C.D. Howe Institute Monetary Policy Council Calls for Bank of Canada to Cut Overnight Rate to 3.50 Percent Next Week, 3.00 by Summer, 2.75 Percent in a Year

December 5, 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 3.50 percent at its next announcement on December 11th. The MPC further calls for the Bank to lower the target to 3.25 percent at the following announcement in January, to 3.00 percent by June of 2025, and to 2.75 percent by December 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 Vice-President, Economic Analysis and Strategy, 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 10 of the MPC members attending the meeting recommended a lower overnight rate at the next setting. However, there were significant differences of opinion about the appropriate size of their recommended cuts, the pace, and where the overnight rate should land in a year's time. Seven of the 10 voted for a target rate of 3.50 percent next week – a 25 basis-point cut from the current target of 3.75 percent – while the three other members favoured a target of 3.25 percent – a 50 basis-point cut. Looking ahead to January, six members favoured a target of 3.25, three favoured 3.00, while one member favoured 3.50 percent. By June of 2025, nine of the 10 members lowered their vote by 25 basis points relative to where they were in January, while the remaining member continued to target 3.50 percent. The range of recommendations in a year's time was 2.50 percent to 3.50 percent, with half the members (five) voting for 2.50 percent, two for 2.75 percent, two for 3.00 percent, and one for 3.50 percent (see table below).

Members were in widespread agreement that the overnight rate should be lowered, though they differed in the size of that decrease at the Bank of Canada's upcoming announcement.

One area of debate was the impact of a threatened 25 percent tariff on Canadian exports from the incoming Trump administration. Some members felt that, like with tariffs imposed during the first Trump administration, most of this threat could be neutralized, and the impact on the economy may not be as severe as expected. Other members were more concerned, noting that the border security issue the incoming administration has highlighted could be used as justification for the across-the-board tariffs they are proposing.

On the tariffs themselves, members debated the extent to which they were inflationary or not. Members pointed out that tariffs act like a negative supply shock on the economy, lowering output and raising inflation. Further, tariffs, once they take hold, tend to be permanent. Others argued that these tariffs will be a big blow to the demand side of the Canadian economy as well, which will have a disinflationary impact.

Members also highlighted a recent revision to Canadian GDP, which increased the size of the economy in previous years. In the Bank's last announcement, it highlighted the excess supply in the domestic economy. Members discussed whether some of this excess supply disappeared as a result of this upward revision. If so, the economy is closer to operating at its potential. However, one member noted that the industries whose productivity had increased as a result of this upward revision were not Canada's more productive industries, raising concern that we might be reading too much into this change. Nevertheless, it muddies the calculation of the economy's potential output, which is a concern for the Bank as they look to get the overnight rate back to neutral.

More generally, members contrasted some of the good news stories for Canada in the latest GDP figures – consumption is up, residential construction is up – with more worrying domestic trends (i.e., beyond tariffs) – poor business investment, weak productivity numbers, GDP per capita down in eight of the last nine quarters. The more promising data might reflect an outsized reaction to some of the Bank's earlier rate cuts, which might prefigure the need for a smaller cut next week. Conversely, the less promising data might prefigure the need to get back to the Bank's neutral range for the overnight rate, currently 2.25-3.25 percent, at a quicker pace. Looking elsewhere, members noted how striking the divergence is between the strength of the US economy and those of the rest of the world. It was unclear whether this would benefit Canada as on the one hand our economy is more aligned with the US', but on the other, at present, this is leading to much of the uncertainty we face

Votes of MPC Members and the Council Median for Each Announcement (*percent*)				
	Dec. 5, 2024	**Jan. 29, 2025**	**June 4, 2025**	**Dec. 10, 2025**
Steve Ambler Université du Québec à Montréal (UQAM)	3.25	3.00	2.75	2.75
Beata Caranci TD Bank Group	3.50	3.25	3.00	2.50
Ted Carmichael Ted Carmichael Global Macro	3.50	3.50	3.50	3.50
Michael Devereux University of British Columbia	3.50	3.25	3.00	2.75
Stéfane Marion National Bank of Canada	3.25	3.00	2.75	2.50
Angelo Melino University of Toronto	3.50	3.25	3.00	3.00
Jean-François Perrault Scotiabank	3.50	3.25	3.00	3.00
Luba Petersen Simon Fraser University	3.50	3.25	2.75	2.50
Doug Porter BMO Capital Markets	3.50	3.25	2.75	2.50
Stephen Williamson Western University	3.25	3.00	2.75	2.50
Median Vote	3.50	3.25	3.00	2.75

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 23, 2025, prior to the Bank of Canada's overnight rate announcement on January 29.

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