Tiff Macklem: Monetary Policy Decision

Opening statement by Mr Tiff Macklem, Governor of the Bank of Canada and Ms Carolyn Rogers, Senior Deputy Governor of the Bank of Canada, at the press conference following the monetary policy decision, Ottawa, Ontario, 4 September 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.

Today, we lowered the policy interest rates by 25 basis points to 4.25%. This is the third consecutive decrease since June.

Our decision reflects two main considerations.

First, headline and core inflation have continued to ease as expected.

Second, as inflation gets closer to target, we want to see economic growth pick up to absorb the slack in the economy so inflation returns sustainably to the 2% target.

Inflation continues to reflect the push and pull of opposing forces. Overall weakness in the economy continues to pull inflation down. But price pressures in shelter and some other services are holding inflation up. Since the July *Monetary Policy Report*, the upward forces coming from prices for shelter and some other services have eased slightly. At the same time, the downward pressure coming from excess supply in the economy remains.

If inflation continues to ease broadly in line with our July forecast, it is reasonable to expect further cuts in our policy rate. We will continue to assess the opposing forces on inflation, and take our monetary policy decisions one at a time.

Let me expand on what we're seeing in the economy, and how that played into our deliberations.

In the second quarter, the economy grew by 2.1%, led by government spending and business investment. This was slightly stronger than forecast in July. Together with first quarter growth of 1.8%, this suggests the economy grew by about 2% over the first half of 2024. That's a healthy rebound from the near-zero growth we had in the second half of 2023. Our July projection has growth strengthening further in the second half of this year. Recent indicators suggest there is some downside risk to this pickup. In particular, preliminary indicators suggest that economic activity was soft through June and July, and employment growth has stalled in recent months.

The unemployment rate has risen over the last year to 6.4% in June and July. The rise is concentrated in youth and newcomers to Canada, who are finding it more difficult to get a job. Business layoffs remain moderate, but hiring has been weak. The slack in the labour market is expected to slow wage growth, which remains elevated relative to productivity.

Turning to price pressures, CPI inflation eased further to 2.5% in July, and our preferred measures of core inflation also moved lower. With the share of CPI components growing above 3% now around its historical norm, there is little evidence of broad-based price pressures. But shelter price inflation is still too high. It remains the biggest contributor to overall inflation, despite some early signs of easing. Inflation also remains elevated in some other services.

As outlined in our July forecast, inflation is expected to ease further in the months ahead. It may bump up later in the year as base-year effects unwind, and there is a risk that the upward forces on inflation could be stronger than expected. At the same time, with inflation getting closer to the target, we need to increasingly guard against the risk that the economy is too weak and inflation falls too much.

We are determined to get inflation down to the 2% target, and we want it to stay there. We care as much about inflation being below the target as we do above. The economy functions well when inflation is around 2%.

Let me conclude. With continued easing in broad inflationary pressures, Governing Council decided to reduce the policy interest rate by a further 25 basis points. Excess supply in the economy continues to put downward pressure on inflation, while price increases in shelter and some other services are holding inflation up. Governing Council is carefully assessing these opposing forces on inflation. 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.