BANK OF CANADA
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Monetary Policy Report—October 2024

Monetary policy has worked to reduce price pressures in the Canadian economy. Inflation is now around 2% and is expected to remain near the middle of the Bank of Canada's control range of 1% to 3% over the projection.

Overview

Consumer price index (CPI) inflation has fallen and is now around 2%. The recent decline in **inflation** reflects both lower energy prices and weaker underlying inflationary pressures. Overall, inflation is near target, but the distribution of inflation rates across CPI components remains wider than usual.

Over the **projection** horizon, inflation is expected to remain close to the 2% target. Core inflation is forecast to decline gradually. There are both upside and downside **risks** to the Bank of Canada's outlook for inflation, and the Bank is equally concerned with inflation rising above the target or falling below it.

The **Canadian economy** has evolved broadly as anticipated. Relative to the **July forecast**, growth in the second quarter was slightly stronger than expected, while the third quarter looks weaker. Gross domestic product (GDP) per person continues to decline. Energy exports are rising, and growth in both business investment and government spending is slowing.

The Canadian economy continues to be in excess supply. The labour market has softened, with increases in unemployment concentrated among newcomers and youth. Wage growth remains elevated relative to productivity.

Canada's economic growth is expected to pick up gradually and average 2¼% over 2025 and 2026. Consumer spending and business investment are anticipated to strengthen, supported by decreases in interest rates. This **forecast** reflects the net effect of slower increases in population and rising growth in consumption per person. Export demand is also projected to remain strong.

The **global economy** is expected to grow at around 3% over the projection horizon. GDP growth in the United States is strong, but the pace of activity is anticipated to slow. In the euro area, growth remains subdued but is projected to rise gradually. Inflation in advanced economies is expected to be close to central bank targets. In China, economic activity has slowed because of weak domestic demand amid the ongoing property crisis. New stimulus measures should stem further weakness.

Weak growth in China has weighed on the demand for oil. Global oil prices have decreased and remain volatile amid concerns over supply and demand and the conflict in the Middle East.

The *Monetary Policy Report* is a product of the Governing Council of the Bank of Canada: Tiff Macklem, Carolyn Rogers, Toni Gravelle, Sharon Kozicki, Nicolas Vincent and Rhys Mendes.

Learn about Canada's inflation-control strategy, the objective of Canada's monetary policy and the main instruments used to implement it.

Current conditions

Canadian economic activity is evolving largely as expected. Inflation is now near the middle of the Bank of Canada's control range of 1% to 3%.

Growth in quarterly gross domestic product (GDP) has been around 2%, while the labour market continues to soften. The economy remains in excess supply.

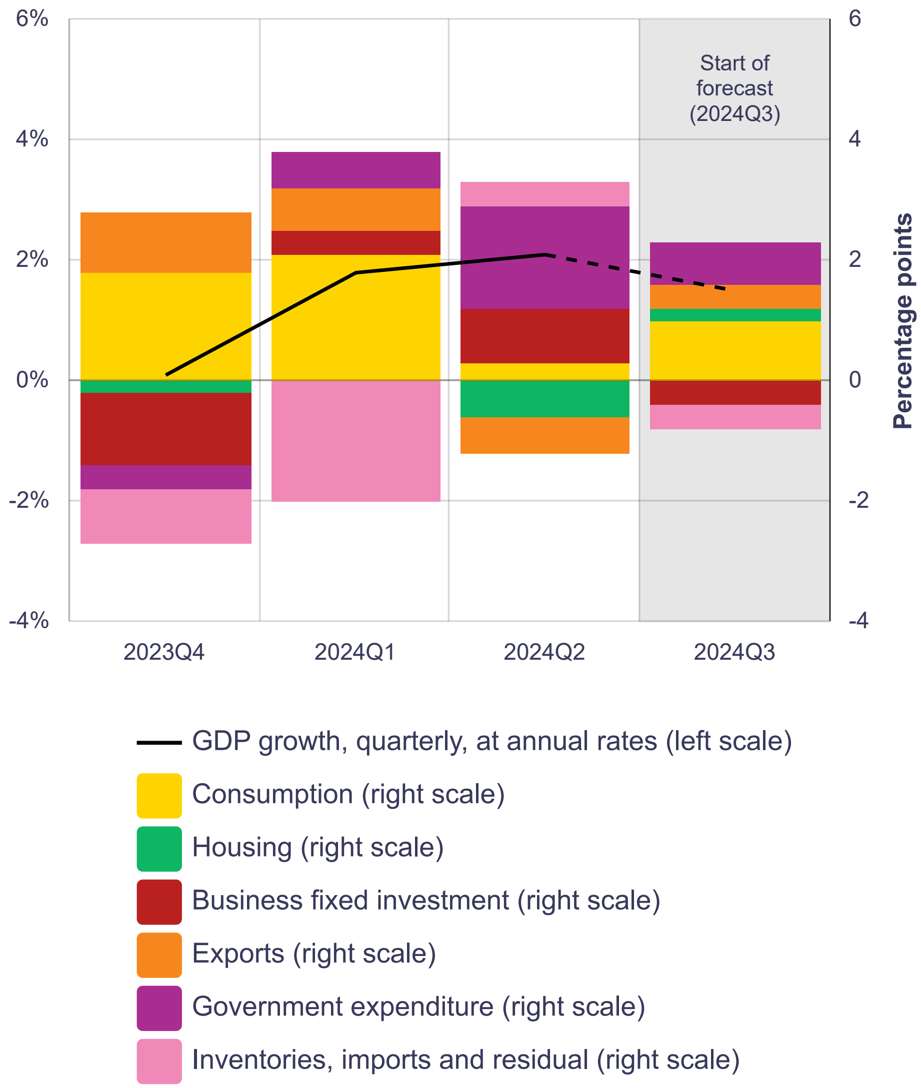
Inflation fell to 1.6% in September from 2.7% in June, primarily due to lower energy prices. While inflation in shelter prices has come down, it remains elevated. Price pressures have moderated across a broad range of other goods and services. The Bank's preferred measures of core inflation, CPI-median and CPI-trim, have eased to 2.3% and 2.4% respectively.

Economic activity

The Canadian economy expanded by about 2% in the first half of the year, and the available data suggest a slightly slower pace of growth—about 1½%—in the third quarter (**Chart 1**).

Chart 1: Real GDP growth is estimated to be around 1½% in the third quarter

Contribution to real GDP growth, quarterly data



Sources: Statistics Canada and Bank of Canada calculations and estimates
Last data plotted: 2024Q3

Growth in domestic demand is estimated to have eased in the third quarter, reflecting slower growth in both business investment and government spending. In contrast, growth in exports is estimated to have picked up.

The growth in GDP reflects still-strong population gains and a further decline in GDP per person. In the third quarter:

- Population growth is estimated to have been around 2¾%, down slightly from about 3% in the first half of the year.

- GDP per person likely declined by about 1¼%, a somewhat larger decrease than the average over the first half of the year.

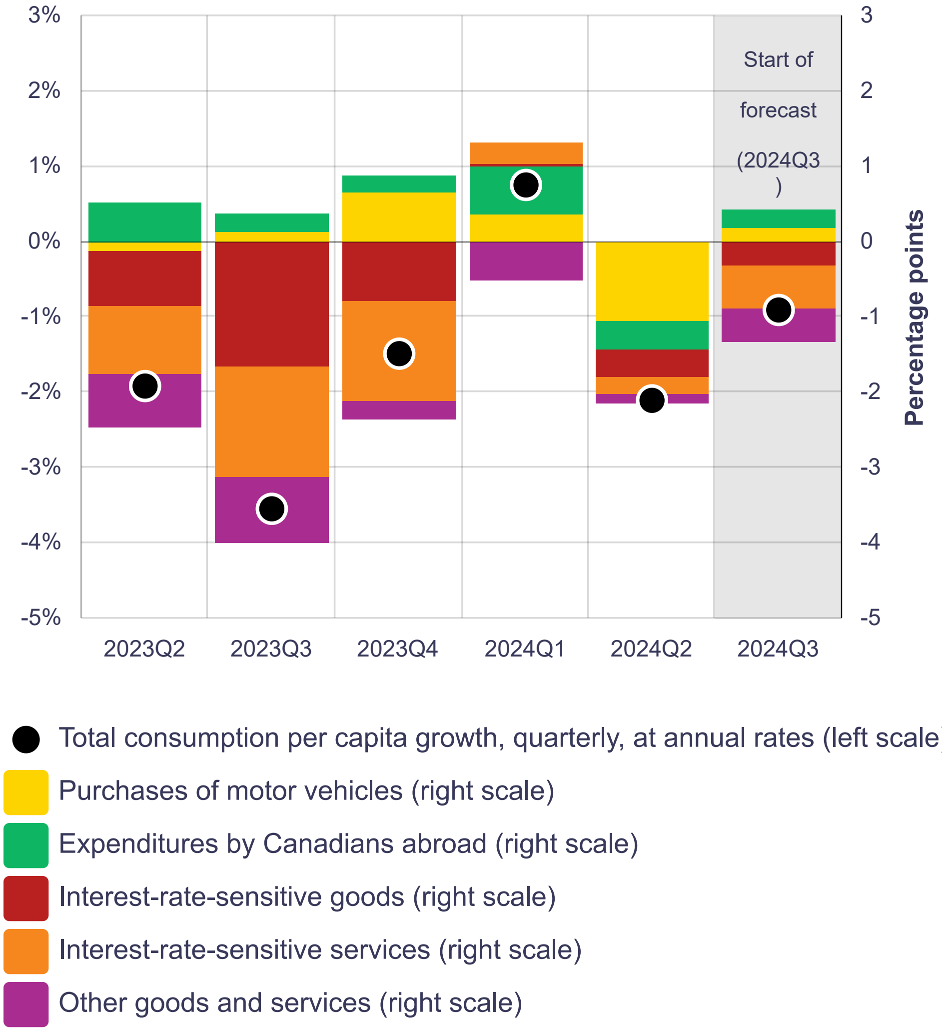
Domestic demand growth has slowed

Growth in final domestic demand is estimated to have eased to 1.5% in the third quarter, down from 2.75% in the first half. This slowdown reflects softening growth in business investment and government spending.

The available data suggest that consumption growth was about 1¾% in the third quarter, broadly in line with the first half of the year. But on a per-person basis, consumer spending is estimated to have continued to decline (**Chart 2**).

Chart 2: Consumer spending per person continues to decline

Contribution to growth in real consumption per capita (aged 15 and older), quarterly data



Note: Data for the population aged 15 and older are from Statistics Canada's quarterly population estimates. For more information about what is included in the consumption categories, see T. Chernis and C. Luu, "Disaggregating Household Sensitivity to Monetary Policy by Expenditure Category," Bank of Canada Staff Analytical Note No. 2018-32 (October 2018).
Sources: Statistics Canada and Bank of Canada calculations and estimates
Last data plotted: 2024Q3

This weakness in spending per person is likely due to the restrictive impact of past increases in interest rates and the soft labour market. For example, youths—who typically spend a greater share of their income on consumption than most other Canadians—have experienced a larger increase in unemployment than other age groups as the labour market has slowed.

