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Dear Clients,

The Bank of Canada wrapped up 2024 with another reduction in its policy interest rate. This latest reduction – 50 basis points – follows four previous downward moves that started in June.

Below, will summarize the rationale for this decision, along with the Bank's forward-looking comments.

Canadian economic performance and housing market comments

- The Canadian economy grew by 1% in the third quarter, somewhat below the Bank's October projection, and the fourth quarter also looks weaker than projected
- Third-quarter GDP growth was weighed down by business investment, inventories and exports
- In contrast, consumer spending and housing activity both picked up, suggesting lower interest rates are beginning to boost household spending
- Historical revisions to the National Accounts have increased the level of GDP over the past three years, largely reflecting higher investment and consumption
- The unemployment rate rose to 6.8% in November as employment continued to grow more slowly than the labour force
- Wage growth showed some signs of easing, but remains elevated relative to productivity

Canadian inflation and outlook

- Inflation measured by the Consumer Price Index has been about 2% since the summer, and is expected to average close to the 2% target over the next couple of years
- Since October, the upward pressure on inflation from shelter and the downward pressure from goods prices have both moderated as expected
- Looking ahead, the GST holiday will temporarily lower inflation but that will be unwound once the GST break ends
- Measures of core inflation will be used to assess the CPI inflation trend

Global economic performance and the Canadian dollar

- The global economy is evolving largely as expected in the Bank's October Monetary Policy Report
- The US economy continues to show broad-based strength, with robust consumption and a solid labour market
- US inflation has been holding steady, with some price pressures persisting

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- In the euro area, recent indicators point to weaker growth
- In China, recent policy actions combined with strong exports are supporting growth, but household spending remains subdued
- Global financial conditions have eased and the Canadian dollar has depreciated in the face of broad-based strength in the US dollar

Summary comments

The Bank rationalized today's decision by observing that "with inflation around 2%, the economy in excess supply, and recent indicators tilted towards softer growth than projected, Governing Council decided to reduce the policy rate by a further 50 basis points" to support growth and keep inflation close to the middle of its 1-3% target range.

Outlook

In today's announcement, the Bank noted that "a number" of policy measures have been announced that will affect the outlook for near-term growth and inflation in Canada including reductions in targeted immigration levels. This suggests GDP growth in 2025 will be below the Bank's October forecast.

In the Bank's view, the effects on inflation will likely be more muted, given that lower immigration dampens both demand and supply. Other federal and provincial policies – including a temporary suspension of the GST on some consumer products, one-time payments to individuals, and changes to mortgage rules – will, in the Bank's estimation, affect the dynamics of demand and inflation.

Going forward, the Bank said it "will look through effects that are temporary" and focus on underlying trends to guide its policy decisions.

In addition, the possibility that the incoming US administration will impose new tariffs on Canadian exports to the United States has increased uncertainty and clouded the economic outlook.

In concluding its announcement, the Bank observed that it has reduced its policy interest rate substantially since June. "Going forward, we will be evaluating the need for further reductions in the policy rate one decision at a time."

It further noted that "our decisions will be guided by incoming information and our assessment of the implications for the inflation outlook."

It then repeated its often-hear phrase that it is committed to maintaining price stability for Canadians by keeping inflation close to its 2% target.

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2025 brings more BoC news

The Bank is scheduled to make its first interest-rate decision of 2025 on January 29th

That is another year in the books, I wish everyone a safe and happy holiday. I will be available at anytime during the holidays for any questions.