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Bank of Canada ready for another half-point rate cut if warranted, Macklem says

MARK RENDELL || OCTOBER 30, 2024



Bank of Canada Governor Tiff Macklem waits to appear at the Senate Banking, Commerce and the Economy committee, in Ottawa, on Oct. 30. ADRIAN WYLD/THE CANADIAN PRESS

Bank of Canada Governor Tiff Macklem said the central bank is prepared to cut interest rates by half a percentage point again if the economic conditions warrant it.

“We’re taking it one meeting at a time. We’ve demonstrated we’re prepared to do a 50-basis-points cut if we think that’s appropriate. And if we think it’s appropriate to do it again, we’ll do it again,” Mr. Macklem told the Senate committee on banking, commerce and the economy on Wednesday.

Last week, the central bank lowered its policy rate by a half-point, bringing the benchmark rate to 3.75 per cent. This followed three smaller quarter-point cuts, starting in June.

With inflation back around the central bank's 2-per-cent target, monetary policy makers are trying to get interest rates back to a more neutral level to stimulate growth and avoid a recession.

"We've been pretty clear that we anticipate lowering them further, unless we're surprised by economic developments," Mr. Macklem said on Wednesday.

He said that the bank's recent interest rate cuts are starting to feed through into the economy, with an uptick in consumer confidence.

"We know lower interest rates will pass through, and household spending will pick up. There's always some uncertainty about how quickly that happens, how much we have to drop rates to get the pickup we need, and that is something we're watching very closely," he said.

Financial markets are betting that the Bank of Canada will shift back to a quarter-point cut at its next meeting on Dec. 11, with interest rate swap markets putting the odds at around 90 per cent, according to LSEG data. Swap markets see the policy rate declining to 2.75 per cent by the end of next year.

Much of the Senate hearing focused on Canada's poor productivity performance, which has been a theme of several appearances by the governor this week. Mr. Macklem said that business investment in Canada, a crucial ingredient for productivity growth, is being held back by a number of counterproductive policies, which he referred to as "own goals."

These include interprovincial trade barriers, poor credential recognition between provinces and for immigrants, and slow regulatory approvals.

"To some extent, these are well-intentioned policies, but they may well be doing more harm than good," he said.

Mr. Macklem was also asked whether government spending was contributing to inflation. Last year, he argued that deficits at both the federal and provincial level were rowing in the opposite direction as monetary policy.

"We're in a pretty different situation," Mr. Macklem said. "We're no longer trying to get inflation down. Government spending is not pushing against us getting inflation down, we've got it down."