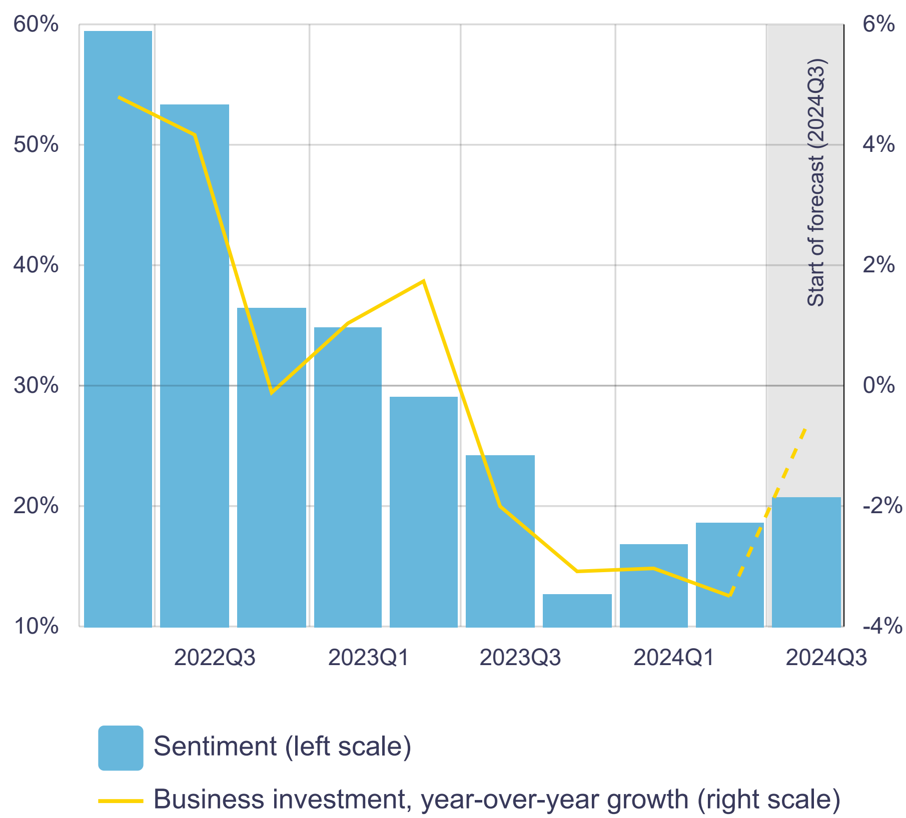
Past increases in interest rates are also affecting the savings rate, which reached about 8% in the third quarter. This is materially higher than its average level of about 3% between 2010 and 2019. Two main factors are at play: returns on savings are relatively elevated, and some households may have set aside extra funds in anticipation of having to renew their mortgages at higher rates.

Growth in both business investment and government spending has eased

Business investment is estimated to have declined modestly in the third quarter. This decrease reflects a reversal of the surge in investment in transportation equipment during the second quarter as well as subdued business sentiment (**Chart 3**).

Chart 3: Business investment and sentiment remain weak

Quarterly data



Note: Data on sentiment are from the Business Leaders' Pulse (BLP). Business sentiment reflects the percentage of businesses reporting positive sentiment minus the percentage reporting negative sentiment. Responses of very good business conditions and very poor business conditions are given twice the weight of responses of good business conditions and poor business conditions. The range of potential outcomes of this double-weighted balance of opinions is -200% to 200%. BLP data are presented as a quarterly average and not monthly observations.
Sources: Statistics Canada and Bank of Canada calculations and estimates
Last data plotted: 2024Q3

Growth in government spending is also estimated to have slowed from a strong pace.

After contracting for three consecutive quarters, residential investment is estimated to have picked up in the third quarter:

- Resales and new construction have started to recover, partly due to recent declines in interest rates and pent-up demand.
- However, high costs for materials and labour and subdued growth in house prices still appear to be weighing on renovations, which could restrain residential investment spending from picking up in the near term.

Export growth has strengthened

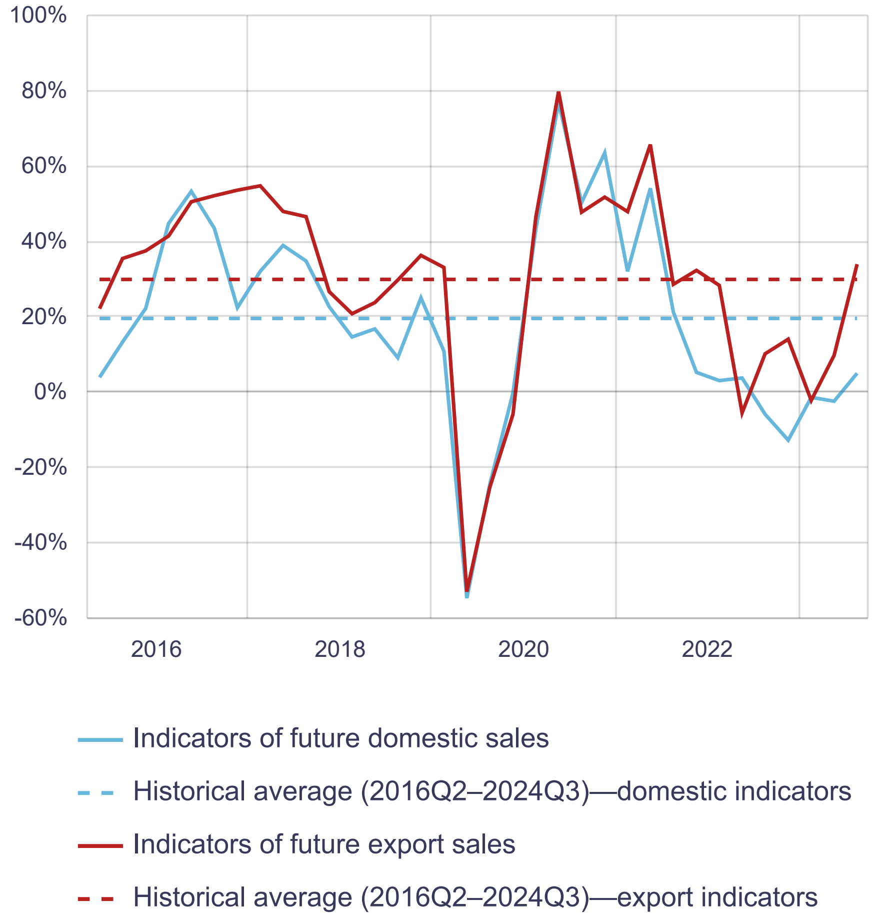
Export growth is estimated to have increased modestly in the third quarter. The expanded capacity provided by the Trans Mountain Expansion pipeline is driving the rise in energy exports. However, this strength from energy exports is partially offset by weakness in exports of motor vehicle parts, which have been impacted by temporary maintenance shutdowns at US production facilities.

Responses to the Bank's latest surveys of Canadian businesses show that exports have emerged as a source of growth (**Chart 4**). Businesses linked to natural resources are expecting the pickup in export growth to continue.

Imports are estimated to be weak, reflecting a decline in motor vehicle imports following strength in the second quarter, along with a pullback in machinery and equipment investment.

Chart 4: Exports have emerged as a source of growth

Balance of opinion, Business Outlook Survey, quarterly data



Note: Balance of opinion is the percentage of businesses reporting that indicators have improved minus the percentage reporting that indicators have deteriorated when asked how their very recent indicators of future sales have changed compared with their indicators 12 months ago.
Source: Bank of Canada
Last observation: 2024Q3

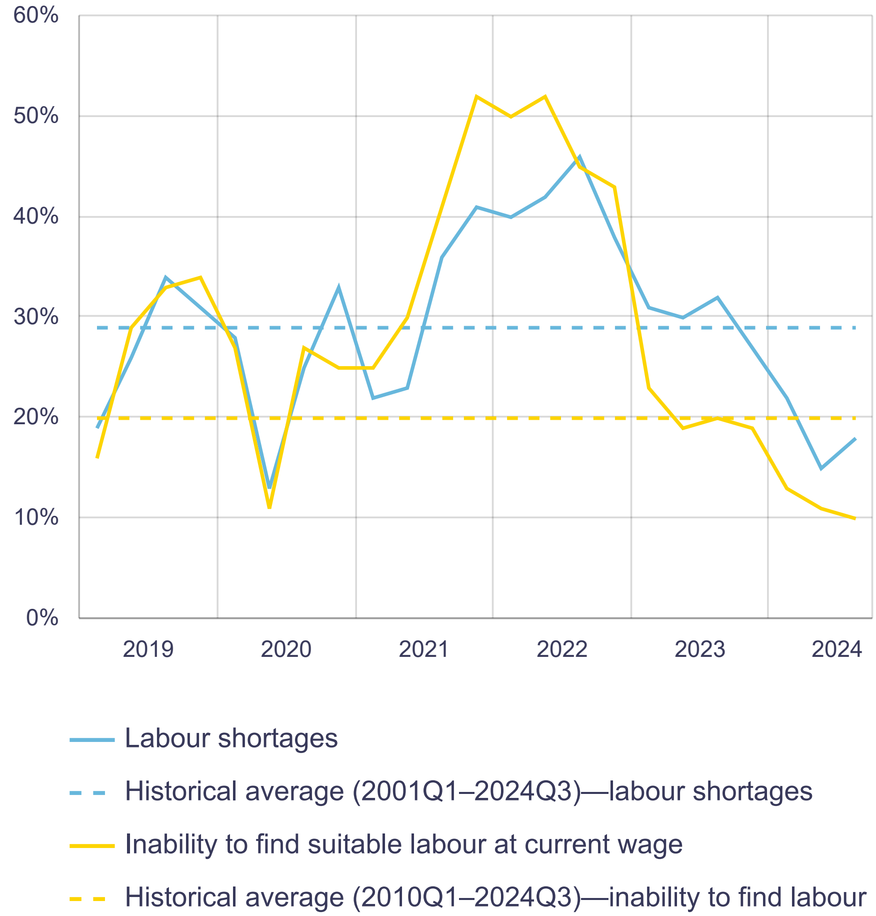
Capacity pressures

The Canadian economy continues to be in excess supply. The share of businesses reporting labour shortages is below its historical average (**Chart 5**).

The output gap is estimated to be roughly unchanged at between -1.75% and -0.75% in the third quarter.

Chart 5: Few businesses are reporting labour shortages

Percentage of respondents, Business Outlook Survey (BOS), quarterly data



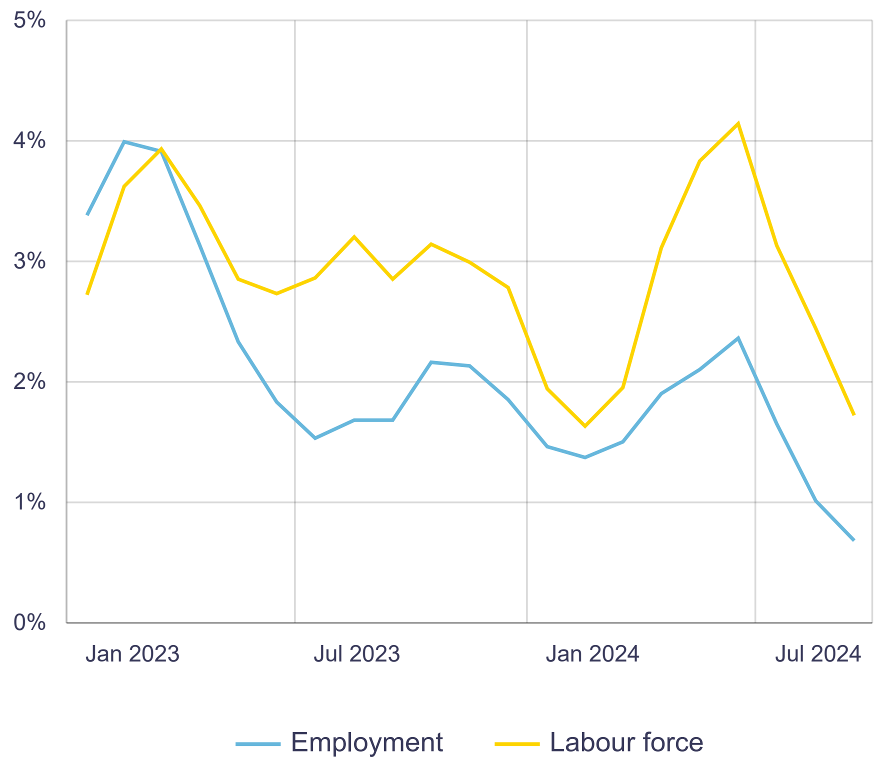
Note: The percentage of respondents to the BOS reporting that their ability to meet demand is restricted by labour shortages and the percentage reporting that the inability to find suitable labour is the most important obstacle to meet demand.
Source: Bank of Canada
Last observation: 2024Q3

Labour market is soft

The labour market continues to soften. Employment growth has been modest, while the labour force has continued to expand due to strong population growth (**Chart 6**). The job finding rate has gone down as businesses' hiring intentions remain muted. The unemployment rate was 6.5% in September.

