



Bank of Canada Rate Announcement

June 5 2024

The wait is over, Bank of Canada cuts policy rate

At least one wait is over. We will see if the Oilers can break Canada's Lord Stanley drought.

The Bank of Canada (the Bank) officially pivoted into an easing cycle with today's 25 basis point cut to the target overnight rate, bringing the policy rate to 4.75 per cent. It also continued balance sheet normalization. This was the first cut since the 50-point reduction on March 27, 2020, and followed the rapid and unprecedented inflation-fighting increase that lifted the rate from 0.25 per cent to 5.00 per cent by July of last year.

Despite the Bank's prior messaging of patience on rates, the cut was not a surprise given the cascade of recent data. Specifically, most key year-over-year inflation measures including headline and core are easing and were below three per cent, while monthly trends have decelerated. Unemployment rates were still elevated in May (6.1 per cent), and last week's soft GDP report solidified the cut. GDP growth of 1.7 per cent annualized gain was far below consensus and the Bank's own MPR forecast (2.8 per cent) while the downward revisions to the data meant the economy did not grow in Q4 pointing to more excess supply in the economy.

The Bank's statement highlighted these themes. On the global economy, the statement noted recent underperformance in the U.S. and firmer conditions in China and the euro area, while inflation slowed. For Canada, the Bank highlighted the weaker than expected Q1 growth albeit tempered the message by noting the 3 per cent growth in consumption and business and investment spending. Meanwhile, despite hiring growth, there remains slack in the labour market while "Wage pressures remain but look to be moderating gradually". It noted that "recent data suggest the economy is still operating in excess supply".

Importantly, the Bank conceded the slowdown in headline and core inflation and the slowdown in trend seemed persistent, while breadth of price increases of components continued to normalize. This was enough evidence to cut at this meeting, and this is unlikely to be done. The Bank stated that "recent data has increased our confidence that inflation will continue to move towards the 2% target", pointing to further cuts ahead.

We expect that June's cut will be the first of many over the coming 18 months. The Canadian economy faces further headwinds from the mortgage renewal cycle and higher payments facing many homeowners. Real interest rates are deeply in restrictive territory which will temper activity, and in our view Canada's inflation problem is in the rear-view mirror. The Bank will continue to cut towards the neutral rate to limit unnecessary damage to the economy, but this will take time.

We expect the Bank to cut a total of four times this year, with a pause at the September meeting to assess the impacts of reductions on sectors like the housing market. The timing and depth of the cuts will also depend in part on the US Fed rate decisions. A delay in rate cuts in the U.S. could slow the pace of Bank cuts. While the Bank and Fed rates can diverge, there are limits, and the Bank will assess closely the impact on the exchange and potential import price inflation.

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