

Essentials of Monetary Policy

The Bank Sets Up to Start Knocking Rates Down

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According to the BoC

As was widely expected, the Bank of Canada held the overnight policy rate at 5.00% today, where it's remained since the July 2023 rate decision.

Most importantly, the Bank opened the door to its next move being a cut, seemingly in the not-too-distant future. According to Governor Tiff Macklem's Press Conference Opening Statement, "What do we need to see to be convinced it's time to cut? The short answer is we are seeing what we need to see, but we need to see it for longer to be confident that progress toward price stability will be sustained. The further decline we've seen in core inflation is very recent. We need to be assured this is not just a temporary dip."

In support of this more dovish turn, the Bank revised down its outlook for CPI inflation. This had to happen in the near term, as the inflation has come in below 3% y/y in the first two months of 2024, averaging 2.8% versus the Bank's prior forecast of 3.2% for Q1 (graph 1). The Bank now expects inflation to average 2.6% for all of 2024 versus 2.8% in the January 2024 Monetary Policy Report (MPR), ending the year at 2.2%. In 2025, the inflation projection was left unchanged at 2.2%.

Complementing the softer inflation outlook were mixed revisions to the real GDP growth forecast (graph 2). In the near term, it was inevitable that the

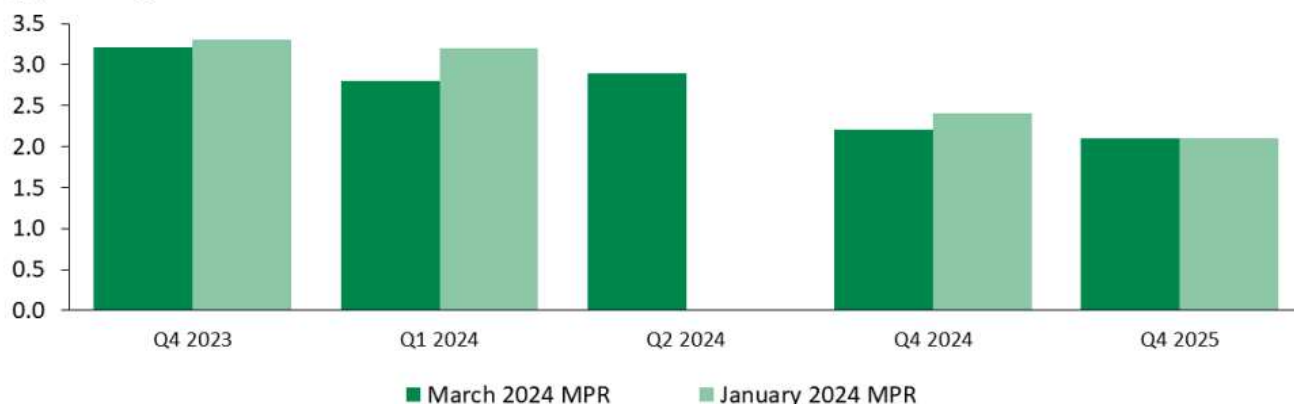
Bank was going to have to revise up growth, as the data have been coming in too hot to ignore. Not only did the second half of 2023 come in better than expected, but the Q1 2024 tracking is much higher than previously projected (2.8% annualized versus 0.5%). As a result, the 2024 real GDP growth outlook was revised up from 0.8% to 1.5%. However, further out in the forecast, things are not quite so rosy. In 2025, growth was revised down to 2.2% from 2.4% in the January 2024 MPR. Part of this reflects the federal government's recently announced plans to cap the share of non-permanent residents in the population. Our [analysis](#) suggests this could weigh heavily on real GDP growth going forward, albeit less so on inflation.

It should be noted that the Bank also adjusted its estimate of the neutral rate of interest—the appropriate policy rate when inflation is at target and real GDP is at its trend level—slightly higher in today's announcement, from 2.5% to 2.75%. With the policy rate unchanged, that suggests monetary policy may not be quite as restrictive as was earlier believed.

Graph 1 Inflation is Falling Faster than the Bank of Canada Expected

Bank of Canada Consumer Price Index (CPI) inflation forecasts

y/y % change



MPR: Monetary Policy Report

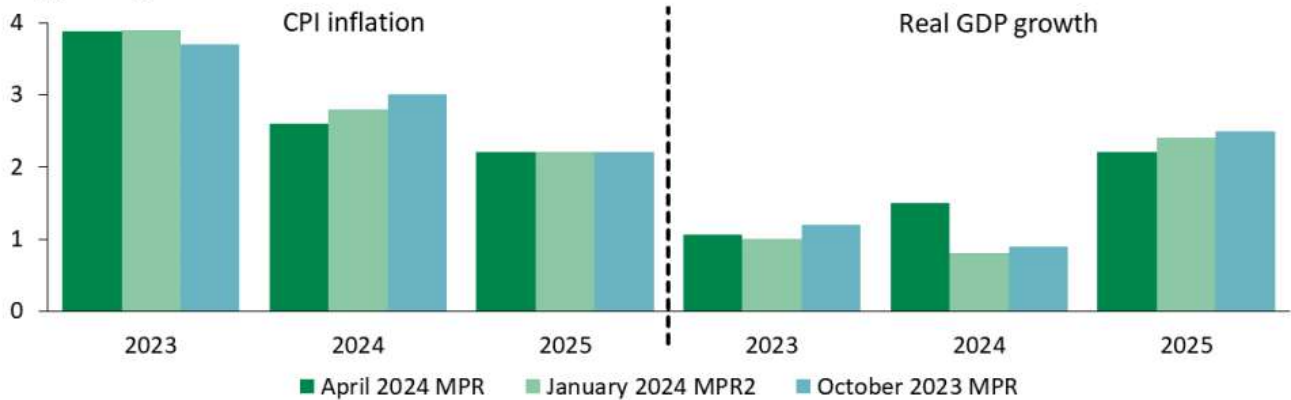
Bank of Canada, Statistics Canada and Desjardins Economic Studies