Chart 6: Labour force growth continues to outpace employment growth

3-month moving average annualized growth, monthly data



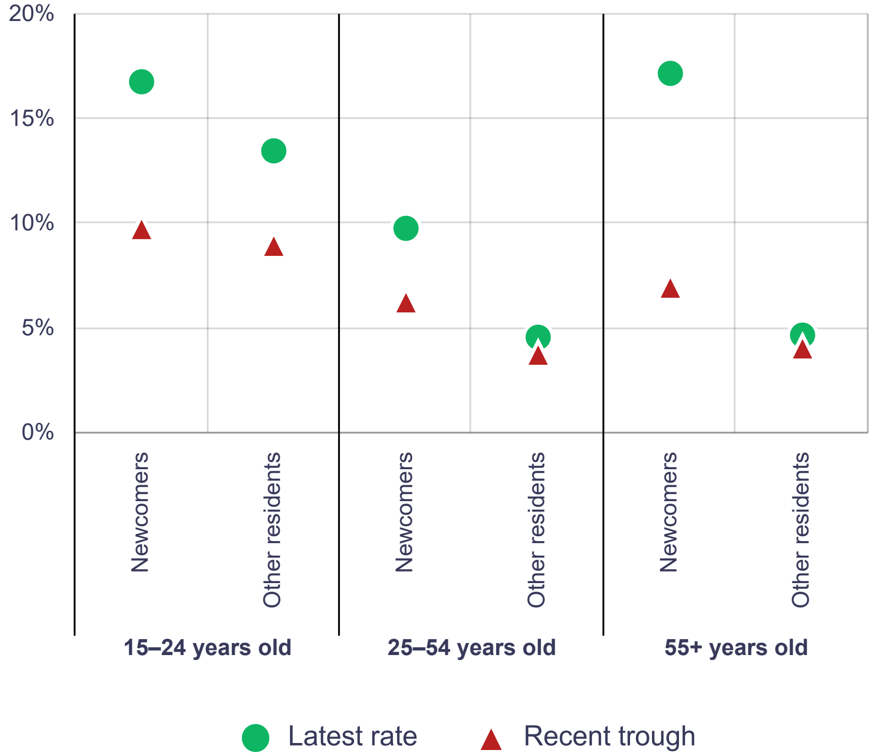
Sources: Statistics Canada and Bank of Canada calculations
Last observation: September 2024

Since the labour market began to cool in early 2023, the increase in the unemployment rate has been concentrated among newcomers and youths (see **In focus: The factors behind the rise in unemployment**; **Chart 7**).[1] Overall, the labour market is in excess supply.

Wage growth remains elevated at around 4% (**Chart 8**).

Chart 7: The increase in the unemployment rate is concentrated among newcomers and youth

Unemployment rates, three-month moving average, seasonally adjusted, monthly data



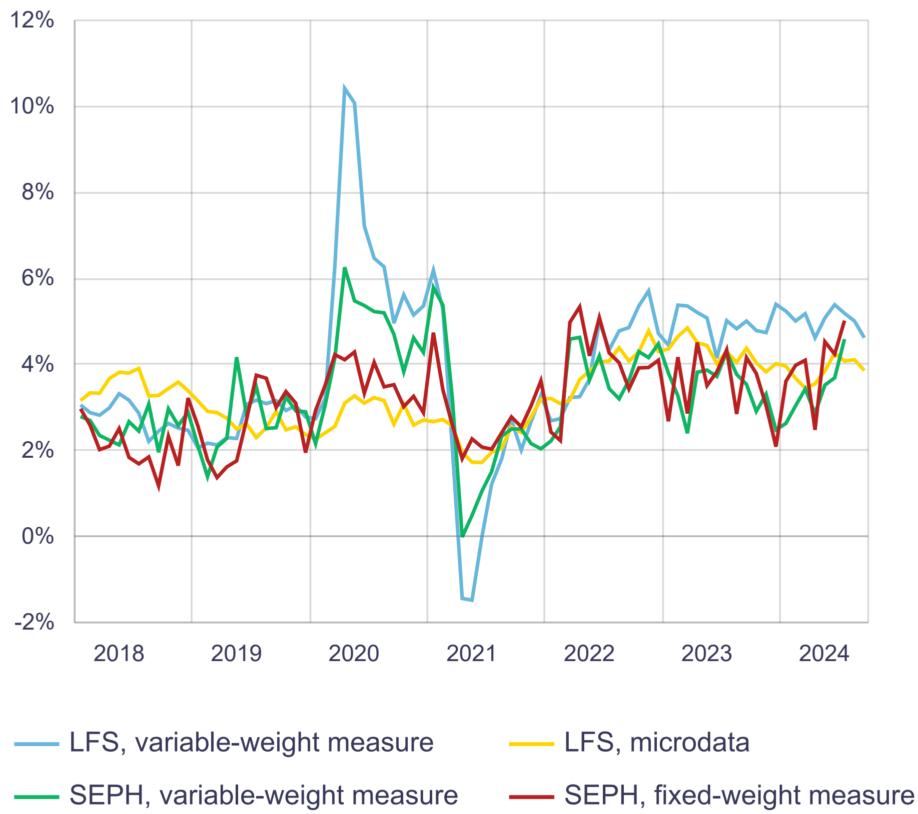
Note: *Newcomers* are permanent residents and naturalized citizens who have arrived within the last five years as well as non-permanent residents. *Recent trough* is the lowest recorded rate between January 2022 and September 2024.

Sources: Statistics Canada and Bank of Canada calculations

Last observation: September 2024

Chart 8: Wage growth remains elevated

Year-over-year percentage change, monthly data



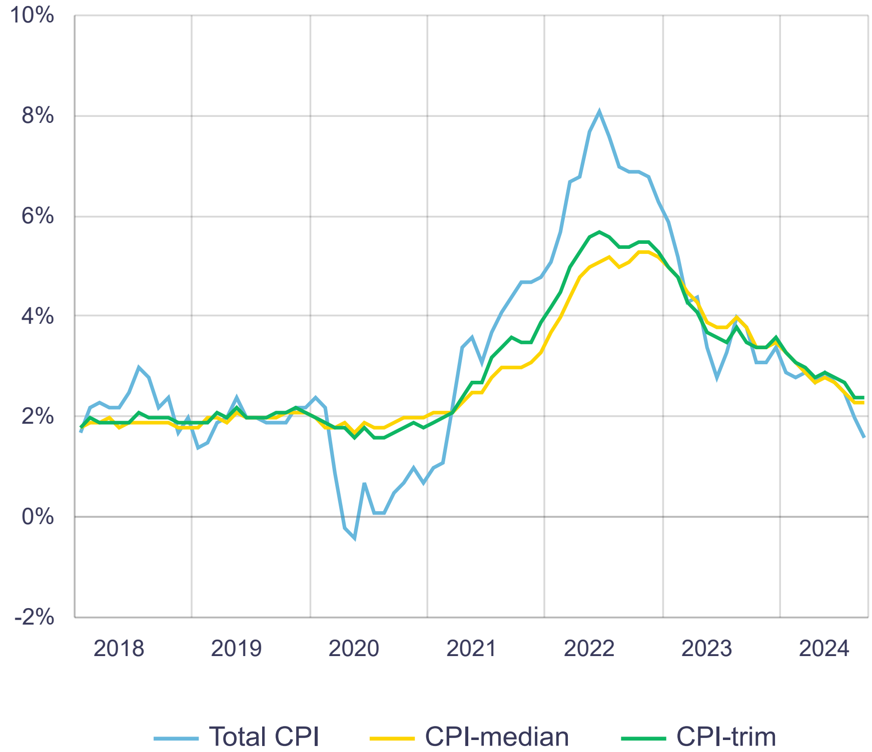
Note: LFS is the Labour Force Survey; SEPH is the Survey of Employment, Payrolls and Hours. *LFS, microdata* measures wage growth using LFS microdata to abstract from changes in worker characteristics, extracting a quality-adjusted price for labour. For more details, see F. Bounajm, T. Devakos and G. Galassi, "Beyond the averages: Measuring underlying wage growth using Labour Force Survey microdata," Bank of Canada Staff Analytical Note No. 2024-23 (October 2024).
Sources: Statistics Canada and Bank of Canada calculations
Last observations: LFS, September 2024; SEPH, July 2024

Inflation

Consumer price index (CPI) inflation is now close to 2%, and inflationary pressures are no longer broad-based (**Chart 9**). The Bank's preferred measures of core inflation, CPI-median and CPI-trim, are at 2.3% and 2.4%, respectively.

Chart 9: Inflation is now close to 2%

Year-over-year percentage change, monthly data



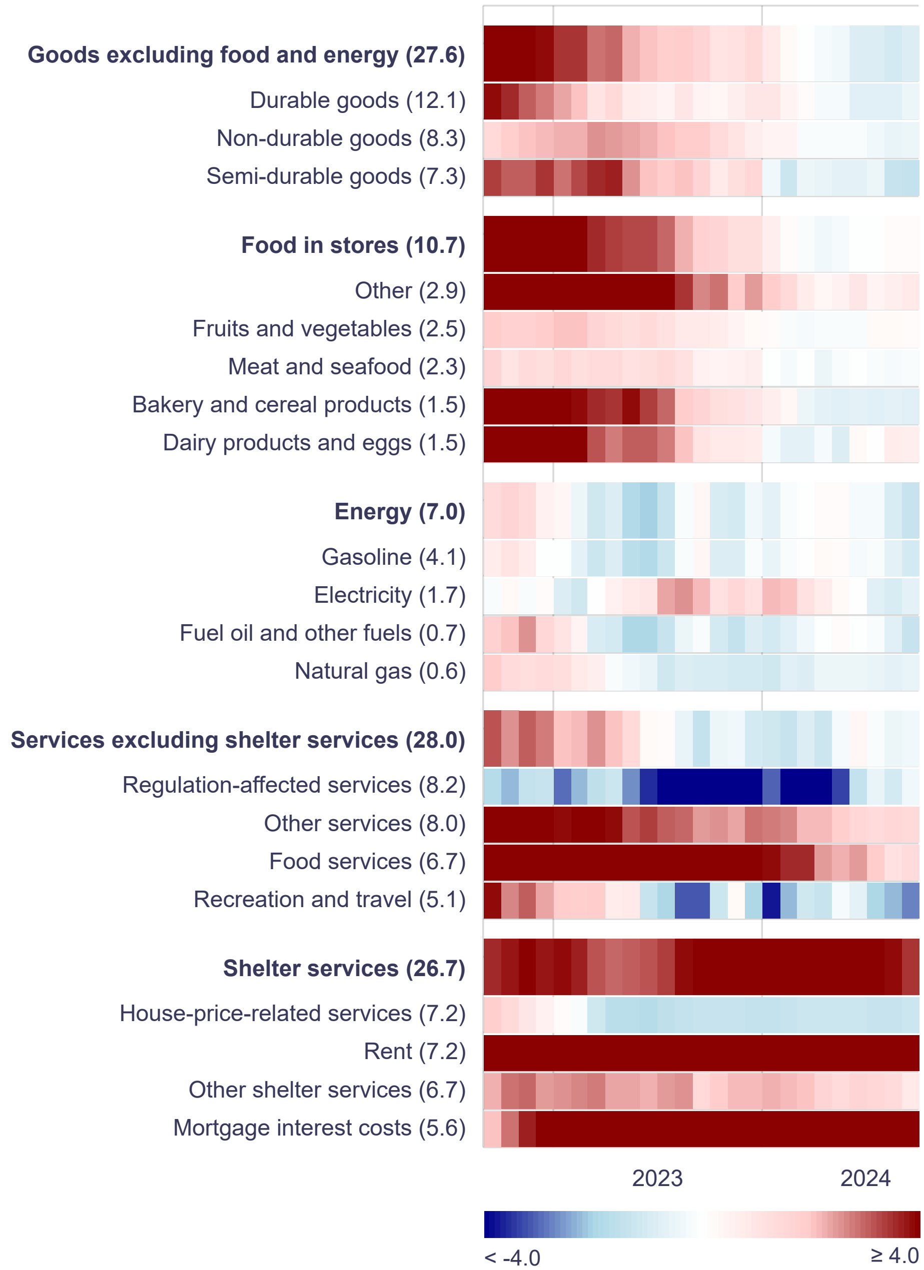
Sources: Statistics Canada and Bank of Canada calculations
Last observation: September 2024

The easing in inflation since the July Report has been largely due to lower energy prices. However, inflation in other components also continues to moderate. Shelter price inflation has shown signs of easing but remains the largest contributor to overall inflation.

