

Contributors

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Chart 1

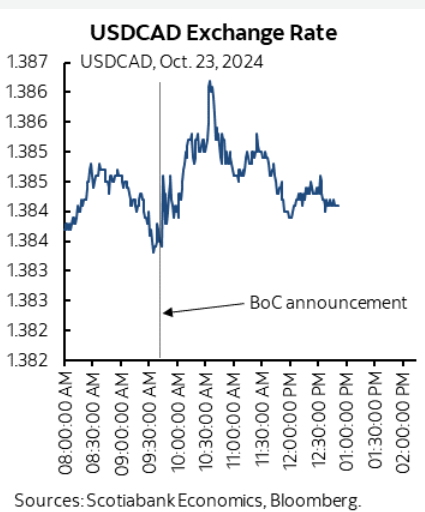
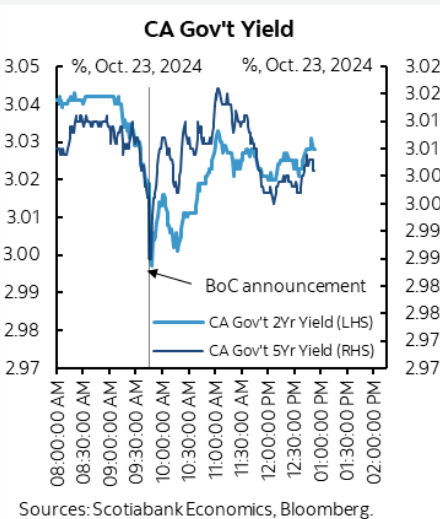


Chart 2



Bank of Canada Cuts 50, Leaves Door Open For Another Upsized Move

- **BoC cut 50bps as expected for a cumulative 125bps of cuts...**
- **...and guided more to come, while leaving the upsizing door wide open...**
- **...with December's size to be data dependent**
- **What to watch and when between now and December**
- **QT plans left unchanged**
- **Faster easing, same projections implies heightened concern...**
- **...that may set a low bar for another outsized move**

The Bank of Canada cut 50bps to take the policy rate to 3.75% and explicitly left the door open to further rate cuts with the size and pace to be determined by data and other developments. They also left balance sheet plans unchanged. Cumulative easing to date equals 125bps of cuts. Their actions met our expectations while leaving intact my views on the longer-run risks the BoC may be courting should rapid policy easing continue.

Key is that the projections left growth and inflation unchanged despite picking up the pace of easing. That may indicate a BoC bias that greater downside risk to the economy would have persisted in the absence of additional easing that would otherwise have faced slightly firmer growth on signs that monetary easing is accelerating.

Charts 1–2 summarize market reactions into and out of today's communications. There was little market reaction as the Canadian dollar softened only very slightly to the USD while Canada's shorter-term bonds are mildly outperforming the US on the day. Market pricing for the next decision seven weeks away on December 11th remains on the fence between a quarter- and fifty-point cut. Terminal pricing remains at 2.75–3% by summer.

I'd say they pulled it off reasonably well today. They cut -50bps and kept everyone guessing with markets on the fence for the size of the next move with terminal still priced around 2.75–3% by next summer.

FORWARD GUIDANCE—MORE CUTS TO COME

I wouldn't spend much time on the BoC's forward guidance a) because it usually performs poorly, and b) because it will be driven by data. For what it's worth, here's what they said in the statement:

"If the economy evolves broadly in line with our latest forecast, we expect to reduce the policy rate further. However, the timing and pace of further reductions in the policy rate will be guided by incoming information and our assessment of its implications for the inflation outlook. We will take decisions one meeting at a time."

And here's what Governor Macklem said in his opening remarks to the press conference:

"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."

When asked explicitly during the press conference about the potential size of the next move, Macklem said this:

"I'm not going to handicap the next move. We've been pretty clear on the direction. The timing and the pace are going to depend on the data. We're going to get a fair amount of information between now and December"

Thus, we need to monitor the large amount of data and developments between now and the next decision, but I'll argue that their starting point may be setting a low bar for another large cut.

All that said, if the BoC wanted to say this was an unusual one-and-done upsizing, then they could have easily done so. The fact they did not, and chose instead to leave the door open, was a dovish signal that sets a low bar for data to guide another large cut.