GRAPH 2

The Bank Reduced Its Inflation Forecast but Revisions to Growth Were More Mixed

Bank of Canada CPI inflation and real GDP growth forecasts

% y/y change



MPR: Monetary Policy Report

Bank of Canada and Desjardins Economic Studies

Implications

While keeping rates steady, as expected, the Bank's openness to lower rates left little doubt what's coming. The only question is when. The Governor observed that policymakers will track various inflation indicators "in the months ahead," but suggested that their confidence in the disinflation process has continued to increase. As a result, we remain of the view that rate cuts will begin at the upcoming June meeting. Rates should move steadily lower thereafter as inflation gradually cools, while ongoing mortgage renewals and a slower pace of population growth weigh on economic activity.



2024 Schedule of Central Bank Meetings

Central bank	Decision	Rate
January		
11 Bank of Korea	unchanged	3.50
23 Bank of Japan	unchanged	-0.10
24 Bank of Canada*	unchanged	5.00
25 European Central Bank	unchanged	4.50
25 Bank of Norway	unchanged	4.50
31 Bank of Brazil	unchanged	11.25
31 Federal Reserve	unchanged	5.50
February		
1 Bank of England	unchanged	5.25
1 Bank of Sweden	unchanged	4.00
5 Reserve Bank of Australia	unchanged	4.35
8 Bank of Mexico	unchanged	11.25
21 Bank of Korea	unchanged	3.50
27 Reserve Bank of New Zealand	unchanged	5.50
March		
6 Bank of Canada	unchanged	5.00
7 European Central Bank	unchanged	4.50
18 Reserve Bank of Australia	unchanged	4.35
19 Bank of Japan	+20 b.p.	0.10
20 Bank of Brazil	-50 b.p.	10.75
20 Federal Reserve	unchanged	5.50
21 Bank of England	unchanged	5.25
21 Bank of Norway	unchanged	4.50
21 Bank of Mexico	-25 b.p.	11.00
21 Swiss National Bank	-25 b.p.	1.50
27 Bank of Sweden	unchanged	4.00
April		
9 Reserve Bank of New Zealand	unchanged	5.50
10 Bank of Canada*	unchanged	5.00
11 European Central Bank		
11 Bank of Korea		
26 Bank of Japan		
May		
1 Federal Reserve		
3 Bank of Norway		
7 Reserve Bank of Australia		
8 Bank of Sweden		
8 Bank of Brazil		
9 Bank of England		
9 Bank of Mexico		
21 Reserve Bank of New Zealand		
22 Bank of Korea		
June		
5 Bank of Canada		
6 European Central Bank		
12 Federal Reserve		
14 Bank of Japan		
18 Reserve Bank of Australia		
19 Bank of Brazil		
20 Bank of England		
20 Bank of Norway		
20 Swiss National Bank		
27 Bank of Sweden		
27 Bank of Mexico		

Central bank	Decision	Rate
July		
9 Reserve Bank of New Zealand		
10 Bank of Korea		
18 European Central Bank		
24 Bank of Canada*		
31 Bank of Brazil		
31 Bank of Japan		
31 Federal Reserve		
August		
1 Bank of England		
6 Reserve Bank of Australia		
8 Bank of Mexico		
13 Reserve Bank of New Zealand		
15 Bank of Norway		
20 Bank of Sweden		
21 Bank of Korea		
September		
4 Bank of Canada		
12 European Central Bank		
18 Bank of Brazil		
18 Federal Reserve		
19 Bank of England		
19 Bank of Norway		
20 Bank of Japan		
24 Reserve Bank of Australia		
25 Bank of Sweden		
26 Bank of Mexico		
26 Swiss National Bank		
October		
8 Reserve Bank of New Zealand		
10 Bank of Korea		
17 European Central Bank		
23 Bank of Canada*		
31 Bank of Japan		
November		
4 Reserve Bank of Australia		
6 Bank of Brazil		
7 Bank of England		
7 Bank of Norway		
7 Bank of Sweden		
7 Federal Reserve		
14 Bank of Mexico		
26 Reserve Bank of New Zealand		
27 Bank of Korea		
December		
9 Reserve Bank of Australia		
11 Bank of Brazil		
11 Bank of Canada		
12 European Central Bank		
12 Swiss National Bank		
18 Federal Reserve		
19 Bank of England		
19 Bank of Norway		
19 Bank of Sweden		
19 Bank of Japan		