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3% by the end of 2024: What economists say about Bank of Canada's latest rate decision

Bank holds at 5%, its second consecutive pause

Gigi Suhanic || October 25, 2023

Tiff Macklem is the governor of the Bank of Canada. PHOTO BY AZIN GHAFFARI/POSTMEDIA

The Bank of Canada held its benchmark interest rate at five per cent on Oct. 25, its second consecutive pause, meeting economist expectations amid a slowdown in the economy.

The bank said there is growing evidence higher interest rates are cooling the Canadian economy and noted easing demand for housing, goods and services and business investment in its statement accompanying the decision.

“Signs of flagging demand were reason enough for the Bank of Canada to keep its target rate on hold,” Avery Shenfeld, chief economist at CIBC Capital Markets, said.

However, with inflation still above target, Shenfeld noted the bank wasn’t ready to declare its job over in getting inflation to two per cent.

The bank warned it could hike interest rates again if “inflation expectations, wage growth and corporate pricing behaviour” don’t moderate.

“Governing Council is concerned that progress towards price stability is slow and inflationary risks have increased, and is prepared to raise the policy rate further if needed,” the bank said.

The bank also noted that its preferred measures of core inflation remain above target at 3.7 per cent and 3.8 per cent year over year.

“The bank is clearly frustrated by the achingly slow (but entirely predictable) descent in inflation,” Douglas Porter, chief economist at BMO Economics, said.

Here’s what economists say about the Bank of Canada hold and where rates could go from here.

Avery Shenfeld, CIBC Economics

“Signs of flagging demand were reason enough for the Bank of Canada to keep its target rate on hold at five per cent today, but with inflation still well above target, it’s not yet willing to give up on its warning that further hikes could still be in the offing if prices don’t see enough cooling ahead.

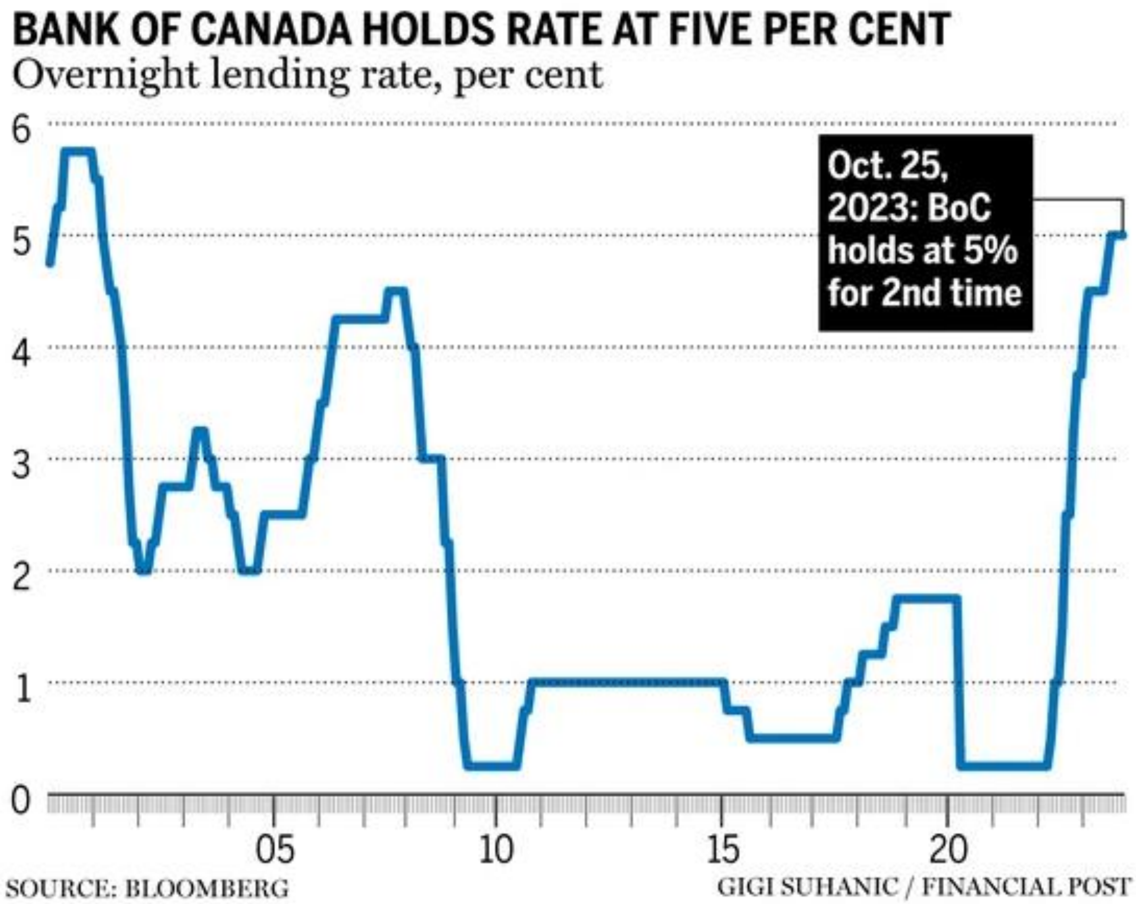
We expect that more of that momentum on inflation will show up as that slack grows in subsequent quarters, and therefore don’t expect to see additional rate hikes ahead, and room to ease as we approach mid-2024.”