WHAT TO WATCH AND WHEN BEFORE THE NEXT DECISION

I don't have a view on the size of the next move in December at this point but I would not just assume that this is a one-and-done upsizing. Our published forecast implies a quarter-point move but isn't worth much at this stage before we get a LOT of data between now and then.

GDP:

- August next Thursday with September guidance. I've estimated August GDP at -0.1% m/m SA. We don't have much data for September yet but readings like the -0.4% m/m SA drop in hours worked suggest downside risk.

- September and Q3 with October guidance on November 29th. Key will be how the transition to Q4 GDP is looking. If September and tentative guidance for October are soft then it could add to the BoC's concern that the economy is still creating more and more spare capacity into year-end.

Jobs/wages:

- October data arrives on November 8th
- November data arrives on December 6th

CPI:

- October prices will be released on November 19th and it will be the only inflation reading between now and the December decision.

The next BoC surveys including measures of inflation expectations won't arrive until January.

There will be one FOMC decision (Nov 7th). Plus the US election of course, on Nov 5th.

FORECAST CHANGES

Charts 3-4 show the changes in the Bank of Canada's forecasts. Despite picking up the size and pace of policy easing, the BoC left its forecasts for growth and inflation unchanged compared to the prior round. That could imply they are incrementally concerned about downside risk to their projections as an offset to easier monetary policy.

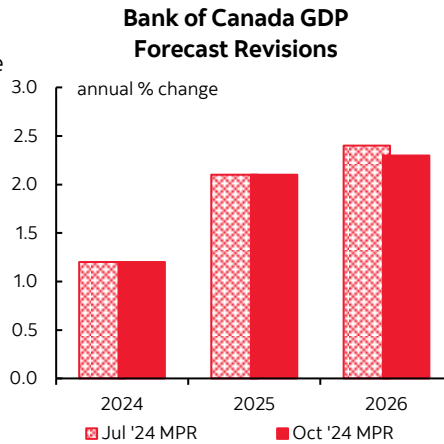
They took Q3 GDP growth down to 1.5% q/q SAAR from 2.8% in the July MPR. They could have gone even lower, as 1% tracking is within the realm of reasonable estimates, but it's still a marked downgrade. They only (explicitly) publish two quarters out at a time, and so we now have their first estimate for Q4 GDP growth which stands at 2% q/q SAAR.

They left next year's GDP growth unchanged at 2.1% Q4/Q4, and took 2026 down a tick to 2.3% Q4/Q4.

CPI was left unchanged at 2% Q4/Q4 in both 2025 and 2026.

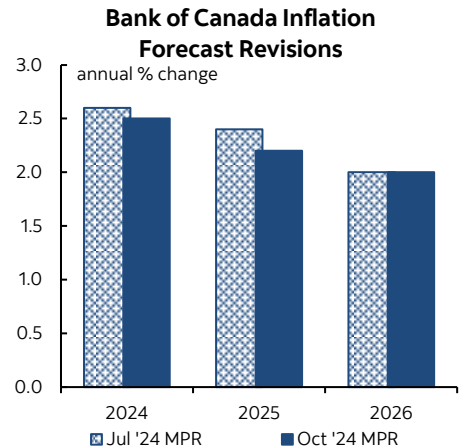
How much attention should we pay to the BoC's inflation forecasts? None. The BoC cannot forecast inflation. Chart 5 is updated to include today's projections. Each dashed line is what past quarterly MPRs expected for inflation versus the red line that is actual inflation. They miss the turning points, undershoot, overshoot, and sound too confident in their projections every step of the way. So, when the BoC sounds confident about hitting 2% inflation sustainably in its forecasts, it's best to ignore.

Chart 3



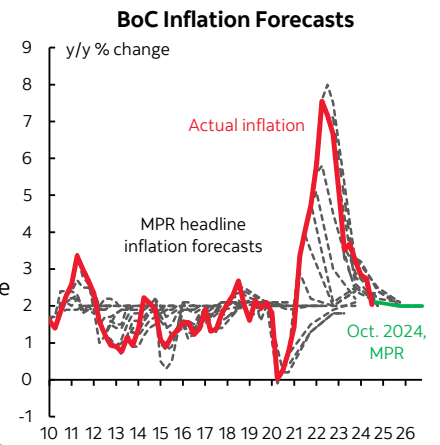
Sources: Scotiabank Economics, Bank of Canada Monetary Policy Report - October 2024.

