

Essentials of Monetary Policy

Bank of Canada : A Big Move in October Is Likely to Be Followed by More Modest Cuts Ahead

October 23, 2024

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According to the Bank of Canada (BoC)

As was widely expected, the Bank of Canada cut the overnight policy rate for the fourth consecutive meeting, this time by 50 basis points (bps), in line with our long-held call. Today's cut takes the policy rate to 3.75%, the lowest it's been since November 2022.

Bank of Canada Governor Tiff Macklem left no room for equivocation in his press conference opening statement: "We took a bigger step today because inflation is now back to the 2% target and we want to keep it close to the target... Price pressures are no longer broad-based, and both our measures of core inflation are now under 2½%. Our surveys also find that business and consumer expectations of inflation have shifted down and are nearing normal. All this suggests we are back to low inflation."

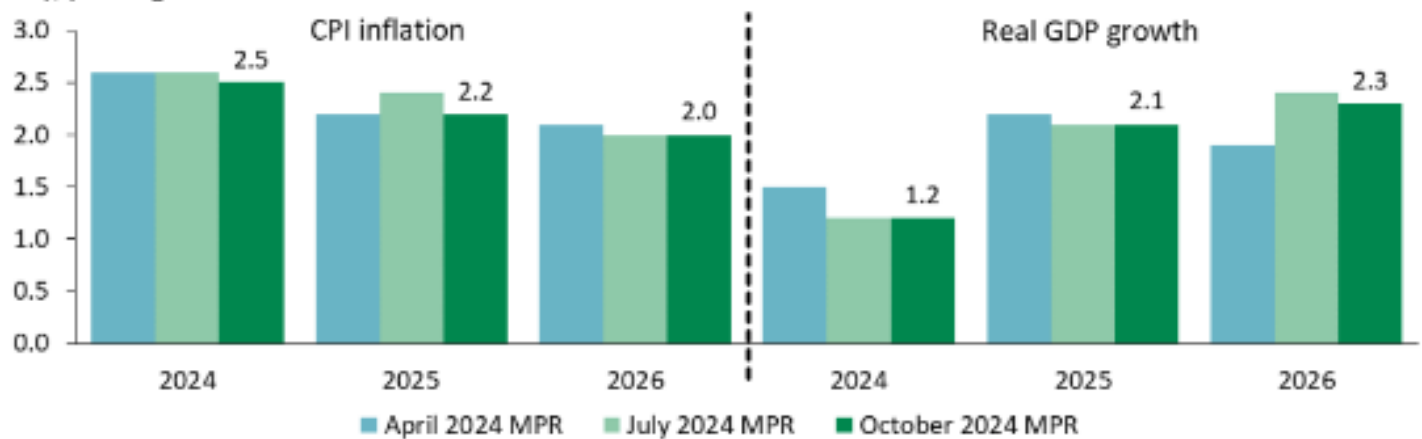
In this context, the Bank adjusted its outlook for CPI inflation lower in 2024 to 2.5% from 2.6% back in July (graph 1). This forecast revision is the result of a Q3 2024 inflation print that was weaker than the central bank had expected, at 2.1% versus 2.3% respectively and a Q4 2024 forecast that was similarly marked down. The Bank's inflation forecast for 2025 was also reduced to 2.2% from 2.4%. In contrast, core CPI inflation has been tracking slightly higher than the Bank's July outlook.

Graph 1

The Bank of Canada Has Revised down Its Inflation Forecast

Bank of Canada CPI inflation and real GDP growth forecasts

% y/y change



MPR: Monetary Policy Report

Bank of Canada and Desjardins Economic Studies

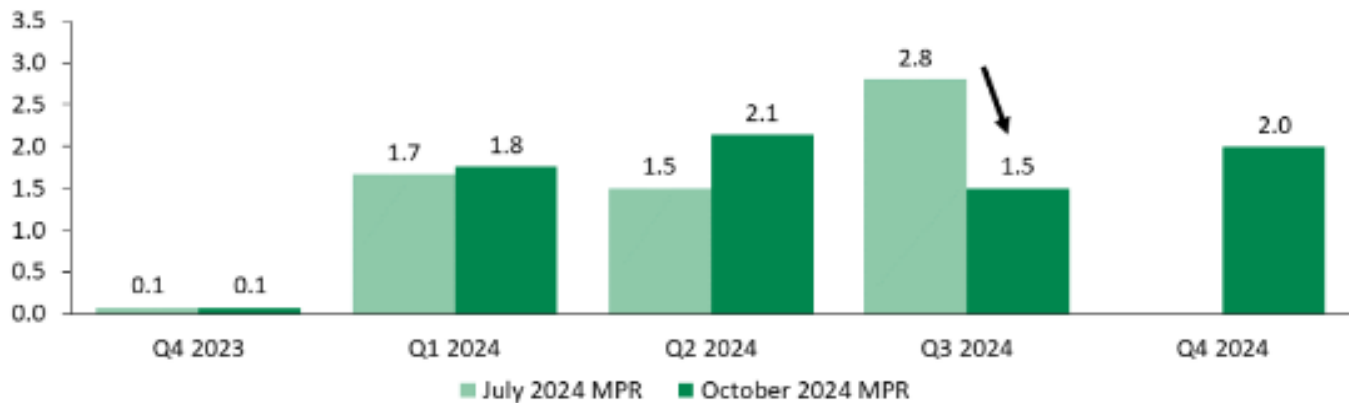
- ✓ Meanwhile, the Bank left its real GDP growth forecast largely unchanged for 2024 at 1.2%. This despite reducing its overly optimistic outlook for Q3 real GDP growth from 2.8% annualized to 1.5% (graph 2), in line with our most recent tracking. In 2025, the growth forecast was left unchanged from the July Monetary Policy Report (MPR), at 2.1%. Meanwhile, real GDP growth in 2026 was revised a tick lower to 2.3% after a substantial upward revision in July. According to Governor Macklem, "This forecast largely reflects the net effect of a gradual pick up in consumer spending per person and slower population growth."

