

Dear clients,

As many of you likely heard, the Bank of Canada has cut their rate for the first time in over 4 years. The CBC article is below.

Please remember, when the Bank of Canada does a rate cut, this only affects variable rates. Fixed rates are based on bond yields, which have actually been increasing which may push fixed rates up.

The Bank of Canada has lowered its key interest rate to 4.75 per cent, marking the bank's first rate cut since March 2020.

Bank governor Tiff Macklem said in opening remarks that the bank's monetary policy no longer needs to be as restrictive.

"We've come a long way in the fight against inflation. And our confidence that inflation will continue to move closer to the two per cent target has increased over recent months," Macklem said.

Economists were largely expecting the move. The inflation rate has moved closer to the bank's two per cent goal in recent months, coming in at 2.7 per cent in April, with the bank's preferred core measures of inflation also easing throughout the spring.

Meanwhile, quarterly GDP numbers released last week were weaker than expected: the economy grew by 1.7 per cent during the first three months of the year, increasing the likelihood of a cut.

After a cycle of aggressive interest rate hikes, the Bank of Canada last hiked the rate to five per cent in July 2023 and held it there until Wednesday's cut.



Lowering rates too quickly could jeopardize progress: Macklem

But Macklem stressed that the Bank of Canada is going to take things "one meeting at a time."

Canadians can reasonably expect more cuts so long as inflation continues to ease, and the bank maintains its confidence that inflation is steadily approaching the bank's two per cent goal, Macklem said.

"We don't want monetary policy to be more restrictive than it needs to be to get inflation back to target. But if we lower our policy interest rate too quickly, we could jeopardize the progress we've made," he said.

CIBC economist Andrew Grantham wrote in a note to clients that "with core inflation decelerating and growth remaining tepid there wasn't a good excuse to not begin the process of moving rates lower today."

He expects the Bank of Canada to lower interest rates by another 25 basis points at its next meeting, on July 24, with another two cuts after that before the end of the year.

Tu Nguyen, an economist with RSM Canada, noted that a single rate cut won't revive the economy overnight.

But she said it "signals to consumers and businesses the beginning of a gradual and orderly rate cut cycle that will unfold over the next year and a half. Recovery can begin now and hit full force in 2025."

