

International Commentary — December 11, 2024

Bank of Canada Delivers Again

Summary

- The Bank of Canada (BoC) delivered a large 50 bps rate cut for the second meeting in a row at today's announcement, lowering its policy rate to 3.25%.
- While acknowledging an overall softening in growth, the BoC's economic assessment was somewhat balanced, noting areas of both strength and weakness within the economy. Against this backdrop, the central bank signaled a more gradual pace of easing going forward, saying rates have already been lowered substantially since June, and that further reductions in the policy rate will be evaluated one decision at a time.
- In our view, today's announcement reflects some front-loading of the BoC's monetary easing plans. Our base case is for the Bank of Canada to cut its policy rate by 25 bps in January, March and April, which would see the policy rate reach a low of 2.50% in Q2-2025, earlier than we previously forecast. The risks are tilted toward further easing, especially if Canadian growth is weaker than expected or U.S. tariff policy is more aggressive than expected.

Economist(s)

Nick Bennenbroek

International Economist | Wells Fargo Economics
Nicholas.Bennenbroek@wellsfargo.com | 212-214-5636

Bank of Canada Delivers Large Rate Cut, But Turns Less Dovish

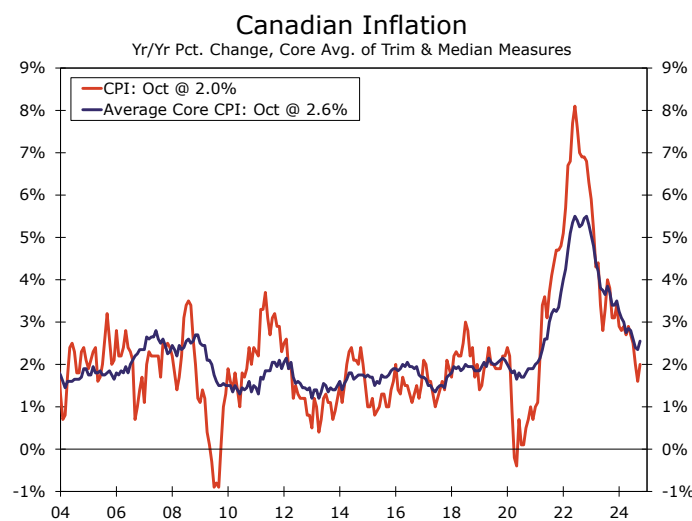
For a second straight meeting, the Bank of Canada delivered a large 50 bps rate cut, taking the policy rate to 3.25%. That decision matched widespread, but not unanimous, expectations. At the same time, the Bank of Canada's move appears to reflect some "front-loading" of its monetary easing plans. We still see the BoC lowering its policy rate to a low of 2.50%, though expect it will reach that level by Q2-2025, earlier than we previously forecast.

Among the key comments accompanying today's decision:

- Canada's Q3 GDP growth pace of 1% was weaker than expected, and Q4 GDP also looks to be tracking softer than forecast.
- On the less dovish side, solid consumer spending and a pickup in housing activity suggest lower interest rates are beginning to boost household spending. While wage growth has slowed, it remains elevated relative to productivity.
- On the more dovish side, the BoC noted weak business investment, said lower Canadian immigration could mean lower GDP growth next year, and said the possibility the U.S. will impose new tariffs on Canadian exports has increased uncertainty around the outlook.
- Overall, the Bank of Canada said the economy remains in excess supply and growth appears weaker than projected in October.

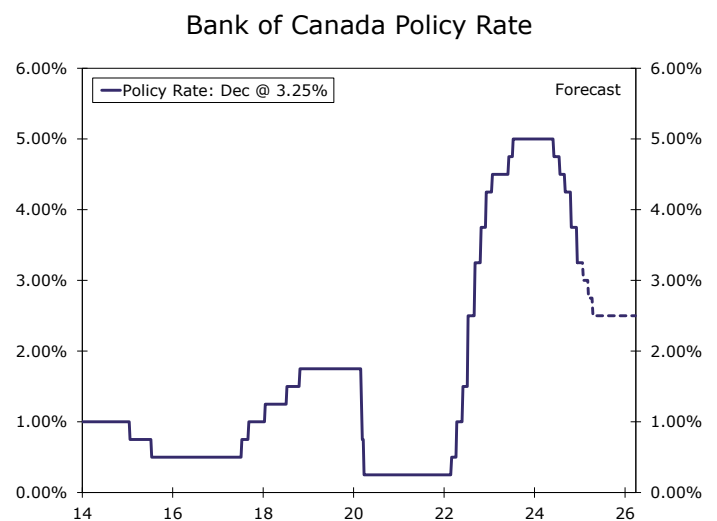
In the context of these somewhat balanced comments around the economic outlook, the BoC's guidance was consistent with a more gradual pace of easing going forward. The central bank said it "has reduced the policy rate substantially since June. Going forward, we will be evaluating the need for further reductions in the policy rate one decision at a time. Our decisions will be guided by incoming information and our assessment of the implications for the inflation outlook."

