C.D. Howe Institute Monetary Policy Council Calls for Bank of Canada to Cut Overnight Rate to 4.25 Percent Next Week and to 3.00 Percent in a Year

August 29, 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 4.25 percent at its next announcement on September 4th. The MPC further calls for the Bank to lower the target to 4.00 percent at the following announcement in October and to 3.00 percent by September 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, **William Robson**, the Institute's President and CEO, 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.

All 11 of the MPC members favoured reductions in the overnight rate over time, with debate in the meeting focusing on the speed of reductions in the short term and the appropriate level of the rate in the longer term. Ten of the 11 voted for a target rate of 4.25 percent next week, with one voting to leave the target at 4.50 percent until the following setting in October, by which time the other members favoured a target of 4.00 percent. By March of 2025, six members favoured 3.50 percent, with three lower than that and two above it. By September of 2025, most members favoured a rate close to 3 percent, although one favoured 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. Ten of the 11 members called for the Bank to maintain that schedule between now and its October overnight rate announcement. One member called for the Bank to accelerate that schedule, noting that the Bank should sell its holdings of Real Return Bonds.

The support for a lower overnight rate target over time reflected MPC members' confidence that inflation in Canada is trending back to the Bank of Canada's target. A key theme in the discussion was the fact that total CPI inflation and various "core" and other measures of inflation have declined by more than the overnight rate, which was already high enough, in real terms, to produce a disinflationary output gap. As evidence that spending and output in Canada are below the economy's productive capacity, and that inflation is on its way back to target, many members cited the soft housing market, restrained consumer spending, and the rising unemployment rate. The group noted some risks to an early return to

2 percent inflation, such as a potential rebound in housing as interest rates come down and increases in unit labour costs resulting from rising wages alongside stagnant or falling productivity, but the consensus was that inflation was falling fast enough to justify substantial cuts in the overnight rate in the near future.

In debating the size of potential near-term cuts in the overnight rate, some members said that a cut to 4.00 percent next week might make sense, if not for the difficulty the Bank of Canada might have in explaining such a move to observers who interpreted it as a sign that the Bank was worried about recession. Others were cautious because of difficulties in interpreting recent numbers, notably with respect to the labour market, since surging population growth has been critical in pushing the unemployment rate up, and it is not clear if and when the federal government's announcements about slowing immigration will result in material changes.

In discussing the appropriate level of the overnight rate in a year's time, many members expressed concerns about the Canadian economy's growth potential, noting weak productivity, low investment, and external threats – notably US protectionism. Several members said their votes for the overnight rate in September 2025 reflected judgements that slow growth implied a lower neutral overnight rate than appears in Bank of Canada statements.

Votes of MPC Members and the Council Median for Each Announcement (*percent*)					
MPC Members	**Sept 4, 2024**	**Oct 23, 2024**	**March 12, 2025**	**Sept 17, 2025**	**Reduction in Bond Holdings**
Steve Ambler Université du Québec à Montréal (UQAM)	4.25	4.00	3.50	3.25	Maintain
Beata Caranci TD Bank Group	4.25	4.00	3.25	2.75	Maintain
Ted Carmichael Ted Carmichael Global Macro	4.50	4.25	4.00	3.75	Maintain
Michael Devereux University of British Columbia	4.25	4.00	3.50	3.00	Maintain
Frances Donald RBC	4.25	4.00	3.50	3.00	Maintain
Stéfane Marion National Bank of Canada	4.25	4.00	3.25	2.75	Maintain
Angelo Melino University of Toronto	4.25	4.00	3.75	3.25	Accelerate
Jean-François Perrault Scotiabank	4.25	4.00	3.50	3.25	Maintain
Doug Porter BMO Capital Markets	4.25	4.00	3.50	3.00	Maintain
Avery Shenfeld CIBC	4.25	4.00	3.25	2.75	Maintain
Stephen Williamson Western University	4.25	4.00	3.50	3.00	Maintain
Median Vote	4.25	4.00	3.50	3.00	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 October 17, 2024, prior to the Bank of Canada's overnight rate announcement on October 23, 2024.

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