Inflation is more dispersed than usual

CPI inflation has come down from 2.7% in June to 1.6% in September. Inflation in many components of the CPI, particularly those for goods, is below historical averages (**Chart 10**, blue bars). At the same time, inflation for a few components, mostly services, is above historical averages (**Chart 10**, red bars).

Chart 10: Inflation in many CPI components is running below historical averages

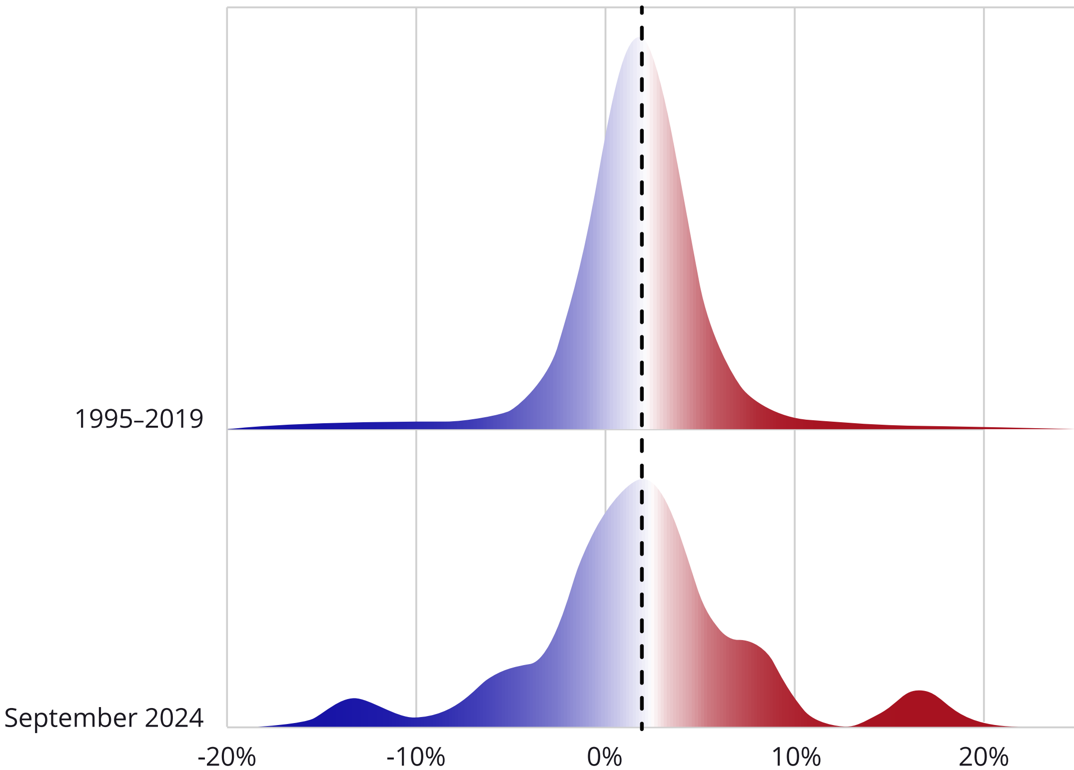


Note: The heatmap shows the distance of each CPI component's year-over-year inflation rate from its historical average. The colour is white when a component's inflation rate is close to its average and is a varying shade of red (blue) when the rate is above (below) the average. Because the historical range of inflation varies widely across CPI components, each inflation rate plotted in the heatmap is standardized by subtracting its mean and dividing by its standard deviation. This standardization is conducted using data from 1996–2019, except for *Regulation-affected services* and *Other services*, where available data begin in 2004 and 2008, respectively. Note that *Regulation-affected services* includes prices that are affected by government regulations either directly (e.g., child care services) or indirectly (e.g., telephone services). Values in parentheses are CPI weights (in percent). Due to rounding, weights within categories may not sum to their respective totals.
Sources: Statistics Canada and Bank of Canada calculations
Last observation: September 2024

Another way to look at the dispersion of inflation is to examine the weighted distribution of CPI components and compare the distribution in September 2024 with the distribution seen between 1995 and 2019 (**Chart 11**). The comparison shows that inflation is currently being pushed up and pulled down more than usual by components that are materially above and below 2%.

Chart 11: There is more dispersion in the distribution of inflation rates than before the pandemic

Density of year-over-year percentage change, monthly data



Note: This distribution displays price changes to the 55 components in the CPI basket. CPI components are weighted by their respective basket weights. The dotted line indicates the 2% inflation target.
Sources: Statistics Canada and Bank of Canada calculations

Goods price inflation remains weak

CPI inflation is being pulled down by declines in the prices of goods. Inflation for goods eased to -1% in September. This fall in inflation reflects widespread downward pressures, including an easing in inflation for non-durables and outright price declines in energy, durables and semi-durables. Past decreases in global cost pressures and excess supply are exerting a drag on goods price inflation.

Services price inflation has eased

Inflation in services prices excluding shelter slowed to 2.3% in September, down from just under 3% at the time of the July Report. Inflation in this category has mostly been at or below its historical average over the past year. This reflects significant weakness in some components (i.e., telecommunications and internet services), which is offsetting strength in other components. Inflation in this category has also been affected by high volatility in components related to travel and recreation.

For many of the remaining components, inflation continues to be above the historical average. Moreover, real wage growth—an important factor in the costs of producing many of these services—remains elevated when compared with growth in productivity.

Shelter inflation has started to ease

Inflation in shelter services prices slowed to 5.8% in September from its recent high of 7.2% in March 2024.

- Inflation in mortgage interest costs has fallen in recent quarters but remains high.
- Rent inflation continues to be elevated.
    - Some recent data suggest that growth in rents paid by new renters has eased in many markets.
    - The strength of overall rent inflation mostly reflects a gradual and ongoing adjustment to past increases in new rents.
- In contrast, inflation in components related to house prices remains low.

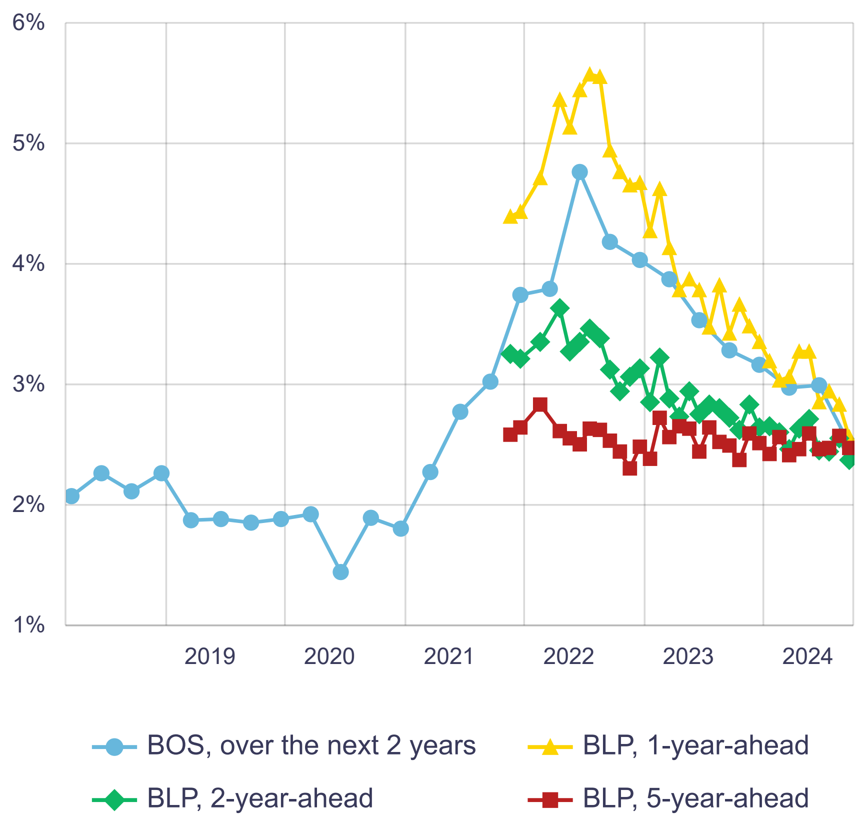
Inflation expectations are nearing normal

Inflation expectations for businesses and households have continued to normalize (**Chart 12**). Businesses now expect inflation to be within the Bank’s target range at all horizons, and consumers’ expectations have eased further.

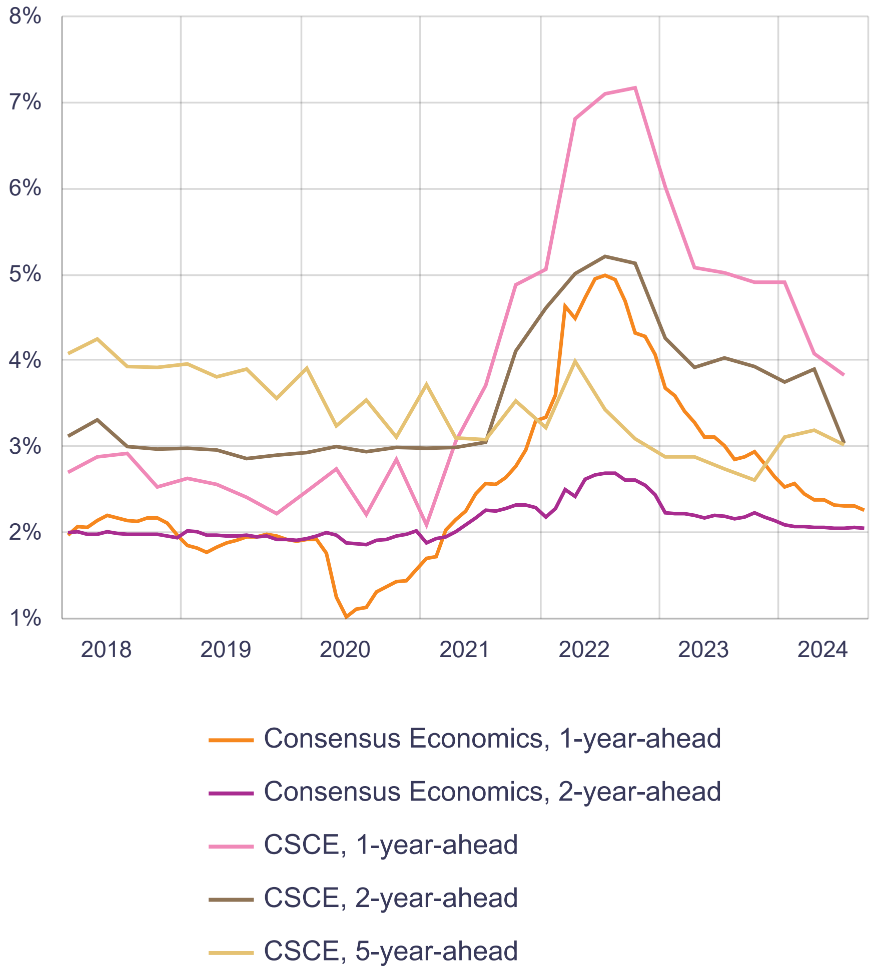
Chart 12: Most measures of near-term inflation expectations have continued to fall

