



Bank of Canada Rate Announcement

December 7 2022

Bank of Canada hikes 50 basis points to cap off 2022

The Bank of Canada ended 2022 with another 50-basis point rate hike to push the target for the overnight rate to 4.25 per cent. Forecasts were largely split between a 25-and 50-bps tightening. After starting the year at 0.25 per cent, this marked a seventh consecutive hike and pace of tightening unseen since the early 1990s. That said, the Bank's policy statement hinted that this could mark the end of rate hikes but dependent on the data. The Bank also continued quantitative tightening.

In its policy statement, the Bank highlighted elevated global inflation, but constructive patterns of slowing but still firm global growth and improving supply chains (albeit still at risk of geopolitical stress). Domestically, the Bank noted that the labour market remains very tight, and while export growth is robust, domestic drivers are slowing. This was reflected stronger Q3 real GDP patterns. The Bank expects the economy to stall going forward. Importantly, the Bank is seeing constructive inflation trends with moderating core inflation patterns. Nevertheless, levels are still too high in its view and risks persist that it becomes entrenched in expectations.

We expect the Bank to take a pause at this point and adopt a more cautious data-dependent approach on any future rate hikes. In fact, in our view this is the last hike of this current cycle. The Bank stated that "Looking ahead, Governing Council will be considering whether the policy interest rate needs to rise further to bring supply and demand back into balance and return inflation to target." A pause is warranted given the uncertain economic response to the rapid hiking cycle over the past year which will take time to filter through the economy. That said, if inflation fails to moderate quickly enough the Bank will move more aggressively.

Bryan Yu

Chief Economist

Central 1 Credit Union

byu@central1.com