

Economics

ECONOMIC FLASH!

economics.cibccm.com

April 10, 2024

Bank of Canada: Moving slowly towards cuts

by **Andrew Grantham** andrew.grantham@cibc.com

Why rush? That seems to be the message from the Bank of Canada at the moment, as it once again kept the overnight rate on hold at 5% but appears to be moving slowly in the direction of lowering interest rates. While the final paragraph of the statement no longer mentions concern about the "persistence" of core inflation, and instead acknowledges that it has "eased further" in recent months, the Governing Council would like to see evidence that this momentum is "sustained" before pulling the trigger on interest rate cuts. The Bank gets to see two inflation prints, including one next week, before its June policy decision, so there will be plenty of new information available at that point for them to judge if downward momentum in underlying price pressures has been sustained. During today's press conference, Governor Macklem acknowledged that a June cut was within the "realm of possibilities".

- Within the Monetary Policy Report, we saw the near-term increase in GDP and lowering of CPI forecasts that were necessary given the data flow since January. Even with higher oil price assumptions than in the prior MPR, the Bank still showed year-end inflation a couple of ticks below their prior assessment (2.2% vs 2.4%), which could be another sign that they are slowly moving towards being more comfortable about reducing interest rates.
- The 2.8% annualized growth forecast for Q1 is in line with our forecast and slightly below current tracking, but the 1.5% pace in Q2 is maybe a little optimistic if (as we expect) some of the strength in Q1 was linked to an easing of prior supply constraints and milder than normal weather. For 2024 as a whole, roughly half of the upgrade to the GDP growth forecast (to 1.5% from 0.8%) is linked to stronger population growth and by extension a higher potential growth rate. In contrast, a downgrade to potential growth in 2025 as new restrictions on non-permanent residents slows population growth has driven a slight downgrade to 2.2% (from 2.4% previously).
- In another indication that the Bank believes stronger growth in 2024 is being driven by a higher pace of potential growth, their view of the current output gap is broadly unchanged since January (still between -0.5% and -1.5%) despite the sharp upward revision made to near-term GDP growth rates.
- As is customary in April, the Bank reassessed its view on the neutral rate, with the midpoint rising 25bp as we expected to 2.75%. However, the Governor stated that this upgrade isn't having an impact on their deliberations in the near term, as it is a theoretical assessment based on a world where there are no shocks (either positive or negative).

Re: Economic forecast — We currently forecast a first interest rate cut in June and a total of four 25bp moves before the end of the year. To steal a line from Governor Macklem's press conference today, that outlook still appears to be within the realm of possibility, but is reliant on core inflationary pressures sustaining their current lower rates or easing further.

Re: Markets — The Canadian dollar was already trading weaker on the day due to stronger than expected US CPI data released earlier in the session, and the currency held onto this weaker level following the Bank of Canada's release. Canadian bond yields, which were trading higher following the US data, gave back some of that earlier move following the statement and press conference.

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority, and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

© 2024 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.

The CIBC logo and "CIBC Capital Markets" are trademarks of CIBC, used under license.

CIBC Capital Markets – PO Box 500, 161 Bay Street, Brookfield Place, Toronto, Canada M5J 2S8 – Bloomberg @ CIBC