canadian GDP growth will be around 0.2 percentage points (annualized) this year and around 0.4 percentage points next year. That's not insignificant, particularly for the manufacturing sector upon which most of the tariffs have been levied, but not enough to imperil the broad economy. Canada's response to those tariffs will likely add between 0.2 and 0.3 percentage points to inflation.

Given those headwinds, we forecast that the Canadian economy will grow just 1 per cent this year, and 1.5 per cent next year, assuming that trade negotiations resume and the full estimated drag on growth from tariffs is not realized.

Bank of Canada Outlook

Up until a few weeks ago, the Bank of Canada's rate trajectory looked predictable. Despite a rise in CPI inflation, Canadian core inflation remains tame and well behaved near 2 per cent. Markets and most economists expected the Bank to leave the overnight rate unchanged for the remainder of 2026 before raising it back to 2.75 per cent in 2027 as the economy stabilized and inflation returned to its 2 per cent target. However, the Bank of Canada's job got considerably more difficult over the past month as oil prices and global bond yields rocketed higher, and the Canada-US trade war escalated.

Given that current inflation pressures are being driven largely by external factors, a natural question is why the Bank of Canada would consider raising interest rates at all. After all, an oil supply shock originating from conflict in the Middle East is beyond the Bank's control, and higher interest rates cannot increase global oil production. Why slow down the broader economy instead of looking through a shock it does not have the tools to respond to directly?

The textbook answer is that the more prolonged the rise in energy prices, the greater the risk that a relative price shock becomes a broader price shock. Over time, higher energy costs begin to feed into transportation costs, consumer prices, wage demands, and inflation expectations. Eventually, you have a spiral in prices that requires more aggressive tightening than if the central bank had acted sooner.

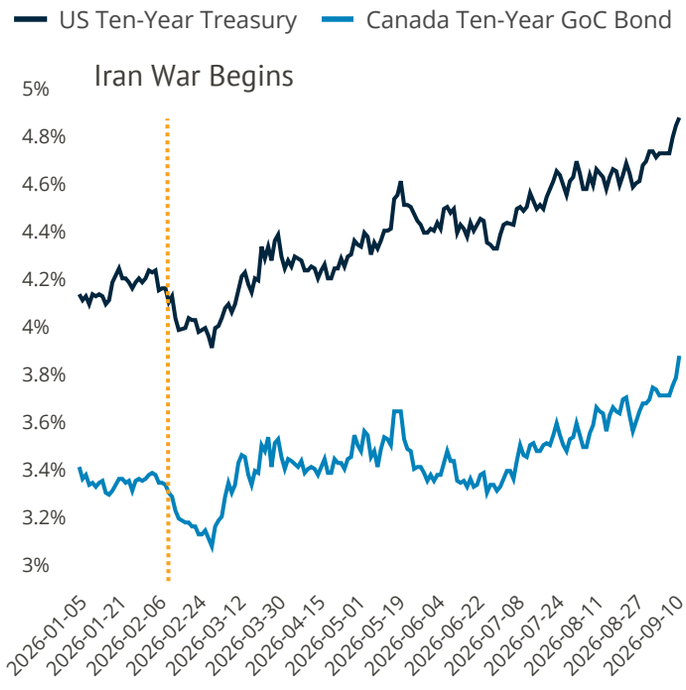
Given the total unpredictability of when the war in Iran may end, it is hard to say how long energy prices will be elevated. Our baseline is that the Bank of Canada will leave its policy rate at 2.25 per cent through the end of 2026, but there is a strong probability it may opt for some insurance against higher inflation by raising it back to 2.75 earlier than expected.

Renewed Pressure on Inflation and Interest Rates

Oil Prices Are Back on the Rise



Long-Term Interest Rates Higher



Source: Bank of Canada; St. Louis Federal Reserve



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