Quarterly and monthly data

a. Businesses



b. Consumers and professional forecasters



Note: CSCE is the Canadian Survey of Consumer Expectations; BOS is the Business Outlook Survey; BLP is the Business Leaders' Pulse. Consensus Economics' forecasts for the next year (based on monthly data) and the next two years (based on a combination of monthly and quarterly data releases) are transformed into fixed-horizon forecasts by the weighted average of fixed-date forecasts. *1-year-ahead* refers to inflation expectations for the next 12 months. *2-year-ahead* refers to inflation expectations for the period 13 to 24 months from now. *5-year-ahead* refers to inflation expectations for the period 48 to 60 months from now. This question was not asked in the January or March 2022 BLP.
Sources: Consensus Economics, Bank of Canada and Bank of Canada calculations
Last observations: Consensus Economics and BLP, September 2024; CSCE and BOS, 2024Q3

Endnotes

1. Newcomers are permanent residents and naturalized citizens who have arrived within the last five years as well as non-permanent residents.[←]

Outlook

Economic growth in Canada is forecast to pick up gradually and average 2¼% over the projection. Inflation is expected to remain near the 2% target.

Economic activity is boosted by lower interest rates, which strengthen household and business spending. Exports also support growth.

Economic activity

Growth in gross domestic product (GDP) is forecast to pick up over the projection. After having contracted since the first quarter of 2023, GDP per person is expected to begin rising in the first quarter of 2025. Potential output growth is anticipated to moderate in 2025 and 2026, and excess supply will gradually be absorbed.

GDP growth will strengthen gradually

GDP growth is projected to continue at around 2% through the first half of 2025 before increasing modestly to about 2½% in the second half. This pickup in economic growth is largely due to stronger consumer spending and business investment, which are supported by declines in interest rates. Increased energy exports and robust foreign demand underpin growth in exports. Over the remainder of the projection, GDP growth is expected to remain around 2¼%.

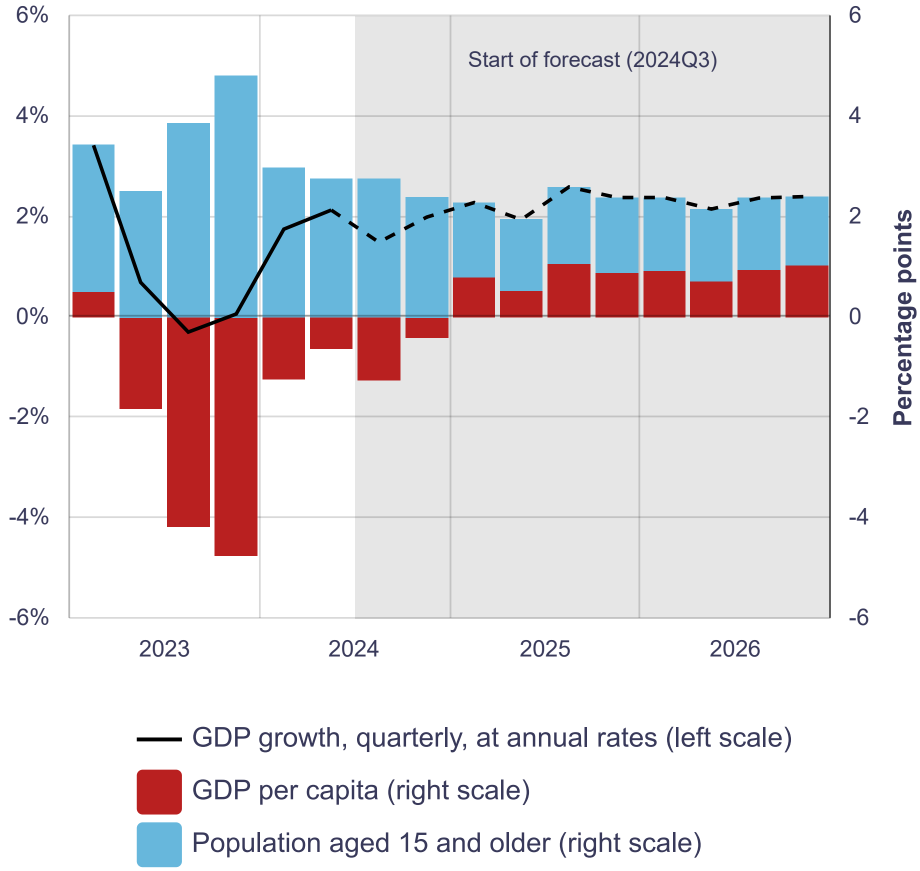
The evolution of economic growth over the projection reflects the net impact of two forces:

- Population growth is assumed to decline from about 2½% in the second half of 2024 to an average quarterly growth of 1½% over the rest of the projection. Slower population growth means that fewer new consumers and workers will join the economy.[1]
- Growth in GDP per person rises from about -¾% in the second half of 2024 to average just above ¾% in 2025 and 2026 (**Chart 13**). This pickup largely reflects the expected strengthening of consumption per person.

As the exact timing of the slowdown in population growth and the improvement in GDP per person are uncertain, the path of economic growth may prove to be bumpier than projected.

Chart 13: Growth of GDP per capita is expected to pick up

Contribution to real GDP growth, quarterly data



Note: Data for the population aged 15 and older are from Statistics Canada's quarterly population estimates.
Sources: Statistics Canada and Bank of Canada calculations, estimates and projections

Excess supply will gradually be absorbed

Potential output growth is expected to moderate from 2.4% in 2024 to 1.9% on average over 2025 and 2026. Growth in trend labour productivity is assumed to pick up over 2025 and 2026, partially offsetting slower population gains.

Excess supply is expected to remain at around 1% through the first half of 2025, with GDP forecast to expand at about the same pace as potential output. Starting in the second half of 2025, excess supply is gradually absorbed.

Consumption per person will improve steadily

Consumption growth is projected to moderate in the first half of 2025 as population growth eases. It is then forecast to pick up to about 2% over the rest of the projection.

After declining for five consecutive quarters, consumer spending per person is forecast to rise. Growth is expected to turn positive in the second half of 2025 and then continue to strengthen gradually. This recovery is supported by lower interest rates and higher household wealth.

In particular, lower interest rates support consumption per person by reducing the cost of financing new borrowing. Lower interest rates also reduce debt-servicing costs for some borrowers with short-term and variable-rate loans. That said, most households renewing five-year fixed-rate mortgages will face an increase in their debt-servicing costs over the projection horizon, which will dampen this group's consumption spending.[2]

As overall economic conditions strengthen, spending by young and low-income workers is expected to rise. Consumer confidence is also assumed to gradually improve.

Residential investment will pick up

Growth in residential investment is expected to rise to around 6% in 2025 and 2026.

- Resales and renovations are anticipated to recover as interest rates decline. Renovations should also be supported by a projected rise in house prices.
- Recent changes to government mortgage insurance rules are expected to bolster housing demand.
- Although population growth should ease, the level of demand is expected to remain robust and support new construction.

Lower interest rates may also facilitate some increase in the supply of housing by easing financing costs. However, constraints on the amount of land available for new homes, zoning restrictions and a lack of skilled labour are expected to limit the pace of construction, particularly over the near term. As a result, growth in housing demand is expected to outpace increases in supply.

Unlike other sectors of the economy that are experiencing excess supply, the housing market is projected to remain tight. House prices are expected to rise, but the pace of increases will likely be restrained because some home buyers will face affordability challenges.

Business investment and exports will rise

Business investment is expected to strengthen over the projection, underpinned by lower interest rates and higher demand. In addition, increased pipeline capacity, along with liquified natural gas (LNG) export capacity, will support investment in the energy sector.

After declining since 2020, the amount of capital per worker is anticipated to pick up as investment strengthens and growth in the labour force eases. This should contribute to an improvement in labour productivity.

Export growth boosted by energy

Export growth is projected to rise in 2025, boosted by the Trans Mountain Expansion pipeline. In 2026, new LNG capacity is anticipated to support energy exports. Robust foreign demand, particularly from the United States, is expected to strengthen non-commodity exports.

Growth in imports is forecast to pick up to about 3½% on average in 2025 and 2026, in line with growth in domestic demand and exports.

Growth in government spending is assumed to ease

Growth in government spending is assumed to slow in line with the 2024 budgets of federal and provincial governments.

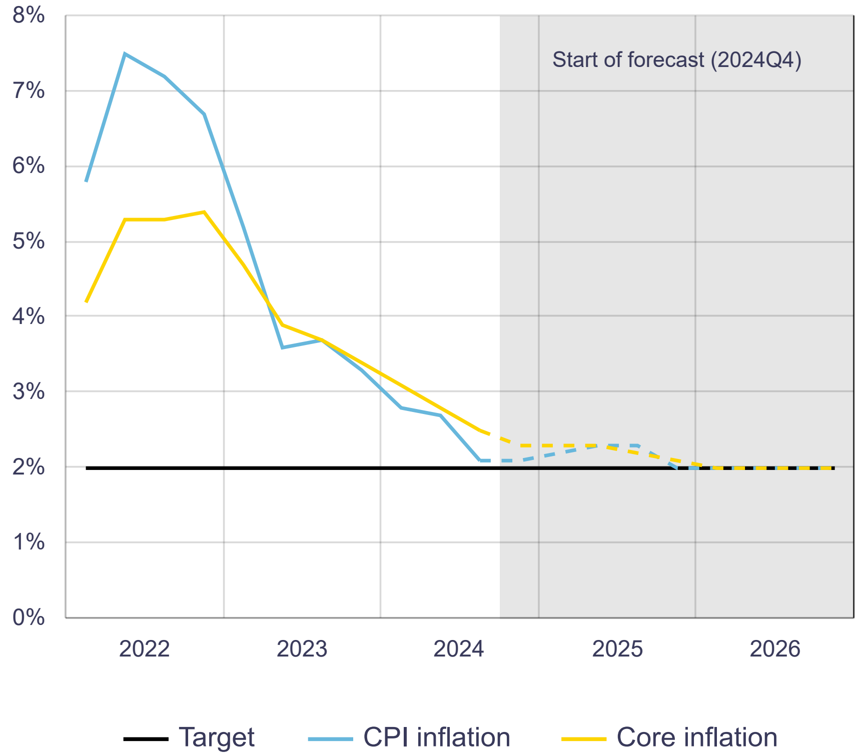
Inflation outlook

Consumer price index (CPI) inflation is expected to remain close to 2% over the projection (**Chart 14**). Core inflation is projected to gradually ease.

Inflation declined to 1.6% in September. In the coming months, inflation is expected to rise to slightly above 2%, mostly reflecting a smaller drag from energy prices (**Chart 15**).

