

## Essentials of Monetary Policy

# The First Rate Cut May Not Be the Deepest but It Won't Be the Last

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### According to the Bank of Canada (BoC)

As was widely expected, the Bank of Canada cut the overnight policy rate by 25 basis points to 4.75% today. After remaining unchanged at 5.00% since July 2023, this is the first rate cut since the onset of the pandemic in March 2020.

To justify the rate cut, the Bank pointed to progress made on fighting inflation. According to the press release that accompanied the announcement, "With continued evidence that underlying inflation is easing, Governing Council agreed that monetary policy no longer needs to be as restrictive and reduced the policy interest rate by 25 basis points."

In his press statement, Governor Tiff Macklem highlighted four inflation indicators, in particular, that have made material progress: headline CPI inflation; core inflation measured by median and trimmed mean (both year-over-year and on a 3-month moving average basis); and the proportion of CPI components increasing faster than 3%, which is now close to its historical mean. And we think there is room for headline inflation to come in even lower in the near term than Bank's most recent projection (graph 1).

The lower real GDP growth prints at the end of 2023 and beginning of 2024 than the Bank of Canada was projecting also influenced the central bank's decision (graph 2). Governor Macklem cited population gains outpacing hiring as well. This has allowed the supply of workers to catch up with job vacancies, helping still elevated wage growth to moderate gradually.

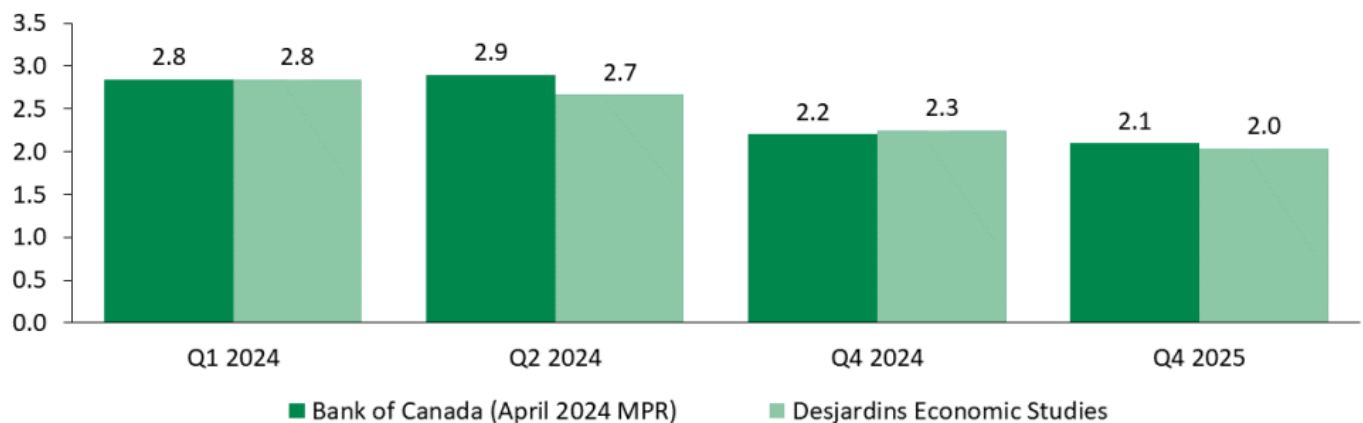
While recent data has increased the Bank's confidence that inflation will continue gradually moving toward its 2% target, risks to the inflation outlook remain. "Governing Council is closely watching the evolution of core inflation and remains particularly focused on the balance between demand and supply in the economy, inflation expectations, wage growth, and corporate pricing behaviour."

## GRAPH 1

### Inflation Is Slowing Faster than the Bank of Canada Expected

#### Bank of Canada Consumer Price Index (CPI) inflation forecasts

y/y % change



MPR: Monetary Policy Report

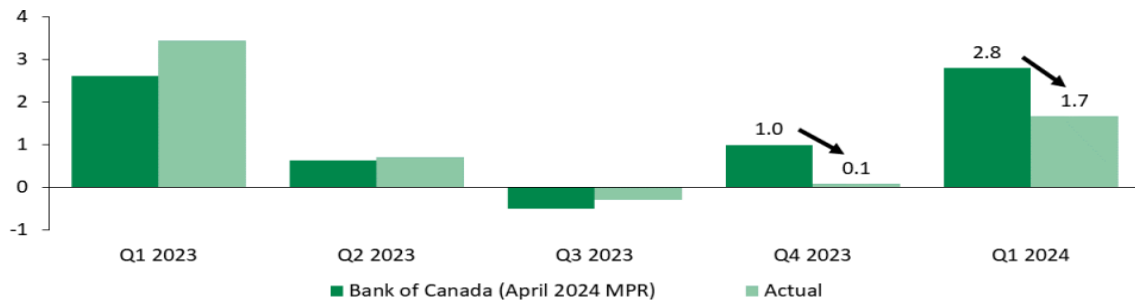
Bank of Canada, Statistics Canada and Desjardins Economic Studies

## GRAPH 2

### 2024 Is Starting Off Weaker than the Bank of Canada Expected

#### Real GDP growth

%, q/q, seasonally adjusted at annual rates



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Statistics Canada, Bank of Canada, and Desjardins Economic Studies

## Implications

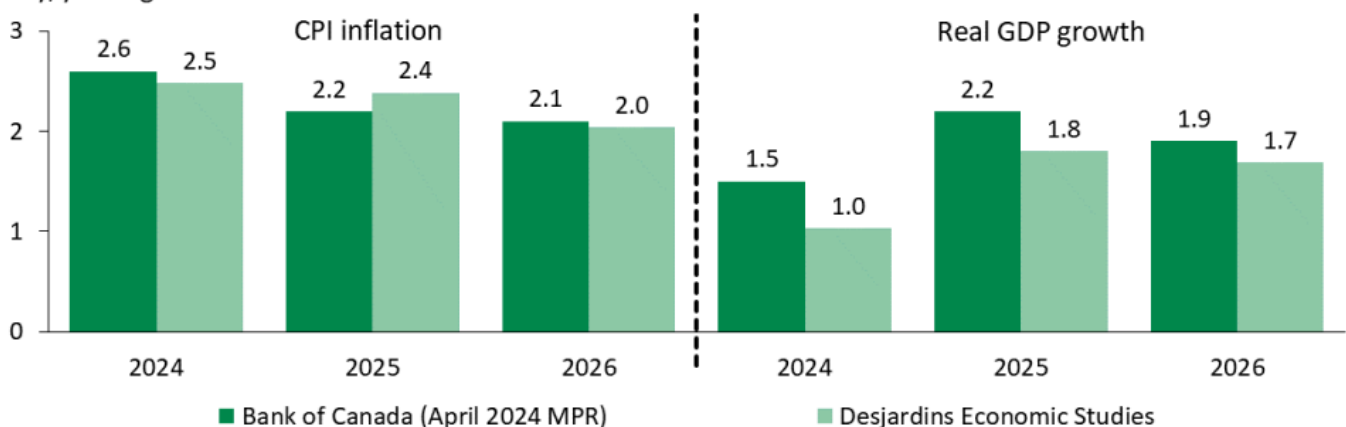
Today's interest rate announcement is no doubt music Canadians' ears. While reducing the policy rate, as expected, the Bank provided guidance to the effect that this cut will only be the first and there will be more to come. Indeed, according to Governor Macklem, "With the economy in excess supply, there is room for growth even as inflation continues to recede." How many rate cuts and how quickly they come will depend heavily on the data continuing to cooperate. Regardless, rates should move gradually lower as ongoing mortgage renewals and a slower pace of population growth weigh on economic activity, potentially to a greater degree than the Bank currently anticipates (graph 3).

