

Dear clients,

I thought I would use today's Bank of Canada news as my last email for 2023.

The Bank of Canada today held its target for the overnight rate at 5%, with the Bank Rate at 5¼% and the deposit rate at 5%. The Bank is continuing its policy of quantitative tightening.

The global economy continues to slow and inflation has eased further. In the United States, growth has been stronger than expected, led by robust consumer spending, but is likely to weaken in the months ahead as past policy rate increases work their way through the economy. Growth in the euro area has weakened and, combined with lower energy prices, this has reduced inflationary pressures. Oil prices are about \$10-per-barrel lower than was assumed in the October *Monetary Policy Report* (MPR). Financial conditions have also eased, with long-term interest rates unwinding some of the sharp increases seen earlier in the autumn. The US dollar has weakened against most currencies, including Canada's.

In Canada, economic growth stalled through the middle quarters of 2023. Real GDP contracted at a rate of 1.1% in the third quarter, following growth of 1.4% in the second quarter. Higher interest rates are clearly restraining spending: consumption growth in the last two quarters was close to zero, and business investment has been volatile but essentially flat over the past year. Exports and inventory adjustment subtracted from GDP growth in the third quarter, while government spending and new home construction provided a boost.

The labour market continues to ease: job creation has been slower than labour force growth, job vacancies have declined further, and the unemployment rate has risen modestly. Even so, wages are still rising by 4-5%. Overall, these data and indicators for the fourth quarter suggest the economy is no longer in excess demand.

The slowdown in the economy is reducing inflationary pressures in a broadening range of goods and services prices. Combined with the drop in gasoline prices, this contributed to the easing of CPI inflation to 3.1% in October. However, shelter price inflation has picked up, reflecting faster growth in rent and other housing costs along with the continued contribution from elevated mortgage interest costs. In recent months, the Bank's preferred measures of core inflation have been around 3½-4%, with the October data coming in towards the lower end of this range.

With further signs that monetary policy is moderating spending and relieving price pressures, Governing Council decided to hold the policy rate at 5% and to continue to normalize the Bank's balance sheet. Governing Council is still concerned about risks



to the outlook for inflation and remains prepared to raise the policy rate further if needed. Governing Council wants to see further and sustained easing in core

inflation, and continues to focus on the balance between demand and supply in the economy, inflation expectations, wage growth, and corporate pricing behaviour. The Bank remains resolute in its commitment to restoring price stability for Canadians.

Information note

The next scheduled date for announcing the overnight rate target is January 24, 2023. The Bank will publish its next full outlook for the economy and inflation, including risks to the projection, in the MPR at the same time.

I will be working throughout the holiday season, please do not hesitate to call, email or text. With the BoC holding interest rates steady, the bond markets have reacted by reducing bond yields. This could be a good time to, at the minimum, get a 4 month rate hold if you are looking for a property.

Have a great holidays and Happy New Year

Sincerely,