Chart 4



Sources: Scotiabank Economics, Bank of Canada Monetary Policy Report - October 2024.

Chart 5



Sources: Scotiabank Economics, BoC, Haver.

STATEMENT CHANGES

The statement also flagged \$10 lower oil prices than assumed in the July MPR which matters to Canada via a less supportive terms of trade. They always turn incrementally dovish when the ToT softens materially.

The BoC is doubling down on concerns toward per capita consumption and an expected rebound. I think they're dead wrong to be so obsessed with per capita consumption. Take temps (int'l students, temp foreign workers, asylum seekers) out and it's not falling (chart 6). Temps innately don't spend like others; students are building human capital, while temporary foreign workers spend a little here but send or take back the rest when they leave. Plus temps are a transient population that could be here one minute, gone the next, while Canada tightens their numbers. The BoC shouldn't be chasing them.

PRESS CONFERENCE TRANSCRIPT

What follows is an attempt at provided a rough transcript of what I think were pertinent Qs &As during the press conference.

Q1. How fast do you think the policy rate should move back to a place where it is no longer restrictive?

A1. Macklem: We've been clear about the direction and that we will take our decisions one meeting at a time. Today we decided to take a bigger step because of recent information. First is headline inflation that has come down significantly. Core inflation has continued to gradually ease. Shelter price inflation has started to come off and increased our confidence it will continue to ease. We still have excess supply in the economy. Expected inflation has come down and are now nearing normal. The economy is growing but continues to be in excess supply. The labour market is soft. We have revised down near-term growth. To us that suggests it was appropriate to take a bigger step today. We also guided we anticipate further cuts one at a time. Our focus now is very much on keeping inflation close to the middle of the 1–3% range. As the upward forces on inflation ease we need growth to pick up. We'll be watching growth and inflation between now and December.

Q2. How much discussion was there about a 25 or 50 move or even larger?

A2. Macklem: There was a clear consensus that it was appropriate to take a larger step today. You'll get the summary of deliberations in a couple of weeks that will give more colour.

Q3. Does the acceleration of rate cuts suggest you will bring forward the timing of when you will end QT?

A3. Rogers: We haven't really changed our position on QT. They are both parts of the normalization process.

Q4. Do you have greater concern about undershooting the inflation target?

A4. Macklem: Our forecast has inflation staying close to the middle of the range. With lower rates the stage is set for growth to pick up. It's a pretty good looking story with growth picking up and lower inflation.

Q5. How are you weighing concerns in housing?

A5. Rogers. We do have a forecast pick up in housing. There are bidirectional risks to the timing and magnitude.

Q6. How likely is it that you may have to cut another 50bps in December?

A6. Macklem: I'm not going to handicap the next move. We've been pretty clear on the direction. The timing and the pace are going to depend on the data. We're going to get a fair amount of information between now and December

Q7. How much does the Bank factor in bond market expectations. If yields were to start marching higher, how much would that market outlook affect your expectation of how much more easing we need in Canada?

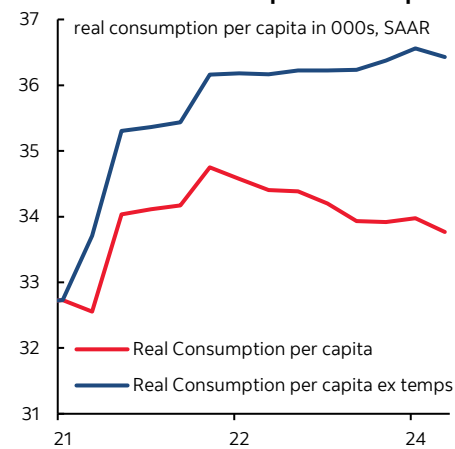
A7. Macklem: Rambling answer saying they look at broad conditions and basically will do what they must.

Q8. What would be the impact of possible tariffs imposed by the US on Canada? On monetary policy?

A8. Macklem: We'll take risks and changes in policy into account but at this stage the policies have not yet been announced.