Expanding on this guidance, Governor Macklem also said "monetary policy no longer needs to be clearly in restrictive territory", and that with the policy rate substantially lower "we anticipate a more gradual approach to monetary policy if the economy evolves broadly as expected." One thing the Bank of Canada did not say, yet, was that it sees a need for accommodative monetary policy.



Source: Bloomberg Finance L.P. and Wells Fargo Economics

Overall, we view today's announcement as reflecting a front-loading of the Bank of Canada's monetary easing plans. With headline inflation at the 2% target and core inflation running only modestly faster, the central bank has flexibility to lower interest rates further, while its guidance suggests those rate cuts will come in smaller 25 bps increments. The BoC's guidance is also consistent with the policy rate being reduced to a neutral range, which the BoC currently estimates as between 2.25% to 3.25%, rather than below that neutral range. Given this guidance, our base case is for the Bank of Canada to cut its policy rate by 25 bps in January, March and April, which would see the policy rate reach a low of 2.50% in Q2-2025. The risks are tilted toward further easing, especially if Canadian growth is



Source: Bloomberg Finance L.P. and Wells Fargo Economics

weaker than expected or U.S. tariff policy is more aggressive than expected. We also view sluggish economic growth and ongoing Bank of Canada easing as consistent with a weaker Canadian dollar over the medium term. We forecast the USD/CAD exchange rate reaching CAD1.5000 by the end of our forecast horizon in Q1-2026.

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

Via The Bloomberg Professional Services at WFRE

Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Grein	Economist	704-410-0369	Shannon.Grein@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Jeremiah Kohl	Economic Analyst	212-214-1164	Jeremiah.J.Kohl@wellsfargo.com
Aubrey Woessner	Economic Analyst	704-410-2911	Aubrey.B.Woessner@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Anna Stein	Economic Analyst	212-214-1063	Anna.H.Stein@wellsfargo.com
Ali Hajibeigi	Economic Analyst	212-214-8253	Ali.Hajibeigi@wellsfargo.com
Coren Miller	Administrative Assistant	704-410-6010	Coren.Miller@wellsfargo.com

Required Disclosures

This report is produced by the Economics Group of Wells Fargo Bank, N.A. ("WFBNA"). This report is not a product of Wells Fargo Global Research and the information contained in this report is not financial research. This report should not be copied, distributed, published or reproduced, in whole or in part. WFBNA distributes this report directly and through affiliates including, but not limited to, Wells Fargo Securities, LLC, Wells Fargo & Company, Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., and Wells Fargo Securities Canada, Ltd. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. WFBNA is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

This publication has been prepared for informational purposes only and is not intended as a recommendation, offer or solicitation with respect to the purchase or sale of any security or other financial product, nor does it constitute professional advice. The information in this report has been obtained or derived from sources believed by WFBNA to be reliable, but has not been independently verified by WFBNA, may not be current, and WFBNA has no obligation to provide any updates or changes. All price references and market forecasts are as of the date of the report or such earlier date as may be indicated for a particular price or forecast. The views and opinions expressed in this report are those of its named author(s) or, where no author is indicated, the Economics Group; such views and opinions are not necessarily those of WFBNA and may differ from the views and opinions of other departments or divisions of WFBNA and its affiliates. WFBNA is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this report, neither WFBNA nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this report, and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. WFBNA is a separate legal entity and distinct from affiliated banks, and is a wholly-owned subsidiary of Wells Fargo & Company. © 2024 Wells Fargo Bank, N.A.

Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority ("FCA"). For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 (the "Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Act for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EFTA, this report is distributed by WFSIL. For recipients in the EU, it is distributed by Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in MiFID2. This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE