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Dear Clients,

Today, the Bank of Canada held its policy interest rate at 4.50%, a welcome outcome for borrowers after almost a year of constant increases, and a timely confidence-builder for the real estate industry as it enters the spring market.

The Bank also issued its latest Monetary Report with updated risk assessments and base-case projections for inflation.

We highlight the Bank's latest observations below.

Inflation acts and outlook

- In Canada, the Consumer Price Index (CPI) inflation eased to 5.2% in February, and the Bank's preferred measures of core inflation were just under 5%
- The Bank expects Canadian CPI inflation to "fall quickly" to around 3% in the middle of 2023 and then decline more gradually to the 2% target by the end of 2024
- Recent data is reinforcing Governing Council's "confidence" that inflation will continue to decline in the next few months
- Similarly, in many countries, inflation is easing in the face of lower energy prices, normalizing global supply chains, and tighter monetary policy
- At the same time, labour markets remain "tight" and measures of core inflation in many advanced economies suggest persistent price pressures, especially for services

Canadian economic performance and outlook

- Domestic demand is still exceeding supply and the labour market remains tight
- Economic growth in the first quarter looks to be stronger than was projected in January, on a "bounce" in exports and solid consumption growth
- While the Bank's Business Outlook Survey suggests acute labour shortages are starting to ease, wage growth remains elevated relative to productivity growth
- Strong population gains are adding to labour supply and supporting employment growth while also boosting aggregate consumption
- Softening foreign demand is expected to restrain exports and business investment

- Overall, GDP growth is projected to be weak through the remainder of this year before strengthening gradually next year, implying the Canadian economy will move into excess supply in the second half of this year
- The Bank now projects Canada's economy will grow by 1.4% this year – an improvement over its last forecast of 1% growth – 1.3% in 2024 (a downgrade from its last forecast of 2% for 2024) and then pick up to 2.5% in 2025

the Mortgage Group Inc.

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Canadian housing market

- Housing market activity remains subdued
- As more households renew their mortgages at higher rates and restrictive monetary policy works its way through the economy more broadly, consumption is expected to moderate this year

Global economic performance and outlook

- The Bank's April Monetary Policy Report projects global growth of 2.6% in 2023 – an improvement over its last forecast of 2% offered in January – and then fall to 2.1% in 2024 (lower than it last forecast of 2.5%), and rise to 2.8% in 2025
- Recent global economic growth has been stronger than anticipated with performance in the United States and Europe surprising on the upside
- However, growth in those regions is expected to weaken as tighter monetary policy continues to feed through those economies
- In particular, US growth is expected to "slow considerably" in the coming months, with particular weakness in sectors that are important for Canadian exports
- Activity in China's economy has rebounded, particularly in services
- Overall, commodity prices are close to their January levels

Outlook

While holding the line on interest rates, the Bank also noted in today's announcement that it is continuing its policy of quantitative tightening and remains "resolute in its commitment to restoring price stability for Canadians." There was nothing new in that statement. However, it also posited that getting inflation the rest of the way back to 2% "could prove to be more difficult because inflation expectations are coming down slowly, service price inflation and wage growth remain elevated, and corporate pricing behaviour has yet to normalize."

As it sets monetary policy going forward, the Bank's Governing Council indicated that it will be "particularly focused" on these indicators, and the evolution of core inflation as it gauges the progress of returning CPI inflation back to its 2% target.

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The Bank also said it continues to assess whether monetary policy is “sufficiently restrictive” to relieve price pressures and “remains prepared to raise the policy rate further if needed” to return inflation to its 2% target.

Next up

We will have to wait until April 20th to get the next CPI reading to gauge progress in one of the Bank’s determining indicators and June 7th for the Bank’s next scheduled policy interest rate announcement.

Please let me know if you have any questions at anytime.

Sincerely,