## GRAPH 3

### Similar Inflation Forecasts despite Our Weaker Real GDP Outlook

#### CPI inflation and real GDP growth forecasts

% y/y change



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# 2024 Schedule of Central Bank Meetings

Central bank	Decision	Rate
<b>January</b>		
11 Bank of Korea	unchanged	3.50
22 Bank of Japan	unchanged	-0.10
24 Bank of Canada*	unchanged	5.00
25 European Central Bank	unchanged	4.50
25 Bank of Norway	unchanged	4.50
31 Bank of Brazil	unchanged	11.25
31 Federal Reserve	unchanged	5.50

<b>February</b>		
1 Bank of England	unchanged	5.25
1 Bank of Sweden	unchanged	4.00
5 Reserve Bank of Australia	unchanged	4.35
8 Bank of Mexico	unchanged	11.25
21 Bank of Korea	unchanged	3.50
27 Reserve Bank of New Zealand	unchanged	5.50

<b>March</b>		
6 Bank of Canada	unchanged	5.00
7 European Central Bank	unchanged	4.50
18 Reserve Bank of Australia	unchanged	4.35
18 Bank of Japan	+20 b.p.	0.10
20 Bank of Brazil	-50 b.p.	10.75
20 Federal Reserve	unchanged	5.50
21 Bank of England	unchanged	5.25
21 Bank of Norway	unchanged	4.50
21 Bank of Mexico	-25 b.p.	11.00
21 Swiss National Bank	-25 b.p.	1.50
27 Bank of Sweden	unchanged	4.00

<b>April</b>		
9 Reserve Bank of New Zealand	unchanged	5.50
10 Bank of Canada*	unchanged	5.00
11 European Central Bank	unchanged	4.50
11 Bank of Korea	unchanged	3.50
25 Bank of Japan	unchanged	0.10

<b>May</b>		
1 Federal Reserve	unchanged	5.50
3 Bank of Norway	unchanged	4.50
7 Reserve Bank of Australia	unchanged	4.35
8 Bank of Sweden	-25 b.p.	3.75
8 Bank of Brazil	-25 b.p.	10.50
9 Bank of England	unchanged	5.25
9 Bank of Mexico	unchanged	11.00
21 Reserve Bank of New Zealand	unchanged	5.50
22 Bank of Korea	unchanged	3.50

<b>June</b>		
5 Bank of Canada	-25 b.p.	4.75
6 European Central Bank		
12 Federal Reserve		
13 Bank of Japan		
18 Reserve Bank of Australia		
19 Bank of Brazil		
20 Bank of England		
20 Bank of Norway		
20 Swiss National Bank		
27 Bank of Sweden		
27 Bank of Mexico		

Central bank	Decision	Rate
<b>July</b>		
9 Reserve Bank of New Zealand		
10 Bank of Korea		
18 European Central Bank		
24 Bank of Canada*		
30 Bank of Japan		
31 Bank of Brazil		
31 Federal Reserve		

<b>August</b>		
1 Bank of England		
6 Reserve Bank of Australia		
8 Bank of Mexico		
13 Reserve Bank of New Zealand		
15 Bank of Norway		
20 Bank of Sweden		
21 Bank of Korea		

<b>September</b>		
4 Bank of Canada		
12 European Central Bank		
18 Bank of Brazil		
18 Federal Reserve		
19 Bank of England		
19 Bank of Norway		
19 Bank of Japan		
24 Reserve Bank of Australia		
25 Bank of Sweden		
26 Bank of Mexico		
26 Swiss National Bank		

<b>October</b>		
8 Reserve Bank of New Zealand		
10 Bank of Korea		
17 European Central Bank		
23 Bank of Canada*		
30 Bank of Japan		

<b>November</b>		
4 Reserve Bank of Australia		
6 Bank of Brazil		
7 Bank of England		
7 Bank of Norway		
7 Bank of Sweden		
7 Federal Reserve		
14 Bank of Mexico		
26 Reserve Bank of New Zealand		
27 Bank of Korea		

<b>December</b>		
9 Reserve Bank of Australia		
11 Bank of Brazil		
11 Bank of Canada		
12 European Central Bank		
12 Swiss National Bank		
18 Bank of Japan		
18 Federal Reserve		
19 Bank of England		
19 Bank of Norway		
19 Bank of Sweden		