

May 30, 2024

C.D. Howe Institute Monetary Policy Council Calls for Bank of Canada to Lower Overnight Rate to 4.75 Percent, Cut to 3.50 Percent by June 2025

May 30, 2024 – The C.D. Howe Institute’s **Monetary Policy Council** (MPC) calls for the Bank of Canada to lower its target for the overnight rate, its benchmark policy interest rate, to 4.75 percent at its next announcement on June 5th. The MPC further calls for the Bank to lower the target to 4.50 at the following announcement in July, on the way to a target of 3.50 percent by June of 2025.

The MPC provides an independent assessment of the monetary stance consistent with the Bank of Canada’s 2 percent inflation target. **Jeremy Kronick**, the Institute’s Associate Vice President and Director of the Centre on Financial and Monetary Policy chaired this meeting. MPC members make recommendations for the Bank of Canada’s target for the overnight rate at its upcoming 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 vote to recommend lowering the Bank’s overnight rate target at next week’s interest-rate setting was consistent with the longer-term direction of the Council’s recommendations, indicating their assessment that Canadian inflation is likely to return to the 2 percent target, and that a lower overnight rate will be appropriate over time. Seven of the 12 MPC members attending the meeting voted for a target of 4.75 percent next week, while five voted to leave the target at 5.00 percent. For the July setting, the vote was split with six members voting for 4.75 percent, including all those who voted to remain at 5.00 percent in June, and six members voting for 4.50 percent. By December, half of the members voted to lower the overnight rate to 4 percent, with all but one of the remaining members voting for 4.25 percent. By June of 2025, all but one member voted for an overnight rate target below 4 percent, with the votes of these members ranging from 3.25-3.75 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. Eleven of the 12 members called for the Bank to maintain its schedule between now and its July overnight-rate announcement. One member called for the Bank to accelerate that schedule.

On balance, MPC members felt that the data were indicative of a successful fight against inflation, and a cut at the Bank’s interest-rate setting next week was appropriate. Year-over-year headline and core inflation measures were within the Bank’s 1-3 percent target range and trending downward. The shorter-term measures, e.g., 3-month inflation, were even stronger. And, when shelter costs were removed from

May 30, 2024

the CPI, inflation was at the bottom end of the target range. The strength of the Canadian economy in the first quarter of 2024 was driven by robust growth in January, and momentum was slowing for the handoff to the second quarter. Members also discussed the slackening of the labour market, with the unemployment rate rising over much of the past year and job vacancies continuing to fall.

Despite this evidence, members noted a number of areas for concern, which might slow the pace of rate cuts. The US economy continues to remain robust. While some divergence between the Bank and the Federal Reserve is appropriate and warranted, there is a limit, members observed. The most recent data from the Survey of Employment, Payroll, and Hours, released the day of the meeting, indicated upward pressure on earnings, which could pass through to prices. Members noted that, despite goods price growth slowing, services price growth remains buoyant. Added to that, fiscal policy will continue to create demand-side stimulus. Lastly, members highlighted the surge in population over the last number of months, and, while this affects both demand and supply, creating offsetting pressures, it affects the former first, continuing to put upward momentum on prices.

Given these areas of concern, and differing views on the part of members of this Council, the discussion focused on the significance of communication on the part of the Bank. Members argued this communication should focus on the importance of data dependence as the rate-cutting cycle begins.

May 30, 2024

Votes of MPC Members and the Council Median for Each Announcement (*percent*)

MPC Members	June 5, 2024	July 24, 2024	Dec 5, 2024	June, 2025	Reduction in Bond Holdings
Steve Ambler Université du Québec à Montréal (UQAM)	4.75	4.50	4.00	3.50	Maintain
Beata Caranci TD Bank Group	5.00	4.75	4.25	3.50	Maintain
Ted Carmichael Ted Carmichael Global Macro	5.00	4.75	4.50	4.25	Maintain
Michael Devereux University of British Columbia	4.75	4.50	4.00	3.50	Maintain
Stéfane Marion National Bank of Canada	5.00	4.75	4.25	3.75	Maintain
Angelo Melino University of Toronto	4.75	4.50	4.25	3.50	Accelerate
Jean-François Perrault Scotiabank	5.00	4.75	4.25	3.50	Maintain
Luba Peterson Simon Fraser University	5.00	4.75	4.00	3.75	Maintain
Doug Porter BMO Capital Markets	4.75	4.75	4.25	3.75	Maintain
Avery Shenfeld CIBC	4.75	4.50	4.00	3.25	Maintain
Stephen Williamson Western University	4.75	4.50	4.00	3.50	Maintain
Craig Wright RBC	4.75	4.50	4.00	3.75	Maintain
Median Vote	4.75	4.50	4.25	3.50	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 July 18, 2024, prior to the Bank of Canada's overnight rate announcement on July 24.

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