Chart 14: Core inflation is projected to gradually decline to 2%

Year-over-year percentage change, quarterly data

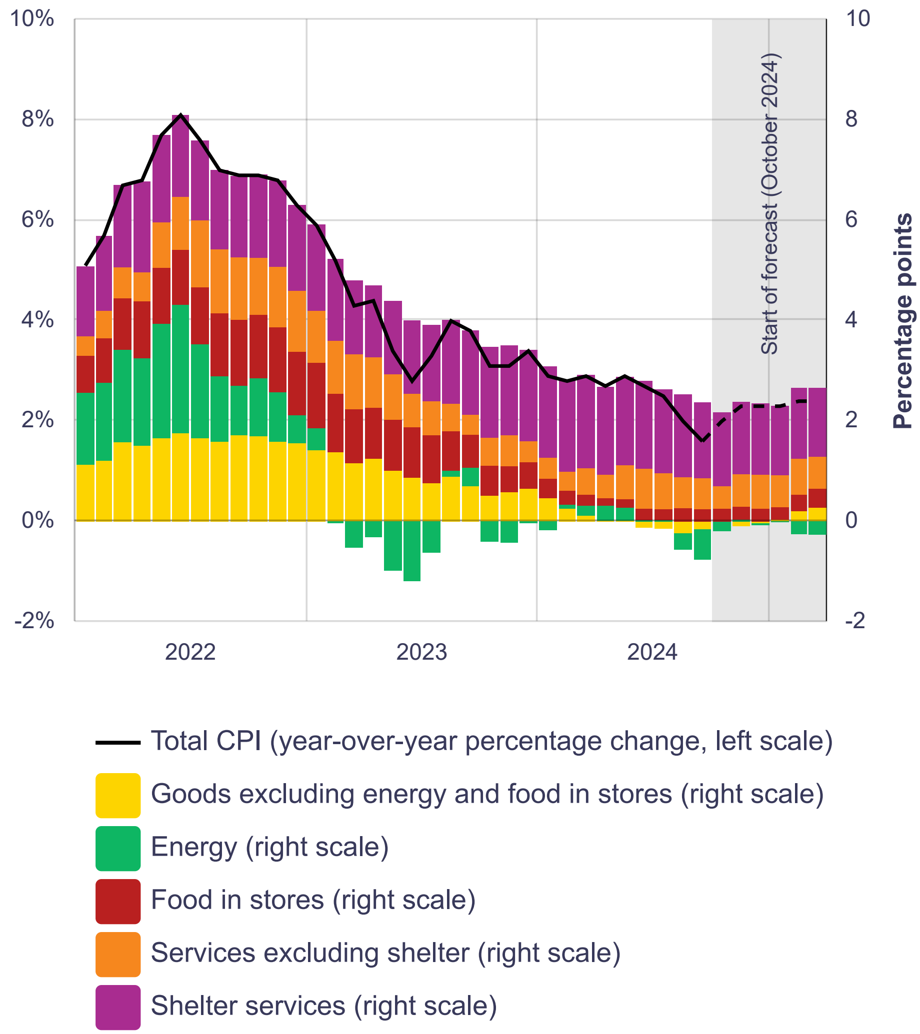


Note: Core inflation is the average of CPI-trim and CPI-median.

Sources: Statistics Canada and Bank of Canada calculations, estimates and projections

Chart 15: Despite some bumpiness in the near term, CPI inflation is expected to remain close to the 2% target

Contribution to CPI inflation, monthly data



Sources: Statistics Canada and Bank of Canada calculations, estimates and projections
Last data plotted: March 2025

More broadly, the Bank continues to see opposing forces shaping the outlook for inflation.

First, excess supply, which has been pulling inflation down, should gradually be absorbed as lower interest rates support growth. The narrowing of the output gap should be reflected in a modest pickup in inflation, primarily for many goods prices, which tend to adjust more frequently (see **In focus: How the frequency of price changes affects inflation**).

Second, inflation for the non-shelter services prices that remain elevated is expected to continue to ease gradually, partly because prices for these products change less frequently. In addition, many of these services are labour-intensive, and wages tend to adjust slowly. With the cooling in the labour market, wage growth is projected to moderate which will, over time, contribute to an easing in inflation for these services.

Third, inflation in shelter prices is expected to moderate gradually from elevated levels.

- Inflation in mortgage interest costs will ease from a high level, aided by the decline in interest rates.
- CPI rent inflation is projected to decrease slowly, reflecting a gradual adjustment to past increases in new rents.
- In contrast, CPI components related to house prices are projected to rise.

As the pressures on these respective components fade over the projection, inflation is expected to remain close to the middle of the control range of 1% to 3%. However, because the exact pace of these adjustments is uncertain, the evolution of inflation may not be as smooth as in the projection.

Endnotes

1. See Bank of Canada, "Box 3: Assessing the impacts of newcomers on the Canadian economy and inflation," ***Monetary Policy Report*** (July 2024): 14–15.[←]

2. Some households renewing five-year mortgages may be able to offset some of their increased costs, for example, by switching to a shorter-term or variable-rate product.[←]

Global economy

The Bank of Canada monitors progress in the global economy to understand how developments outside our borders are impacting the Canadian economy and inflation.

Overall, global economic growth continues to evolve as expected. However, the composition of that growth has changed.

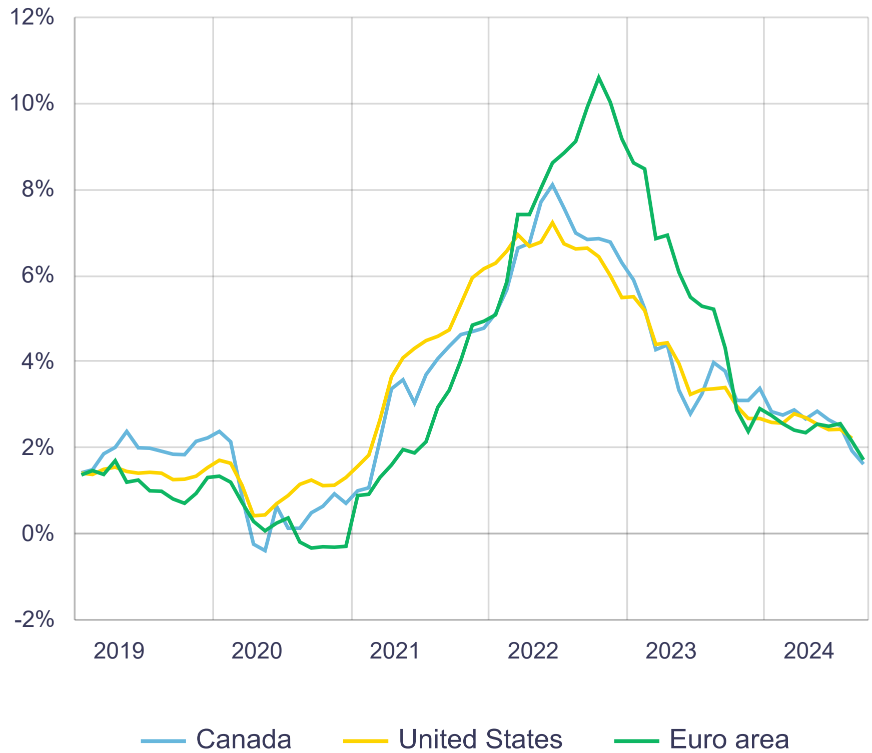
Growth of gross domestic product (GDP) in the United States is expected to be stronger than in the July Report, while growth in emerging-market economies is projected to be weaker, particularly in China in the near term. Oil prices have declined, and inflation has eased in both the United States and the euro area (**Chart 16**).

Global GDP growth slowed to 2¾% in mid-2024 but is expected to strengthen modestly to 3% by the end of the year and maintain this pace over the projection (see **Table 3** in the Projections section). Inflation is now close to central bank targets in many jurisdictions.

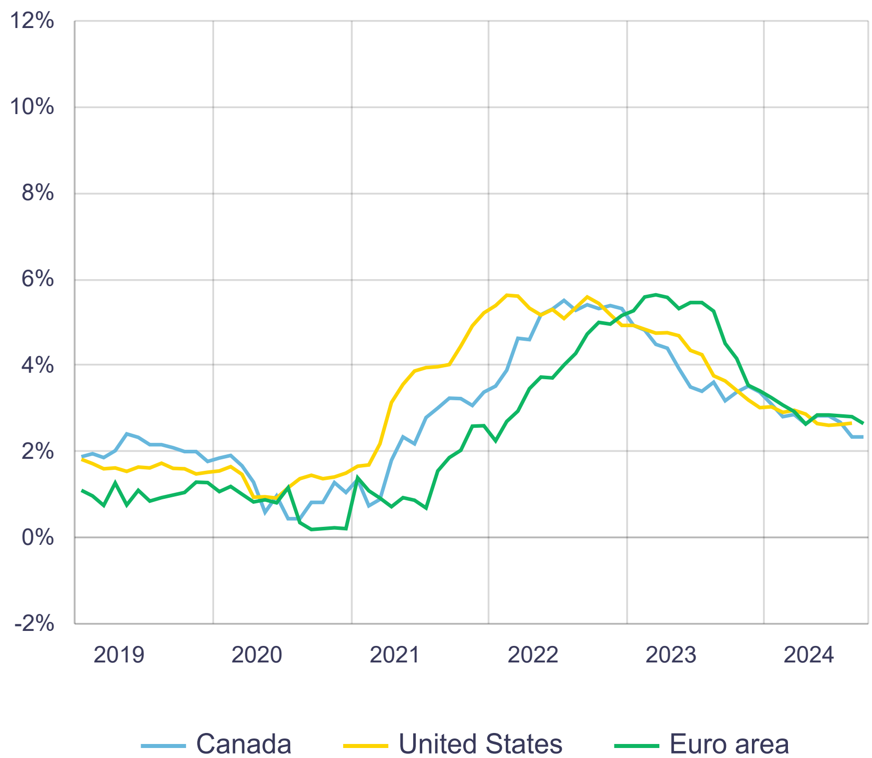
Chart 16: Inflation is near target

Year-over-year percentage change, monthly data

a. Total inflation



b. Inflation, excluding food and energy



Note: Inflation rate calculations are based on the Harmonised Index of Consumer Prices for the euro area, the personal consumption expenditures price index for the United States and the consumer price index for Canada.
Sources: Statistics Canada, US Bureau of Economic Analysis and Eurostat via Haver Analytics and Bank of Canada calculations
Last observations: United States, August 2024; others, September 2024

United States

US growth is strong, but the pace of activity is forecast to moderate. The labour market has cooled from overheated levels.

Inflation in the United States is easing mainly due to a decline in energy prices. However, core inflation remains higher than total inflation and is not anticipated to decline until early 2025.

