C.D. Howe Institute Monetary Policy Council to Bank of Canada: Hold Overnight Rate at 5.00 Percent until January, Cut to 4.00 Percent by End of 2024

November 30, 2023 – The C.D. Howe Institute's **Monetary Policy Council** (MPC) recommends that the Bank of Canada maintain its target for the overnight rate, its benchmark policy interest rate, at 5.00 percent at its next announcement on December 6th. The MPC further recommends that the Bank keep the target at 5.00 percent in January 2024, before reducing it to 4.75 percent by June of 2024 and to 4.00 percent by December of 2024.

The MPC provides an independent assessment of the monetary stance consistent with the Bank of Canada's 2 percent inflation target. **William Robson**, the Institute's CEO, chairs the Council. Council members make recommendations for the Bank of Canada's upcoming interest-rate announcement, the subsequent announcement, and the announcements six months and one year ahead. The Council's formal recommendation for each announcement is the median vote of members attending the meeting.

The call for an unchanged overnight rate target next week was almost unanimous, with 10 of the 11 MPC members attending the meeting calling for a target of 5.00 percent, while one voted for a reduction to 4.75. For the following setting in January, one more member voted for a reduction, with the remaining nine voting for an unchanged target of 5.00 percent. By June of 2024, the majority of members voted for a lower target: three called for a target of 5.00 percent, four for a target of 4.75, and the other four for targets between 4.00 and 4.50 percent. By December of 2024, all members called for a lower overnight rate, with the recommendations ranging between 3.50 and 4.50 percent (see table below).

The Council also offers a view on whether the Bank should accelerate, maintain or slow the planned reduction in its holdings of Government of Canada bonds. The Bank of Canada's current policy is to buy nothing and let its holdings shrink as the bonds mature. Nine of the 11 members attending the meeting called for the Bank to maintain that schedule, while one called for the Bank to slow it – that is, buy bonds to replace at least part of those that will mature – and one called for the Bank to accelerate the reduction in its holdings.

The group's recommendation for no change in the overnight rate target at the next two settings, followed by reductions through 2024, reflected a mix of caution about the near-term stickiness of inflation and confidence that monetary restraint to date and a softening economy will produce inflation much closer to the Bank's 2 percent target by 2025. Members who leaned toward near-term caution cited recent monthly CPI readings as evidence of more price pressure than suggested by falling year-over-year rates, and emphasized that wage settlements have been high. Looking further out, however, the group was satisfied that excess demand in the Canadian economy is dissipating – the national accounts numbers for the third quarter of 2023 showed widespread weakness in private-sector activity, notwithstanding rapid population growth – and that forward-looking indicators such as consumer credit and the monetary aggregates are signaling further weakness and continued declines in inflation.

Among the points highlighted in the discussion was evidence of disinflation abroad, with several members emphasizing declining CPI readings in Europe and lower price pressures in goods markets generally as indicating an improving global balance of supply and demand. With respect to wage pressures, the group generally felt that recent wage gains reflect catch-up to past price increases, and that increases in population and job vacancies prefigure a much less tight labour market in 2024.

The group also devoted considerable attention to the impacts of higher interest rates to date on the housing market and mortgage holders. A number of factors complicate predictions of future house sales, mortgage lending and consumer spending. Some of the bank economists in the group emphasized the heterogeneity of mortgage maturities, terms and conditions, as well as the number of households with healthy bank deposits and spending patterns that do not show evidence of financial distress. Some MPC members thought that a lower overnight rate would trigger a quick rebound in the housing market. On balance, however, caution about mortgage-related stress led many in the group to lean toward more substantial reductions in the policy rate over the next year.

Votes of MPC Members and the Council Median for Each Announcement (*percent*)					
MPC Members	**6 December, 2023**	**24 January, 2024**	**5 June, 2024**	**11 December, 2024**	**Reduction in Bond Holdings**
Steve Ambler Université du Québec à Montréal (UQAM)	5.00	4.75	4.25	4.00	Maintain
Beata Caranci TD Bank Group	5.00	5.00	4.50	3.50	Maintain
Ted Carmichael Ted Carmichael Global Macro	5.00	5.00	5.00	4.50	Maintain
Stéfane Marion National Bank of Canada	5.00	5.00	4.75	4.00	Slow
Angelo Melino University of Toronto	5.00	5.00	5.00	4.50	Accelerate
Jean-François Perrault Scotiabank	5.00	5.00	4.75	4.00	Maintain
Luba Peterson Simon Fraser University	5.00	5.00	4.75	4.25	Maintain
Doug Porter BMO Capital Markets	5.00	5.00	5.00	4.50	Maintain
Avery Shenfeld CIBC	5.00	5.00	4.75	3.50	Maintain
Stephen Williamson Western University	4.75	4.50	4.00	3.50	Maintain
Craig Wright RBC	5.00	5.00	4.50	4.00	Maintain
Median Vote	5.00	5.00	4.75	4.00	Maintain

The views and opinions expressed by the participants are their own and do not necessarily reflect the views of the organizations with which they are affiliated, or those of the C.D. Howe Institute. Forecasters' recommendations may differ from their predictions.

The MPC's next vote will take place on January 18, 2024, prior to the Bank of Canada's overnight rate announcement on January 24.

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Contact: Mawakina Bafale; e-mail: mbafale@cdhowe.org.