Chart 6

Canada Real Consumption Per Capita



Sources: Scotiabank Economics, Statistics Canada.

RELEASE DATE: October 23, 2024

The Bank of Canada today reduced its target for the overnight rate to 3¾%, with the Bank Rate at 4% and the deposit rate at 3¾%. The Bank is continuing its policy of balance sheet normalization.

The Bank continues to expect the global economy to expand at a rate of about 3% over the next two years. Growth in the United States is now expected to be stronger than previously forecast while the outlook for China remains subdued. Growth in the euro area has been soft but should recover modestly next year. Inflation in advanced economies has declined in recent months, and is now around central bank targets. Global financial conditions have eased since July, in part because of market expectations of lower policy interest rates. Global oil prices are about \$10 lower than assumed in the July Monetary Policy Report (MPR).

In Canada, the economy grew at around 2% in the first half of the year and we expect growth of 1¾% in the second half. Consumption has continued to grow but is declining on a per person basis. Exports have been boosted by the opening of the Trans Mountain Expansion pipeline. The labour market remains soft—the unemployment rate was at 6.5% in September. Population growth has continued to expand the labour force while hiring has been modest. This has particularly affected young people and newcomers to Canada. Wage growth remains elevated relative to productivity growth. Overall, the economy continues to be in excess supply.

GDP growth is forecast to strengthen gradually over the projection horizon, 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. Residential investment growth is also projected 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.

Overall, the Bank forecasts GDP growth of 1.2% in 2024, 2.1% in 2025, and 2.3% in 2026. As the economy strengthens, excess supply is gradually absorbed.

CPI inflation has declined significantly from 2.7% in June to 1.6% in September. Inflation in shelter costs remains elevated but has begun to ease. Excess supply elsewhere in the economy has reduced inflation in the prices of many goods and services. The drop in global oil prices has led to lower gasoline prices. These factors have all combined to bring inflation down. The Bank's preferred measures of core inflation are now below 2½%. With inflationary pressures no longer broad-based, business and consumer inflation expectations have largely normalized.

The Bank expects inflation to remain close to the target over the projection horizon, with the upward and downward pressures on inflation roughly balancing out. The upward pressure from shelter and other services gradually diminishes, and the downward pressure on inflation recedes as excess supply in the economy is absorbed.

With inflation now back around the 2% target, Governing Council decided to reduce the policy rate by 50 basis points to support economic growth and keep inflation close to the middle of the 1% to 3% range. ***If the economy evolves broadly in line with our latest forecast, we expect to reduce the policy rate further. However, the timing and pace of further reductions in the policy rate will be guided by incoming information and our assessment of its implications for the inflation outlook. We will take decisions one meeting at a time.*** The Bank is committed to maintaining price stability for Canadians by keeping inflation close to the 2% target.

RELEASE DATE: September 4, 2024

The Bank of Canada today reduced its target for the overnight rate to 4¼%, with the Bank Rate at 4½% and the deposit rate at 4¼%. The Bank is continuing its policy of balance sheet normalization.

The global economy expanded by about 2½% in the second quarter, consistent with projections in the Bank's July Monetary Policy Report (MPR). In the United States, economic growth was stronger than expected, led by consumption, but the labour market has slowed. Euro-area growth has been boosted by tourism and other services, while manufacturing has been soft. Inflation in both regions continues to moderate. In China, weak domestic demand weighed on economic growth. Global financial conditions have eased further since July, with declines in bond yields. The Canadian dollar has appreciated modestly, largely reflecting a lower US dollar. Oil prices are lower than assumed in the July MPR.

In Canada, the economy grew by 2.1% in the second quarter, led by government spending and business investment. This was slightly stronger than forecast in July, but preliminary indicators suggest that economic activity was soft through June and July. The labour market continues to slow, with little change in employment in recent months. Wage growth, however, remains elevated relative to productivity.

As expected, inflation slowed further to 2.5% in July. The Bank's preferred measures of core inflation averaged around 2 ½% and the share of components of the consumer price index growing above 3% is roughly at its historical norm. High shelter price inflation is still the biggest contributor to total inflation but is starting to slow. Inflation also remains elevated in some other services.

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.

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