C.D. Howe Institute Monetary Policy Council Calls for Bank of Canada to Hold Overnight Rate at 5.00 Percent through March, Cut to 3.75 Percent by January of 2025

January 18, 2024 – The C.D. Howe Institute's **Monetary Policy Council** (MPC) recommends that the Bank of Canada maintain its target for the overnight rate, its benchmark policy interest rate, at 5.00 percent at its next announcement on January 24th. The MPC further recommends that the Bank keep the target at 5.00 percent in March, before reducing it to 4.50 percent by July and to 3.75 percent by January of 2025.

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. Since the Bank of Canada sets the overnight rate in increments of 25 basis points, median votes that are not increments of 25 basis points – as occurred this time with the votes for July and January 2025 – are rounded in the direction of the mean vote.

The call for an unchanged overnight rate target next week was almost unanimous, with nine of the 10 MPC members attending the meeting calling for a target of 5.00 percent, while one voted for a reduction to 4.75. For the March setting, two member voted for a reduction to 4.50 and one voted for 4.75, with the remaining seven voting for an unchanged target of 5.00 percent. By July, nine of the members voted for a target in a range between 4.00 and 4.75 percent. By January of 2025, all members voted for a lower overnight rate, with the recommendations ranging between 3.25 and 4.50 percent (see table below).

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. The Bank of Canada's current policy is to buy nothing and let its holdings shrink as the bonds mature. Eight of the 10 members attending the meeting called for the Bank to maintain that schedule between now and its overnight-rate announcement in March. One called for the Bank to slow it – that is, buy bonds to replace at least part of those that will mature – because of concerns about liquidity in the bonds affected. One called for the Bank to accelerate the reduction in its holdings by selling its real-return bonds.

Although the group judged that inflation pressure in Canada is abating, and that the CPI will move back toward the 2 percent target, differences in members' preferences about the timing and size of cuts to the target overnight rate reflected different levels of confidence in the momentum of inflation's decline and in the appropriateness of the Bank moving quickly. Members favouring slower and smaller cuts in the overnight rate emphasized economic resilience – notably in the United States, but also on the part of many Canadian households – stubbornly high "core" inflation, inflation expectations and wage gains, and pressures in the housing market exacerbated by surging immigration. Members favouring faster and larger cuts emphasized the continuing disinflationary impacts of past monetary restraint, indicators of growing slack in the labour market, the smaller number of items in the CPI showing above-target increases, and geopolitical risks that could negatively affect demand.

The group devoted considerable attention to the way in which mortgage costs enter the CPI. Several members urged the Bank of Canada to emphasize the lagged effect of changes in mortgage rates on measured inflation in its communications, lest observers of still-high total inflation judge future overnight rate cuts as premature. This was one particular instance of the group's general concern about the Bank lowering the overnight rate before inflation is clearly returning to 2 percent, concern that helps explain the large range of recommendations for the target by July and in January of 2025.

Votes of MPC Members and the Council Median for Each Announcement (*percent*)					
MPC Members	**24 January, 2024**	**6 March, 2024**	**24 July, 2024**	**January 2025**	**Reduction in Bond Holdings**
Steve Ambler Université du Québec à Montréal (UQAM)	5.00	4.75	4.25	3.75	Maintain
Beata Caranci TD Bank Group	5.00	5.00	4.25	3.25	Maintain
Ted Carmichael Ted Carmichael Global Macro	5.00	5.00	5.00	4.50	Maintain
Michael Devereux University of British Columbia	5.00	5.00	4.75	4.00	Maintain
Angelo Melino University of Toronto	5.00	5.00	4.50	4.00	Accelerate
Jean-François Perrault Scotiabank	5.00	5.00	4.50	3.75	Maintain
Luba Peterson Simon Fraser University	5.00	4.50	4.25	4.00	Maintain
Avery Shenfeld CIBC	5.00	5.00	4.25	3.50	Maintain
Stephen Williamson Western University	4.75	4.50	4.00	3.50	Maintain
Craig Wright RBC	5.00	5.00	4.50	4.00	Slow
Median Vote	5.00	5.00	4.50	3.75	Maintain

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. Forecasters' recommendations may differ from their predictions.

The MPC's next vote will take place on February 29, 2024, prior to the Bank of Canada's overnight rate announcement on March 6.

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