Graph 2

The BoC Marked Its Q3 Real GDP Growth Forecast down Substantially

Canada real GDP growth

%, annualized quarterly growth



MPR: Monetary Policy Report; BoC: Bank of Canada
Bank of Canada and Desjardins Economic Studies

- ✓ The Bank of Canada also recommitted to its policy of balance sheet normalization. As a result, the central bank will continue quantitative tightening, allowing bonds to mature and roll off of its balance sheet, thereby reducing its footprint in the Government of Canada bond market.

📌 Implications

The Bank of Canada decided to go big as opposed to going home in its October 2024 rate announcement. The last time the Bank cut by 50 bps outside of the pandemic was in 2009, and outside of a Canadian recession it was 2001. But unlike past periods of deep rate cuts, the Bank doesn't see an economic contraction on the horizon. Instead, according to Governor Macklem, "Now our focus is to maintain low, stable inflation. We need to stick the landing... That means the upward and downward forces on inflation need to balance out... Overall, we view the risks around our inflation forecast as reasonably balanced."

Looking ahead, we haven't seen the end of rate cuts. Clearly, the BoC was unfazed by the recent employment report, noting instead the slack continuing to build in the job market, something we have been stressing. Moreover, the high saving rate is another key factor, with the BoC noting that the focus towards saving was a legacy of the tightening cycle. Sticking the landing will require incentivizing households to spend again as opposed to saving.

Altogether, according to the Governing Council in the press release that accompanied the rate announcement: "If the economy evolves broadly in line with our latest forecast, we expect to reduce the policy rate further. However, the timing and pace of further reductions in the policy rate will be guided by incoming information and our assessment of its implications for the inflation outlook. We will take decisions one meeting at a time." We expect another 25 bps rate cut in December, and six more of the same magnitude in 2025.



2024 Schedule of Central Bank Meetings

Central bank	Decision	Rate
January		
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	4.00
25 Bank of Norway	unchanged	4.50
31 Bank of Brazil	unchanged	11.25
31 Federal Reserve	unchanged	5.50
February		
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
March		
6 Bank of Canada	unchanged	5.00
7 European Central Bank	unchanged	4.00
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
April		
9 Reserve Bank of New Zealand	unchanged	5.50
10 Bank of Canada*	unchanged	5.00
11 European Central Bank	unchanged	4.00
11 Bank of Korea	unchanged	3.50
25 Bank of Japan	unchanged	0.10
May		
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
June		
5 Bank of Canada	-25 b.p.	4.75
6 European Central Bank	-25 b.p.	3.75
12 Federal Reserve	unchanged	5.50
13 Bank of Japan	unchanged	0.10
18 Reserve Bank of Australia	unchanged	4.35
19 Bank of Brazil	unchanged	10.50
20 Bank of England	unchanged	5.25
20 Bank of Norway	unchanged	4.50
20 Swiss National Bank	-25 b.p.	1.25
27 Bank of Sweden	unchanged	3.75
27 Bank of Mexico	unchanged	11.00

Central bank	Decision	Rate
July		
9 Reserve Bank of New Zealand	unchanged	5.50
10 Bank of Korea	unchanged	3.50
18 European Central Bank	unchanged	3.75
24 Bank of Canada*	-25 b.p.	4.50
30 Bank of Japan	+15 b.p.	0.25
31 Bank of Brazil	unchanged	10.50
31 Federal Reserve	unchanged	5.50
August		
1 Bank of England	-25 b.p.	5.00
6 Reserve Bank of Australia	unchanged	4.35
8 Bank of Mexico	-25 b.p.	10.75
13 Reserve Bank of New Zealand	-25 b.p.	5.25
15 Bank of Norway	unchanged	4.50
20 Bank of Sweden	-25 b.p.	3.50
21 Bank of Korea	unchanged	3.50
September		
4 Bank of Canada	-25 b.p.	4.25
12 European Central Bank	-25 b.p.	3.50
18 Bank of Brazil	+25 b.p.	10.75
18 Federal Reserve	-50 b.p.	5.00
19 Bank of England	unchanged	5.00
19 Bank of Norway	unchanged	4.50
19 Bank of Japan	unchanged	0.25
24 Reserve Bank of Australia	unchanged	4.35
25 Bank of Sweden	-25 b.p.	3.25
26 Bank of Mexico	-25 b.p.	10.50
26 Swiss National Bank	-25 b.p.	1.00
October		
8 Reserve Bank of New Zealand	-50 b.p.	4.75
10 Bank of Korea	-25 b.p.	3.25
17 European Central Bank	-25 b.p.	3.25
23 Bank of Canada*	-50 b.p.	3.75
30 Bank of Japan		
November		
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		
December		
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		
19 Bank of Mexico		

NOTE: Central banks may decide to change rates between the scheduled meetings. The abbreviation b.p. stands for basis points; * Monetary Policy Report published.