



Economic Commentary

December 11 2024

Bank of Canada continues rapid easing cycle with 50-point cut

The Bank of Canada cut by another 50 basis points as expected today, aligning with market expectations, which reduced the target for the overnight rate to 3.25 per cent and a level in line with the top end of the neutral band. It also continued its policy of quantitative tightening. This was the fifth straight cut from the Bank, with a total of 175 basis points of easing since June. Central 1 was on the fence for a 25 or 50 bps cut but came down on the side of a 50- point cut following Friday's sharp increase in the unemployment rate.

The Bank provided a more detailed assessment than typically observed from a statement not accompanied by a Monetary Policy Report, reflecting rising economic uncertainty and the magnitude of today's cut.

For current themes, the Bank highlighted mixed growth conditions in the global economy including sturdy U.S. strength and inflation, while China is being supported by policy measures and strong exports. U.S. strength has also led to Canadian dollar depreciation. Domestically, the Bank summarized what was already known. Q3 economic growth (1 per cent) underperformed the October MPR forecast and Q4 is evolving weaker than expected. There has been mixed conditions in the data with signs that consumer demand has picked up with lower interest rates, while investment and exports slowed. The unemployment rate rose to 6.8 per cent as employment lagged population growth, with wage growth slowing.

Future announced policies and uncertainties played a prominent role in the statement clouding the outlook but points to downside risk for the economy. The Bank expects federal curtailment of population growth will reduce GDP growth below October's forecast, but impact on inflation more muted due to supply and demand impacts. The GST holiday, one-time cheques to households and mortgage policies are to have mixed effect, but for the purpose of inflation, the Bank will look through impacts deemed inflationary. Specifically, the GST holiday will temporarily lower inflation before being unwound.

Not surprisingly, the Bank gave a nod to the rising uncertainties emanating from potential U.S. tariffs. We would expect more discussion of this uncertainty and other policies in the January MPR.

On inflation, the Bank reiterated that it expects inflation to average 2 per cent over the next couple of years. We think that today's jumbo cut and accelerated move to the neutral range provided some insurance against further downside risks to the economy and inflation. The Bank will likely continue to cut given slack in the economy, but we would expect to see a more modest pace of reduction if not an outright pause in coming months contingent on the data and policy evolution. The Bank noted that, *"... we will be evaluating the need for further reductions in the policy rate one decision at a time. Our decisions will be guided by incoming information and our assessment of the implications for the inflation outlook."*

Our view is that the Bank will settle at 2.5 per cent in the coming months. Potential U.S. tariffs are downside risk for the policy rate as we would expect the Bank to move aggressively to shore up the economy in the event broad-based tariffs are enacted, which would overshadow the risk of Canadian dollar depreciation and import price inflation.

Bryan Yu

Chief Economist

Central 1 Credit Union

byu@central1.com