Another 50bp Bank of Canada cut, but smaller moves lie ahead

The Bank of Canada cut its policy interest rate 50bp at a second meeting in a row. Inflation is already at target, growth is disappointing and excess supply in the economy is growing. This will justify further rate cuts ahead but at a slower pace in 2025, having already loosened policy by 175bp since June

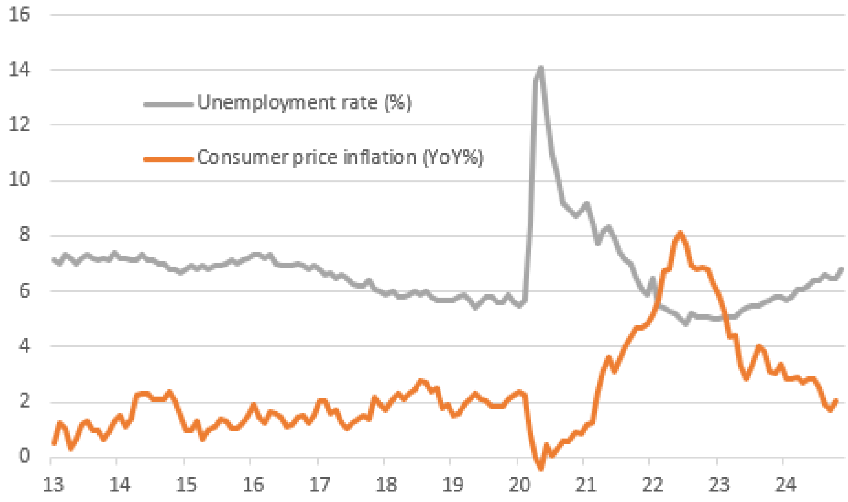
Tiff Macklem, governor of the Bank of Canada

3.25% Canada overnight rate

Growing economic slack prompts a second consecutive 50bp rate cut

Bank of Canada has cut its policy interest rate 50bp to 3.25%, as expected. Last week's surprise jump in unemployment to 6.8% from 6.5% helped cement the call, but inflation is also already at target, justifying a swifter move towards neutral rates than in other countries. In this regard the accompanying statement suggests that third-quarter activity was weaker than expected and the fourth quarter is also set to disappoint.

Canada inflation and unemployment rate



Source: Macrobond

After some big moves 2025 will see smaller, less frequent rate cuts

They suggest recent immigration controls will lower 2025 GDP relative to expectations, but there will be a limited inflation impact. There will be other temporary factors that will impact the numbers from a technical perspective, such as a sales tax holiday, but the BoC will "look through" these. The BoC are also worried about President Trump's proposed tariffs on Canadian products as this will increase "uncertainty and cloud the economic outlook".

The BoC summarise the situation as one where inflation is at target, there is excess supply in the economy and where the growth numbers are disappointing expectations. They've cut the policy rate 175bp since June and state more cuts are coming, but that “with the policy rate now substantially lower, we anticipate a more gradual approach to monetary policy if the economy evolves broadly as expected". From now on we expect the central bank to move in smaller 25bp steps, perhaps just once per quarter, with rates reaching 2.75% by early second quarter 2025.

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