Growth will be strong in the near term

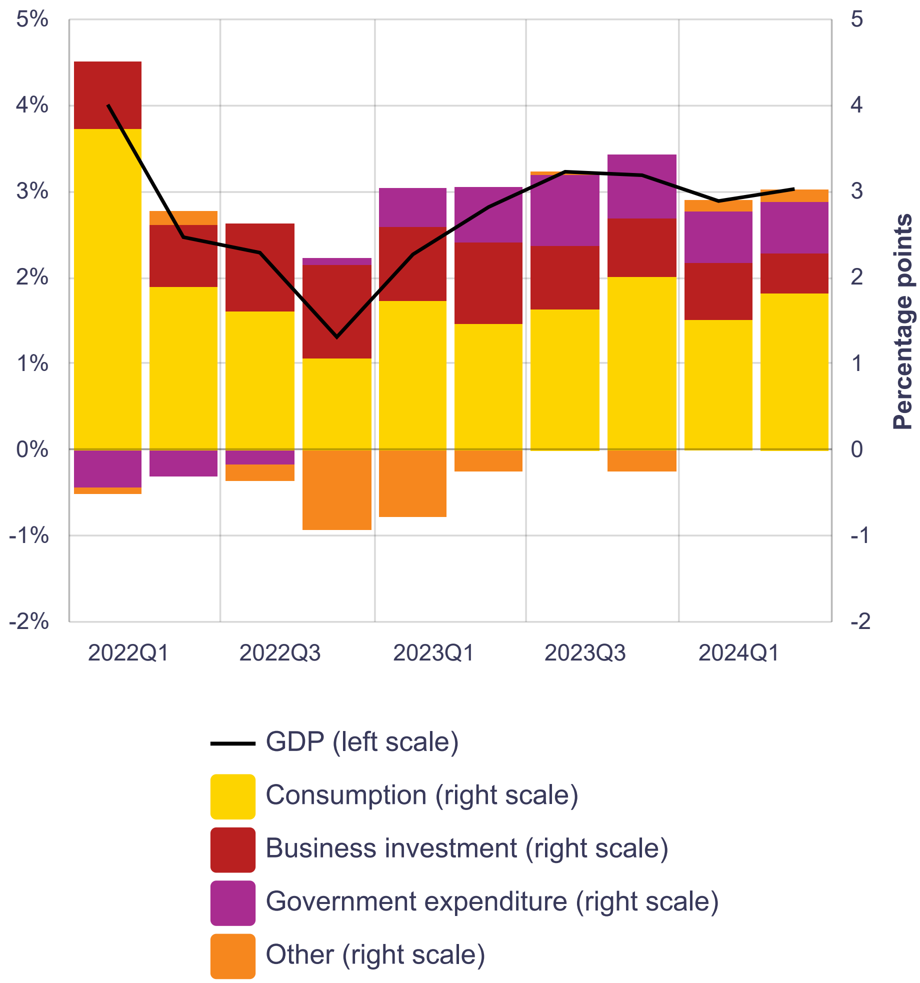
US growth has been robust over the past year because of solid productivity growth, rising financial wealth and federal incentives that support public and private investment (**Chart 17**). The economic expansion is expected to continue at a pace of around 2¾% in the second half of 2024 as:

- rising financial wealth, easing financing conditions and continued growth in real disposable income support consumer spending
- business investment growth remains solid, partly due to support from federal incentives (i.e., the *Inflation Reduction Act* and the *CHIPS and Science Act*)
- federal transfers and strong revenue growth support spending by state and local governments

Federal incentives and transfers, along with strong spending on defence and mandatory programs, have pushed the federal deficit to about 6% of GDP.

Chart 17: US growth is strong

Contributions to year-over-year percentage change in real GDP, seasonally adjusted, quarterly data



Sources: US Bureau of Economic Analysis via Haver Analytics and Bank of Canada calculations
Last observation: 2024Q2

Over the past year, improving supply conditions have helped production keep pace with strong demand. Labour productivity growth has averaged more than 2½%. Labour supply has been expanding, reflecting post-pandemic rebounds in labour force participation and immigration.

Economic growth will then moderate

In the projection, growth settles at a pace near 2¼% over 2025 and 2026. This is slightly slower than the outlook for growth in potential output and, because of this, the US economy should move gradually into better balance.

While growth continues to be underpinned by solid immigration and labour productivity, several factors are expected to contribute to a modest easing. These include:

- the fading impact of federal incentives for both business investment and infrastructure spending by state and local governments
- an assumed reduction in federal discretionary spending to meet legislated restrictions, which leads to slower growth in government spending
- the waning impact of past increases in financial wealth, which slows consumption growth and brings it more in line with income growth

However, pent-up demand and lower mortgage rates are projected to contribute to an increase in housing investment. Lower interest rates and solid labour productivity growth are anticipated to continue supporting consumption.

US inflation is easing

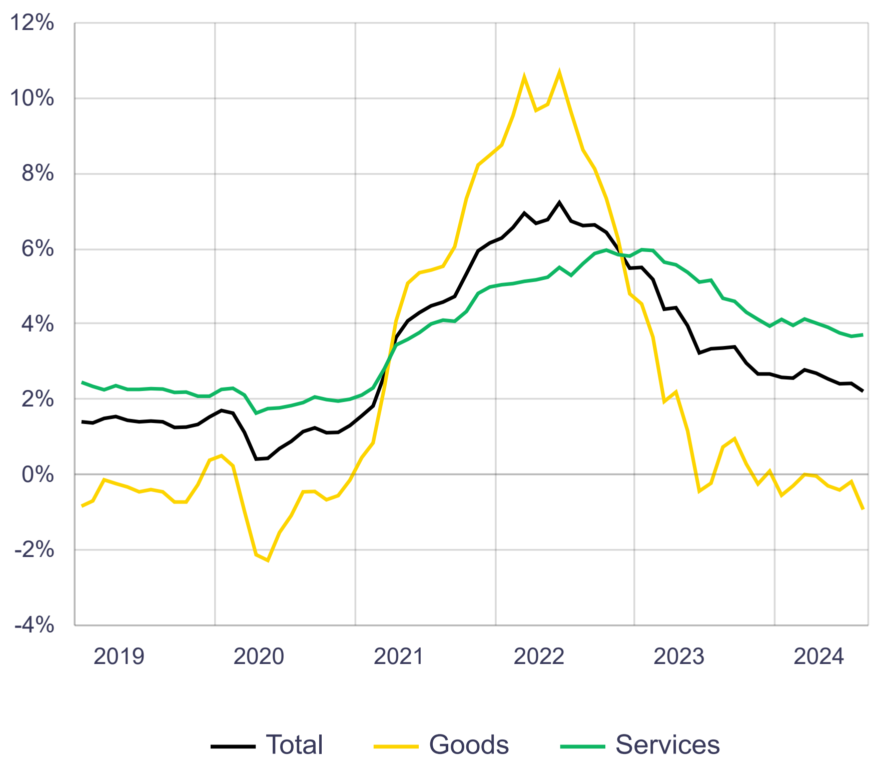
US personal consumption expenditure inflation fell from 2.6% in May to 2.2% in August (**Chart 18**), mostly due to the recent decline in oil prices. At the same time, core inflation remained close to 2¾%. Inflation in core goods was weak, while inflation in core services was elevated.

Inflation is expected to remain close to 2% over the projection horizon. Core inflation is forecast to slow as goods inflation remains weak while services inflation eases. Inflation in prices for core services excluding shelter is expected to fall below 3% in early 2025 as the effects of unusually high price increases (such as for motor vehicle insurance and health care) fade from the year-over-year rates of change.

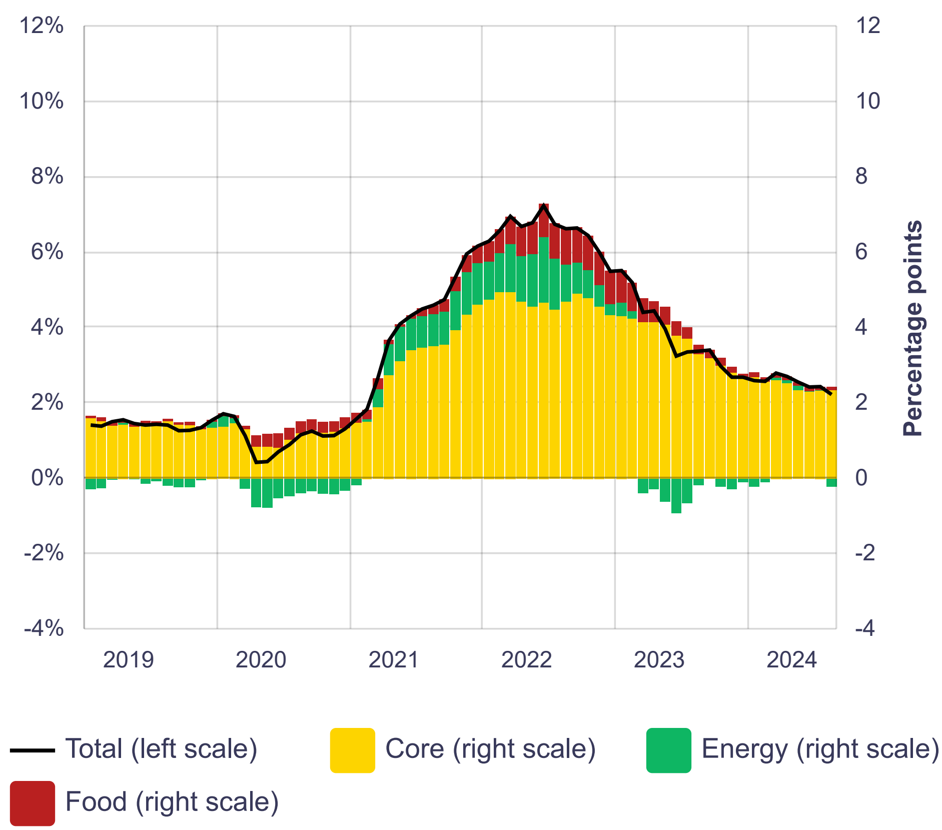
Chart 18: Inflation in services prices remains above pre-pandemic levels

Year-over-year percentage change, monthly data

a. US inflation components



b. Contribution to US inflation



Note: Data on inflation are based on the personal consumption expenditures price index.
Sources: US Bureau of Economic Analysis via Haver Analytics and Bank of Canada calculations
Last observation: August 2024

Other major economies

Growth in the euro area remains modest, supported by activity in the services sector. Growth is expected to pick up somewhat over the projection horizon.

In China, weak growth in domestic demand is being partially offset by robust export growth. Recently announced policy stimulus is expected to support growth in coming quarters.

Euro area growth is modest

The euro area is growing at a modest pace of around 1%. This reflects a combination of factors:

- Cultural and sporting events boosted both foreign tourism and domestic demand in the second and third quarters.
- Exports of goods remain soft. The manufacturing sector has been held back by weak productivity growth and has also struggled to adjust to past energy shocks and strong competition in global goods markets.

GDP growth is expected to rise gradually over the projection horizon. An improvement in domestic demand for goods is expected in the near term. Growth in domestic demand is then projected to remain steady as the fading impacts of this year's cultural and sporting events are offset by the supportive effect of lower interest rates.

Inflation has dropped to below 2%. This largely reflects the impact of recent decreases in energy prices. Core inflation is somewhat higher than total inflation. Inflation is expected to pick back up by the end of 2024 as the effects of last year's declines in energy prices fall out of inflation statistics.

Inflation is then projected to return to the European Central Bank's target in 2025 as core services price inflation moderates in response to a softening labour market and easing wage pressures.

Growth in domestic demand in China has been weak

Economic activity in China slowed sharply around the middle of 2024 due to weak domestic demand. This weakness largely reflects the ongoing impacts of the downturn in the property market. In particular, consumer and business confidence have been negatively affected by falling house prices.

These developments are having economic impacts that extend beyond China's borders. The weakness in domestic demand has weighed on China's oil consumption and global oil prices. In contrast, rising production capacity and falling prices for China's manufactured goods have supported strong export growth.

Policy supports are expected to boost demand

China's GDP growth is expected to strengthen from its mid-year pace of around 3¼% to around 4¼% in 2025, partly in response to recent policy actions and announcements. These include:

- lower bank capital requirements
- monetary policy easing
- political announcements pledging additional fiscal support
- proposed government funding to recapitalize China's largest banks

These policy actions and announcements are expected to support consumer and business confidence, along with bank lending. Growth in domestic demand is projected to increase in 2025 before slowing in 2026 as the impacts of policy stimulus fade.

Export growth to slow

Export growth, however, is expected to moderate from its currently elevated pace to be more in line with growth in foreign demand. Rising trade tensions are also anticipated to limit demand for some exports.

