Tiff Macklem: Release of the Monetary Policy Report

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, 23 October 2024.

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Good morning. I'm pleased to be here with Senior Deputy Governor Carolyn Rogers to discuss the October *Monetary Policy Report* and our policy decision.

Today, we lowered the policy interest rate by 50 basis points. This is our fourth consecutive decrease since June and brings our policy rate to 3.75%.

We took a bigger step today because inflation is now back to the 2% target and we want to keep it close to the target.

In the past few months, inflation has come down significantly from 2.7% in June to 1.6% in September. Recent indicators suggest it will be around 2% in October. Price pressures are no longer broad-based, and both our measures of core inflation are now under 2½%. Our surveys also find that business and consumer expectations of inflation have shifted down and are nearing normal. All this suggests we are back to low inflation. This is good news for Canadians.

Now our focus is to maintain low, stable inflation. We need to stick the landing.

That means the upward and downward forces on inflation need to balance out. Household spending and business investment have picked up this year, but remain soft. This softness has helped take the remaining steam out of inflation. But with inflation back to 2%, we want to see growth strengthen. Today's interest rate decision should contribute to a pickup in demand.

The Bank forecasts inflation will remain close to the target over the projection horizon. The upward pressure from shelter and other services is expected to gradually diminish. With stronger demand, the downward pressure on inflation is also forecast to dissipate, keeping the upward and downward forces roughly balanced.

If the economy evolves broadly in line with this forecast, we anticipate cutting our policy rate further to support demand and keep inflation on target. The timing and pace of further interest rate cuts will depend on incoming information and our assessment of its implications for the inflation outlook. We will 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.

After stalling in the second half of last year, the economy grew by about 2% in the first half of this year, and we expect growth of 1¾% in the second half. The economy remains in excess supply and the labour market is soft. The unemployment rate was 6.5% in September. Job layoffs have remained modest but business hiring has been weak, which has particularly affected young people and newcomers to Canada. Simply put, the number of workers has increased faster than the number of jobs.

Looking ahead, GDP growth is forecast to gradually strengthen to around 2% in 2025 and 2¼% in 2026, supported by lower interest rates. This forecast largely reflects the net effect of a gradual pick up in consumer spending per person and slower population growth. We also expect growth in residential investment to rise as strong demand for housing lifts sales and spending on renovations. Business investment is expected to strengthen as demand picks up, and exports should remain strong, supported by robust demand from the United States.

The decline in inflation in recent months reflects the combined effects of lower global oil prices, slightly lower shelter price inflation in Canada, and lower prices for many consumer goods like cars and clothes. Going forward, we can expect to continue to see some monthly fluctuations in inflation. But overall, inflation is expected to remain close to target over the projection horizon as upward pressure from shelter and other services gradually diminishes and excess supply in the economy is absorbed.

There are risks around our inflation outlook. The biggest downside risk to inflation is that it could take longer than anticipated for household spending and business investment to pick up. Our recent surveys suggest businesses expect subdued sales and their hiring and investment plans are modest. On the upside, lower interest rates could fuel a stronger rebound in housing activity or wage growth could remain high relative to productivity. There is also elevated geopolitical uncertainty and the risk of new shocks.

Overall, we view the risks around our inflation forecast as reasonably balanced. With inflation back to 2%, we are now equally concerned about inflation coming in higher or lower than expected. The economy functions well when inflation is around 2%.

Let me conclude.

High inflation and interest rates have been a heavy burden for Canadians. With inflation now back to target and interest rates continuing to come down, families, businesses and communities should feel some relief.

The Bank is committed to maintaining price stability for Canadians by keeping inflation close to the 2% target.

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