C.D. Howe Institute Monetary Policy Council Calls for Bank of Canada to Lower Overnight Rate to 4.50 Percent, Cut to 3.25 Percent by July 2025

July 18, 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 4.50 percent at its next announcement on July 24th. The MPC further calls for the Bank to lower the target to 4.25 at the following announcement in September, on the way to a target of 3.25 percent by July of 2025.

The MPC provides an independent assessment of the monetary stance consistent with the Bank of Canada's 2 percent inflation target. MPC co-chair, **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.

Nine of the ten MPC members attending the meeting voted for a target rate of 4.50 percent next week, while one voted to leave the target at 4.75 percent. For the September setting, seven of the ten members voted to lower the overnight rate target to 4.25 percent, with three voting for 4.50 percent. By January of next year, five members voted to lower the overnight rate to 4.00 percent, four voted to lower it further to 3.75 percent, with the remaining member voting for 4.25 percent. By July 2025, all but one member voted for an overnight rate target below 4 percent, with the votes of these members ranging from 3.00-3.50 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 ten members called for the Bank to maintain its schedule between now and its September overnight rate announcement. One member called for the Bank to accelerate that schedule.

Members began with a discussion of the economic data released since the Council's last meeting. Headline inflation, after surprisingly increasing in May, shrank in June to 2.7 percent, and continues to follow a longer-term downward trend. This slowing in price growth back towards the 2 percent target is consistent with softness in economic growth and in labour markets. The most recent GDP numbers indicated an economy likely to stall out in May, and GDP per capita has now fallen in six out of the last seven quarters. The unemployment rate has also increased to 6.4 percent after being as low as 4.8 percent in the early stages of the recent tightening cycle.

Members mentioned counterbalancing upside risks to inflation. Core inflation measures remain stubbornly high, including the Bank's CPI-Trim, which, at 2.9 percent, is barely within the Bank's 1-3 percent range. Wage growth remains strong, increasing over the last two months from 4.7 percent in April to 5.4 percent in June.

Members also debated the impact of further rate cuts on the housing market. Some felt there was a lot of pent-up demand and despite the last cut not causing a significant rebound in the housing market, further rate cuts might do so. Others argued that the mortgage qualifying rate has not markedly come down, meaning a 25-basis-point cut was unlikely to have much of an impact. Others discussed the degree to which a rebound in house prices – an asset – was necessarily a concern for an inflation-targeting central bank that targets a CPI basket of goods and services.

Lastly, members discussed some medium-term concerns that matter when considering where inflation is headed six to eight quarters ahead. Geopolitical risks, including elections in Europe and, most notably, the upcoming election in the US, were top of mind. Some members pointed out that these elections could lead to increased inflation through more promised government spending and the reversal of globalization. Others countered that keeping the overnight rate elevated at home would weaken the economy as it faces these challenges.

On balance, members felt that the data supported a continuation of the rate-cutting cycle the Bank began in June. Members agreed that the debate continues to be how far and fast it should proceed.

Votes of MPC Members and the Council Median for Each Announcement (*percent*)					
MPC Members	**July 24, 2024**	**Sept 4, 2024**	**Jan. 2025**	**July 2025**	**Reduction in Bond Holdings**
Steve Ambler Université du Québec à Montréal (UQAM)	4.50	4.25	3.75	3.50	Maintain
Ted Carmichael Ted Carmichael Global Macro	4.75	4.50	4.25	4.00	Maintain
Michael Devereux University of British Columbia	4.50	4.25	3.75	3.25	Maintain
Robert Hogue Royal Bank of Canada	4.50	4.25	4.00	3.25	Maintain
Stéfane Marion National Bank of Canada	4.50	4.50	3.75	3.00	Maintain
Angelo Melino University of Toronto	4.50	4.50	4.00	3.25	Accelerate
Jean-François Perrault Scotiabank	4.50	4.25	4.00	3.25	Maintain
Luba Petersen Simon Fraser University	4.50	4.25	4.00	3.50	Maintain
Avery Shenfeld CIBC	4.50	4.25	4.00	3.25	Maintain
Stephen Williamson Western University	4.50	4.25	3.75	3.00	Maintain
Median Vote	4.50	4.25	4.00	3.25	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 August 29, 2024, prior to the Bank of Canada's overnight rate announcement on September 4.

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