Tiff Macklem: Monetary Policy Decision

Opening statement by Mr Tiff Macklem, Governor of the Bank of Canada, at the press conference following the monetary policy decision, Ottawa, Ontario, 6 March 2024.

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Good morning. I'm pleased to be here with Senior Deputy Governor Carolyn Rogers to discuss today's policy announcement.

This is the first time we're speaking to you on the day of a policy decision that is not accompanied by a *Monetary Policy Report* (MPR), so it's a little different than what we're all used to. We want households, businesses and communities to understand the actions we are taking and why. So we'll be answering questions at every decision as part of our commitment to keep Canadians informed.

Our quarterly MPRs include a full economic outlook. Our deliberations this time were based on how the economy and risks to the outlook have evolved compared with what we expected in January.

In the six weeks since our January decision, there have been no big surprises. Economic growth has remained weak, and inflation has eased further as higher interest rates restrain demand and relieve price pressures. But with inflation still close to 3% and underlying inflationary pressures persisting, the assessment of Governing Council is that we need to give higher rates more time to do their work.

With that in mind, Governing Council decided to maintain the policy interest rate at 5%. We are also continuing our policy of quantitative tightening.

In January, we indicated that our confidence had increased that our policy rate was high enough to restore price stability. While we could not rule out the need to raise rates further if there were new inflation surprises, we indicated that our discussions were shifting from whether our policy rate is restrictive enough to restore price stability, to how long it needs to stay at the current level.

Today's decision reflects Governing Council's assessment that a policy rate of 5% remains appropriate. It's still too early to consider lowering the policy interest rate. Recent inflation data suggest monetary policy is working largely as expected. But future progress on inflation is expected to be gradual and uneven, and upside risks to inflation remain. Governing Council needs to see further and sustained easing in core inflation.

Before taking your questions, let me take a moment to discuss how the economy is evolving.

Global growth has slowed and inflationary pressures have continued to ease. The US economy also slowed but has remained surprisingly strong even as inflation has continued to decline.

In Canada, economic growth has come in somewhat stronger than projected in the January MPR, but the pace remains weak and below potential. Growth in the second half of 2023 was close to zero, allowing supply to catch up to demand.

Labour markets have continued to ease gradually. With employment growing more slowly than population, the labour market has come into better balance. Job vacancies have returned to more normal levels, and the pace of hiring has been modest. Wage growth has been in the 4%-5% range for a while, but there are now some signs that wage pressures may be easing.

Consumer price index (CPI) inflation eased to 2.9% in January. This largely reflected lower energy prices, an easing in food price inflation, as well as weakness in semi-durable prices like footwear and clothing. But shelter price inflation remains elevated and is still the biggest contributor to overall inflation. More broadly, underlying price pressures persist. Our preferred measures of core inflation eased in January but remain above 3% on a year-over-year and three-month basis. As well, the share of CPI components rising faster than 3% declined but is still above the historical average.

Looking ahead, we continue to expect inflation will be close to 3% through the middle of the year before easing in the second half. Gasoline prices are expected to continue to add volatility to inflation in coming months, and shelter price pressures are likely to persist. In other words, the path back to our 2% target will be slow, and progress is likely to be uneven.

Governing Council also discussed the risks to the economy and inflation. Risks to global energy prices and transportation costs related to conflicts remain elevated. Domestically, inflation could prove more persistent than expected. We don't want to keep monetary policy this restrictive for longer than we have to. But nor do we want to jeopardize the progress we've made in bringing inflation down.

Governing Council remains concerned about the persistence of underlying inflation, and we want to see a further deceleration in core inflation in the coming months. We remain focused on the indicators of inflationary pressures that we've mentioned before. Demand pressures have eased, and the economy now looks to be in modest excess supply. With the labour market coming into better balance, we are looking for further evidence that wage growth is moderating. Before our April decision, we will also get new information on corporate pricing behaviour and inflation expectations. We will be looking for the frequency and size of price increases to continue to normalize and for short-term inflation expectations to ease further.

We've come a long way in our fight against high inflation. Monetary policy is working-inflation is coming down. But it's too early to loosen the restrictive policy that has gotten us this far. Low, stable inflation is a cornerstone of shared prosperity, and we remain resolute in our commitment to restore price stability.

With that summary, the Senior Deputy Governor and I would be pleased to take your questions.