C.D. Howe Institute Monetary Policy Council Calls for Bank of Canada to Cut Overnight Rate to 3.75 Percent Next Week, 3.00 by Spring, 2.50 Percent in a Year

October 17, 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 3.75 percent at its next announcement on October 23rd. The MPC further calls for the Bank to lower the target to 3.50 percent at the following announcement in December, to 3.00 percent by April of 2025, and to 2.50 percent by October 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.

While all seven of the MPC members attending the meeting recommended a lower overnight rate at the next setting and further out, there were pronounced differences of opinion about the appropriate size of the cuts and the appropriate level of the rate in a year's time. Five of the seven voted for a target rate of 3.75 percent – a 50 basis-point cut from the current target of 4.25 – next week, while two favoured a target of 4.00 percent – a 25 basis-point cut. Looking ahead to December, three members favoured a target of 3.25, two favoured 3.50, and two favoured 3.75. By April of 2025, the range of recommendations was much wider – one member calling for 2.25, one for 3.75, and the others for 2.75 or 3.00 percent. The range of recommendations in a year's time was as wide, ranging from 2.00 percent at the low end to 3.50 at the high end (see table below).

The differences among the MPC members' recommendations reflected differences in their assessments of the outlook for the economy and inflation, as well as differences in their views about how the Bank of Canada should respond to potential developments, notably those affecting the external value of the Canadian dollar.

Members favouring faster cuts in the overnight rate target emphasized that the consumer price index (CPI) was up only 1.6 percent year-over-year in September – below the Bank's 2 percent target – and that removing shelter costs from the CPI, particularly mortgage interest costs, suggested an underlying inflation rate well below that. Those members also tended to think that the Canadian economy is operating well below its productive capacity and that the disinflationary output gap prefigures more undershooting of the inflation target – which might mean that the Bank of Canada will eventually have to target an overnight rate below its longer-term neutral value to stimulate demand and get inflation back to 2 percent.

Members favouring slower cuts in the target emphasized continued evidence of inflationary pressure, including in the Bank of Canada's preferred measures of core inflation and in wages. Those members tended to think that the Canadian economy is operating closer to capacity, citing solid gains in employment particularly, and noting that lower interest rates, continued high immigration, and demand-stimulating changes in mortgage insurance might foster a sudden rebound in the housing market.

Among the uncertainties accounting for the differences in views were those in the external environment. Recent data revisions in the United States raised questions about the strength of the US consumer. There were ongoing concerns about Chinese growth and how disinflationary an influence China will be on the world economy in the months ahead. The US election was also a topic of discussion, with many members seeing a potential Trump victory as negative for the Canadian dollar, but divisions of opinion about whether movements in the exchange rate were relevant for the Bank of Canada's decisions.

As in several recent meetings of the MPC, members expressed uncertainty about the implications of continued high immigration, notwithstanding recent government announcements, for the balance of aggregate supply and demand in Canada. Uncertainty about the current numbers of temporary residents aggravates the challenges of interpreting the labour-market data. Another topic of discussion was Canadian energy policy, which several members mentioned as very discouraging for business investment, with negative implications for demand in the near term, and negative implications for supply in the longer term.

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

	Oct. 23, 2024	Dec. 11, 2024	April 16, 2025	Oct. 29, 2025
Steve Ambler Université du Québec à Montréal (UQAM)	3.75	3.50	3.00	3.00
Beata Caranci TD Bank Group	4.00	3.75	3.00	2.75
Ted Carmichael Ted Carmichael Global Macro	4.00	3.75	3.75	3.50
Frances Donald RBC	3.75	3.25	2.25	2.00
Stéfane Marion National Bank of Canada	3.75	3.25	2.75	2.00
Doug Porter BMO Capital Markets	3.75	3.50	3.00	2.50
Avery Shenfeld CIBC	3.75	3.25	2.75	2.25
Median Vote	3.75	3.50	3.00	2.50

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 December 5, 2024, prior to the Bank of Canada's overnight rate announcement on December 11.

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