C.D. Howe Institute Monetary Policy Council Calls for Bank of Canada to Hold Overnight Rate at 4.50 Percent through October, Cut to 4.00 Percent by June of 2024

June 1, 2023 – The C.D. Howe Institute's **Monetary Policy Council** (MPC) recommends that the Bank of Canada hold its target for the overnight rate, its benchmark policy interest rate, at 4.50 percent on June 7th, and keep it at that level for the next six months. By June of 2024, the Council recommends a cut to 4.00 percent.

The MPC provides an independent assessment of the monetary stance consistent with the Bank of Canada's 2 percent inflation target. **William Robson**, the Institute's CEO, chairs the Council.

Council members make recommendations for the Bank of Canada's upcoming interest-rate announcement, the subsequent announcement, and the announcements six months and one year ahead. The Council's formal recommendation for each announcement is the median vote of members attending the meeting.

The Council also offers a view on whether the Bank should accelerate, maintain or slow the planned reduction in its holdings of Government of Canada bonds. On this occasion, the majority voted for the Bank to maintain its planned pace of reduction.

Although the median vote from the 11 Council members attending the meeting was for no change in the overnight rate target for the next six months, some members favoured a higher target in the near term. Three voted for a hike to 4.75 percent next week, and by July, three wanted 4.75 percent and one wanted 5.00 percent. By December, sentiment was evenly distributed around the median, with three members wanting a higher target and three a lower one. By June of 2024, one member wanted a target of 5.00 percent and one a target of 4.50 percent, while optimism that inflation would be on a path back toward the Bank's 2 percent target led the rest of the group to favour an overnight rate below the current level (see table below).

The Bank of Canada's current policy with respect to its holdings of Government of Canada bonds is to buy nothing and let its holdings shrink as the bonds mature. Three of the members in attendance called for the Bank of Canada to accelerate the reduction, while the other eight called for the Bank to maintain its intended schedule.

In discussing developments in the Canadian economy and inflation since the Bank of Canada's last overnight rate announcement in April, Council members noted that aggregate demand had proved more resilient, and inflation more persistent, than most forecasters had expected then. While noting signs of slowing growth overseas and in the United States, and weaker growth of real domestic income and corporate profits in Canada, the continued strength of labour markets and recent signs of a rebound in the housing sector featured strongly in the discussion. While several members said that a recession still seems likely, they now expected it to be later and perhaps shallower than previously anticipated. Recent worse-than-expected inflation numbers also received attention from the group, and several members pointed out that flat productivity and wages catching up with inflation meant that rising unit labour costs would continue to work against the Bank's efforts to bring inflation back to target.

Two major points on which council members expressed uncertainty or disagreement were the apparently limited impact of overnight-rate increases so far, and the implications of unprecedentedly rapid immigration for monetary policy. The group canvassed several reasons why rate hikes to date had not curbed activity in the housing market and consumer spending as much as expected, including healthy post-pandemic household balance sheets and lags in the impact of higher mortgage rates. Faster population growth featured in that discussion, with Council members generally expecting its upward pressure on demand to outweigh, at least in the near term, its positive impacts on productive capacity. Several members also mentioned higher-than-expected government spending as an important recent influence. Some members judged that, on balance, these considerations made a higher overnight rate desirable. Others judged that these considerations meant that the overnight rate should stay at its current level longer than they previously favoured, and observed that the Bank of Canada can hold the overnight rate steady in the near term, hiking later if developments warrant it.

Votes of MPC Members and the Council Median for Each Announcement (*percent*)					
MPC Members	**7 June, 2023**	**12 July, 2023**	**6 December, 2023**	**June 2024**	**Reduction in Bond Holdings**
Steve Ambler Université du Québec à Montréal (UQAM)	4.50	4.50	4.25	3.75	Maintain
Beata Caranci TD Bank Group	4.50	4.50	4.50	4.00	Maintain
Edward A. Carmichael Ted Carmichael Global Macro	4.75	5.00	5.00	5.00	Maintain
Michael Devereux University of British Columbia	4.50	4.50	4.25	4.00	Maintain
Stéfane Marion National Bank of Canada	4.50	4.50	4.50	4.00	Maintain
Angelo Melino University of Toronto	4.75	4.75	4.50	4.00	Accelerate
Jean-François Perrault Scotiabank	4.75	4.75	4.75	4.25	Accelerate
Douglas Porter BMO Capital Markets	4.50	4.75	4.75	4.50	Accelerate
Avery Shenfeld CIBC	4.50	4.50	4.50	4.25	Maintain
Stephen D. Williamson Western University	4.50	4.50	4.00	3.50	Maintain
Craig Wright RBC	4.50	4.50	4.50	3.50	Maintain
Median Vote	4.50	4.50	4.50	4.00	N/A

The views and opinions expressed by the participants are their own and do not necessarily reflect the views of the organizations with which they are affiliated, or those of the C.D. Howe Institute.

The MPC's next vote will take place on July 6, 2023, prior to the Bank of Canada's overnight rate announcement on July 12.

* * * * *

Contact: Mawakina Bafale; e-mail: mbafale@cdhowe.org.