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, 11 December 2024.

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Good morning. I'm pleased to be here with Senior Deputy Governor Carolyn Rogers to discuss our policy decision.

Today, we lowered the policy interest rates by 50 basis points. This is our fifth consecutive decrease since June and brings our policy rate to 3¼%.

Monetary policy has worked to bring inflation back to the 2% target. Our policy focus now is to keep inflation close to target.

Let me outline what we're seeing in the economy, and how that played into our decision.

In the United States, the economy continues to show broad-based strength and inflation has been holding steady. The US dollar has appreciated against most other currencies, including the Canadian dollar.

Canada's economy grew by 1% in the third quarter, which was slower than we expected. Recent data also suggest growth will be lower than projected in the final quarter of this year.

Growth in the third quarter was pulled down by business investment, inventories and exports. But consumer spending and housing activity both picked up, as lower interest rates started to boost household spending.

Canada's job market is still softening. Businesses have continued hiring, but the number of people looking for work has been increasing faster than the number of jobs. The unemployment rate rose to 6.8% in November. It has been especially hard for young people and newcomers to Canada to find work.

A number of policy measures have been announced that will affect the outlook for growth and inflation in the months ahead. The most significant of these is reduced immigration targets, which suggest GDP growth next year will be lower than we forecast in October. The effects of lower population growth on the inflation outlook will likely be more muted because reduced immigration dampens both demand and supply in the economy. We'll have more to say on this when we release our next forecast in January.

Other federal and provincial government policies-including a temporary GST break on some consumer products, one-time payments to individuals, and changes to mortgage rules-will likely affect the dynamics of household spending and inflation in the months ahead. Again, we will have more to say on this in January. As always, we will look through effects that are temporary and focus on underlying trends to guide our policy decisions.

CPI inflation has been about 2% since the summer, and we expect it to be close to target, on average, over the next couple of years. We thought elevated shelter price inflation would continue to ease, and it has. And the downward pressure on inflation from goods prices has also moderated as predicted. We expect the GST holiday to temporarily lower inflation to around 1½% in January, but that effect will be unwound after the GST break ends in mid-February. We will be looking at measures of core inflation to help us assess the trend in CPI inflation.

While the upward and downward pressures on prices have been moderating, risks to the inflation outlook remain. Elevated wage increases combined with weak productivity could push inflation up. Or the economy could keep growing below its potential, which would pull inflation down.

In addition, the economic outlook is clouded by the possibility of new tariffs on Canadian exports to the United States. No one knows how this will play out in the months ahead-whether tariffs will be imposed, whether exemptions get agreed, or whether retaliatory measures will be put in place. This is a major new uncertainty.

To summarize, inflation is back to the 2% target and lower interest rates are beginning to pass through to stronger spending by households. But the economy remains in excess supply and the growth outlook now appears softer than we projected in October.

With inflation back to target, we have cut the policy rate by 50 basis points at each of the last two decisions because monetary policy no longer needs to be clearly in restrictive territory. We want to see growth pick up to absorb the unused capacity in the economy and keep inflation close to 2%.

The Governing Council has reduced the policy rate substantially since June, and those cuts will be working their way through the economy. Going forward, we will be evaluating the need for further reductions in the policy rate one decision at a time.

In other words, with the policy rate now substantially lower, we anticipate a more gradual approach to monetary policy if the economy evolves broadly as expected. Our decisions will be guided by incoming information and our assessment of the implications for the inflation outlook.

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

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