Stephen Brown, Capital Economics

“Although the Bank of Canada maintained its tightening bias today, the rest of the policy statement suggests that the bank is growing more confident that its job is done.

We continue to expect the bank to cut interest rates by much more than markets are pricing in next year.

"We see scope for headline inflation to return to the two per cent target in the third quarter of 2024, a full year before the bank anticipates. That is partly because, in contrast to the bank's view that the economy will avoid recession, we judge that we are already in the opening stages of one. We see scope for the bank to begin cutting interest rates from around April 2024, taking the policy rate back to three per cent by the end of the year."



James Orlando, TD Economics

"Although the Bank of Canada has painted a clear picture for why it doesn't need to hike again, we expect its hawkish rhetoric to persist. It needs to maintain current tight financial conditions in order to achieve its forecast slowdown. And while markets are hesitant to build in another hike, the impact of the bank's rhetoric has resulted in a higher for longer path for its policy rate."

Douglas Porter, BMO Economics

“We have long believed that fiver per cent rates are plenty high enough to eventually quell underlying inflation, but it will take time and patience. Strong wage growth and firm core inflation trends are going to test the bank’s patience. However, all signs suggest that the economy is struggling mightily to grow — despite the artificial sweetener of a surging population — with Q3 GDP about flat, housing halting, consumer confidence crumbling, and the Business Outlook Survey pointing south. Still, price and wage growth remain too fast for the BoC to back off its hawkish rhetoric just yet. To act on that hawk talk would take either a big rebound in growth, a renewed acceleration in inflation, or perhaps a considerably weaker Canadian dollar. We assume none of those forces will weigh in, and look for the bank to remain on hold deep into 2024.”

Charles St-Arnaud, Alberta Central

“It remains clear that if there were a tug-of-war between economic activity and fighting inflation, the BoC would choose the fight against inflation. With this in mind, we believe that the BoC is likely on the sideline for the rest of the year as long as inflation continues to decelerate gradually. However, further rate increases cannot be fully ruled out if inflation were to prove more persistent than expected, even though the probability of such an outcome is low in our view.”

Claire Fan, RBC Economics

“With CPI (consumer price index) readings still running well above the two per cent target, the BoC is firmly focused on getting inflation under control. Slower than expected progress is a concern. But evidence continues to build that interest rates are already restrictive enough to continue to cool the economy and alleviate price pressures. Indeed, consumers in the coming quarters are expected to further cut spending as more of them contend with rising borrowing costs. A weaker global economic backdrop is also expected to slow export and investment activities with Canadian businesses, who are already facing tighter financial conditions following a rise in longer-maturity bond yields. The BoC will be cautious about starting to ease off the monetary policy brakes too quickly – we expect the overnight rate will be held at five per cent through the first half of next year, with modest rate cuts to follow starting in Q3 2024.”

Sebastien Lavoie, Laurentian Bank

“A very long walk to two per cent inflation implies a very long period with a restrictive monetary policy stance. We previously have expected the policy rate to stay at five per cent until June 2024 to prevent the real policy rate from becoming too restrictive. But the small window of opportunity to pull back slightly the overnight rate target gets even narrower. Accordingly, the risk is tilting in favour of holding the nominal policy rate at five per cent for a longer period, until July or September 2024.”