

## Tiff Macklem: Release of the Monetary Policy Report

Opening statement by Mr Tiff Macklem, Governor of the Bank of Canada, at the press conference following the monetary policy decision, Ottawa, Ontario, 24 July 2024.

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Good morning. I'm pleased to be here with Senior Deputy Governor Carolyn Rogers to discuss the July *Monetary Policy Report* (MPR) and today's policy announcement.

Today, we lowered our policy interest rate a further 25 basis points to 4.5%.

This decision reflects three key considerations.

First, monetary policy is working to ease broad price pressures.

Second, with the economy in excess supply and slack in the labour market, the economy has more room to grow without creating inflationary pressures.

Third, as inflation gets closer to the 2% target, the risk that inflation comes in higher than expected has to be increasingly balanced against the risk that the economy and inflation could be weaker than expected.

Looking ahead, we expect inflation to moderate further, though progress over the next year will likely be uneven. This forecast reflects the opposing forces affecting inflation. The overall weakness in the economy is pulling inflation down. At the same time, price pressures in shelter and some other services are holding inflation up. We are increasingly confident that the ingredients to bring inflation back to target are in place. But the push-pull of these opposing forces means the decline in inflation will likely be gradual, and there could be setbacks along the way.

If inflation continues to ease broadly in line with our forecast, it is reasonable to expect further cuts in our policy interest rate. The timing will depend on how we see these opposing forces playing out. In other words, we will be taking our monetary policy decisions one at a time.

Let me highlight some of the economic dynamics covered more fully in the MPR.

Economic growth in Canada has picked up but remains weak relative to population growth. Household spending has been soft. Pent-up demand for things like new cars and travel is fading. And many families are setting aside more of their income for debt payments, leaving less money for discretionary spending.

In the labour market, employment has continued to grow more slowly than the labour force. Job seekers are now taking longer to find work, and the unemployment rate has risen to 6.4%. The job vacancy rate has come down significantly, and reports of labour shortages are now below normal. Overall, indicators suggest some slack in the labour market. Wage growth is also showing signs of moderating, although it remains elevated.

Looking ahead, economic growth is expected to increase in the second half of 2024 and through 2025. This reflects stronger exports and a recovery in household spending as borrowing costs ease. Business investment is also expected to strengthen as demand picks up, and residential investment is forecast to grow robustly. Overall, with the economy strengthening, excess supply will be absorbed next year and into 2026.

CPI inflation moderated to 2.7% in June after increasing in May, and broad inflationary pressures continued to ease. The Bank's preferred measures of core inflation have now been below 3% for several months and the breadth of price increases across components of the CPI is near its historical average. Corporate pricing behaviour has largely normalized, and near-term inflation expectations have come down, although they are still above normal. However, shelter price inflation remains high. Inflationary pressures are also evident in services that are closely affected by wages, such as restaurants and personal care.

The Bank's preferred measures of core inflation are expected to slow to about 2½% in the second half of 2024 and ease further in 2025. CPI inflation is forecast to come down below core this fall and settle sustainably around the 2% target next year, but it's unlikely to be a straight line.

As always, there are risks around our inflation outlook. Globally, geopolitical uncertainty is high. Here in Canada, the biggest downside risk is that household spending could be weaker than expected. On the upside, inflation in shelter and other services could prove more persistent.

Let me conclude. With broad price pressures continuing to ease and inflation expected to move closer to the 2% target, Governing Council decided to reduce the policy interest rate by a further 25 basis points.

In recent months, we have continued to make progress bringing inflation down. With the target in sight and more excess supply in the economy, the downside risks are taking on increased weight in our monetary policy deliberations. We need growth to pick up so inflation does not fall too much, even as we work to get inflation down to the 2% target.

We are carefully assessing the downward pull on inflation from ongoing excess supply, and the pressures from shelter and other services that are holding inflation up. Monetary policy decisions will be guided by incoming information and our assessment of their implications for the inflation outlook. The Bank remains resolute in its commitment to restoring price stability for Canadians.

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