Commodities

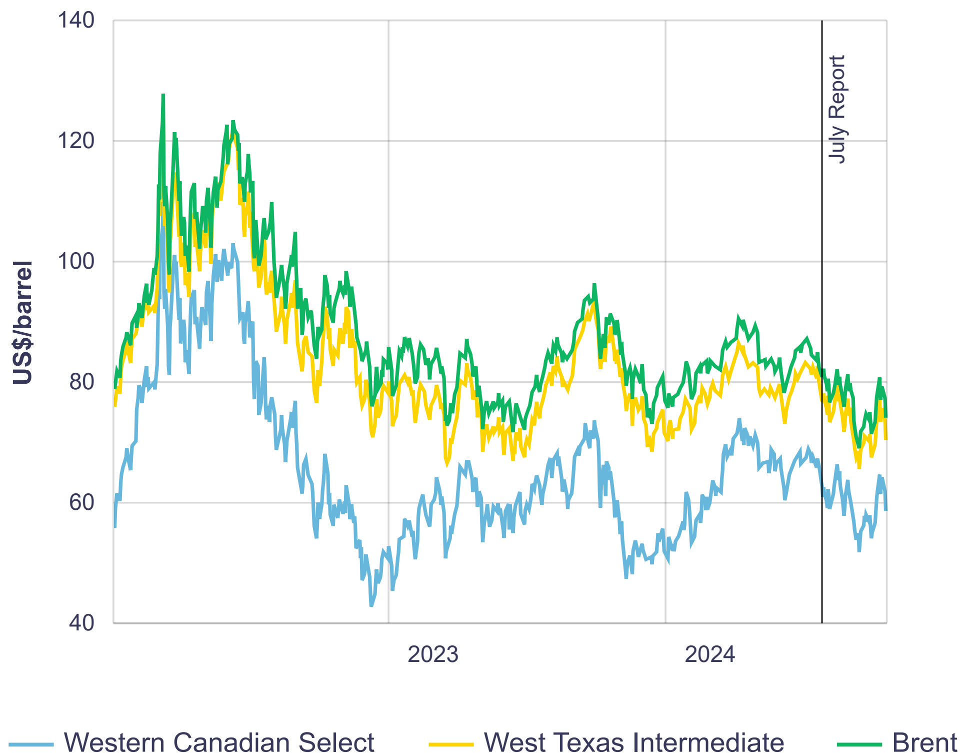
Oil prices have fallen since the July Report, largely reflecting weaker global demand and concerns of oversupply (see **Changes to the projection** in the Projections section).

Oil prices have been volatile in recent weeks (**Chart 19**). These price movements are due to three main developments:

- Markets were surprised by the weakness in China's demand for oil, which has pushed down prices.
- Markets have assessed that oil supply may be stronger than previously expected, which has added to the downward pressure on prices. Oil production has been robust in countries outside the Organization of the Petroleum Exporting Countries (OPEC), and OPEC+ (OPEC plus some non-OPEC oil producers) may increase production to maintain market share.
- The broadening conflict in the Middle East—particularly concerns that the conflict could expand and impact Iran's oil production—has put upward pressure on prices.

Chart 19: Oil prices have declined since the July Report

Daily data



Sources: Kalibrate Canada Inc., NYMEX and Intercontinental Exchange via Haver Analytics

Last observation: October 17, 2024

On balance, the price of Brent oil has averaged around US$77 since the July Report. Brent oil is assumed to average US$75 over the projection, $10 lower than in the July Report.

The Bank of Canada's commodity price index excluding energy is largely unchanged.

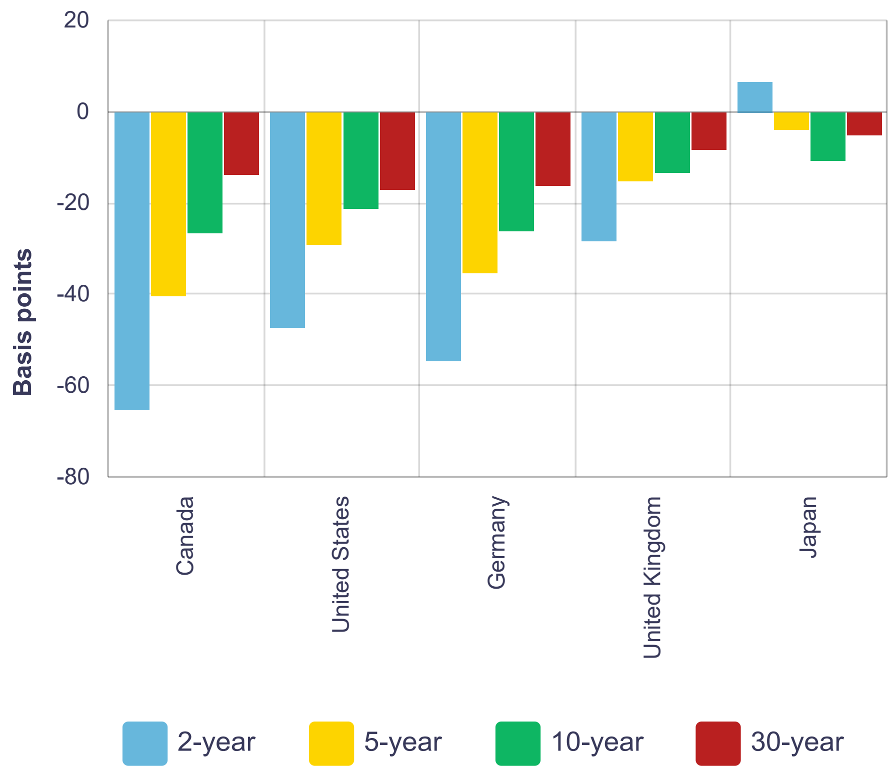
Financial conditions

Global financial conditions have eased amid policy rate reductions by central banks and market expectations of more to come.

Since the July Report, central bank communications have led markets to expect further reductions in policy interest rates. This has caused global sovereign bond yields to decline—especially bonds with short-term maturities, which are the most sensitive to changes in near-term expectations for policy rate paths (**Chart 20**).

Chart 20: Most global sovereign bond yields have declined

Change in government bond yields since July 24, 2024



Source: Bloomberg Finance L.P.
Last observation: October 18, 2024

In Canada, with inflation continuing to decline, markets are expecting further cuts to policy rates. This has contributed to Canadian short-term yields falling relatively more than those of other countries. Canadian long-term yields have also decreased, although to a lesser degree. The decline in long-term yields is similar to that in other countries, reflecting the importance of global factors for these longer maturities.

The reduction in global sovereign bond yields has also contributed to a broader easing in financial conditions. Equity indexes in the United States and Canada have recently reached all-time highs. Corporate credit spreads are lower, and corporate debt issuance has been robust.

The Canadian dollar has averaged around 73 cents US, in line with its level at the time of the July Report.

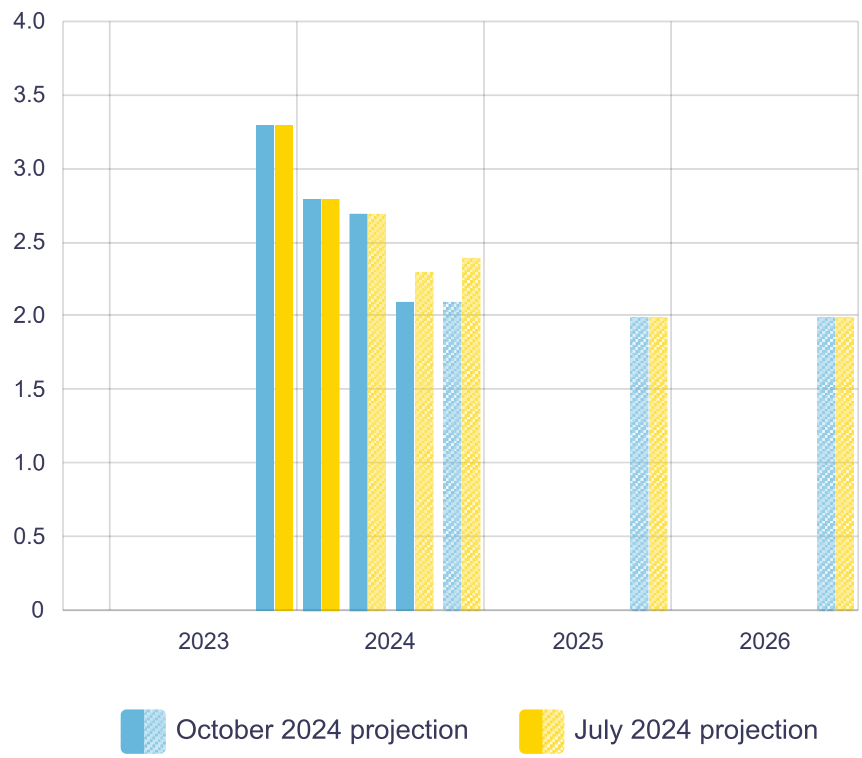
Projections

Economic growth in Canada is forecast to pick up gradually. Inflation is expected to remain around 2% as core inflation slows.

Compare recent Bank of Canada projections

Chart 21: The October 2024 and July 2024 Monetary Policy Report projections

CPI inflation (year-over-year percentage change)



Canadian projection

Growth in gross domestic product (GDP) is anticipated to rise slowly over the projection. In contrast, growth in potential output is expected to moderate.

Table 1: Contributions to average annual real GDP growth Percentage points*†

	2023	2024	2025	2026
Consumption	0.9 (0.9)	1.2 (1.1)	0.7 (0.7)	1.1 (1.4)
Housing	-0.9 (-0.9)	0.0 (0.1)	0.5 (0.5)	0.5 (0.5)
Government	0.5 (0.5)	0.7 (0.6)	0.6 (0.7)	0.4 (0.4)
Business fixed investment	-0.1 (-0.1)	-0.1 (-0.1)	0.4 (0.4)	0.5 (0.5)
Subtotal: final domestic demand	0.5 (0.5)	1.8 (1.7)	2.2 (2.3)	2.5 (2.8)
Exports	1.8 (1.8)	0.4 (0.6)	1.5 (1.2)	1.0 (0.7)
Imports	-0.3 (-0.3)	-0.2 (-0.4)	-1.1 (-1.0)	-1.2 (-0.9)
Inventories	-0.8 (-0.8)	-0.8 (-0.7)	-0.5 (-0.4)	0.0 (-0.2)
GDP	1.2 (1.2)	1.2 (1.2)	2.1 (2.1)	2.3 (2.4)
Memo items (percentage change):				
Range for potential output	1.4–3.2 (1.4–3.2)	2.1–2.8 (2.1–2.8)	1.1–2.4 (1.1–2.4)	0.9–2.2 (0.9–2.2)
Real gross domestic income (GDI)	-0.9 (-0.9)	1.0 (1.1)	1.5 (0.7)	2.0 (2.0)
CPI inflation	3.9 (3.9)	2.5 (2.6)	2.2 (2.4)	2.0 (2.0)

* Numbers in parentheses are from the projection in the previous Report.

† Numbers may not add to total due to rounding.

Sources: Statistics Canada and Bank of Canada calculations and projections

Quarterly projection

Inflation is forecast to stay close to 2%. Core inflation will slow gradually.

Table 2: Summary of the quarterly projection for Canada*

	2024				2023	2024	2025	2026
	Q1	Q2	Q3	Q4	Q4	Q4	Q4	Q4
CPI inflation (year-over-year percentage change)	2.8 (2.8)	2.7 (2.7)	2.1 (2.3)	2.1	3.3 (3.3)	2.1 (2.4)	2.0 (2.0)	2.0 (2.0)
Core inflation (year-over-year percentage change)†	3.1 (3.1)	2.8 (2.7)	2.5 (2.5)	2.3	3.4 (3.4)	2.3 (2.4)	2.1 (2.0)	2.0 (2.0)
Real GDP (year-over-year percentage change)	0.6 (0.5)	0.9 (0.7)	1.4 (1.5)	1.8	1.0 (1.0)	1.8 (2.0)	2.3 (2.1)	2.3 (2.5)
Real GDP (quarter-over-quarter percentage change at annual rates)‡	1.8 (1.7)	2.1 (1.5)	1.5 (2.8)	2.0				

* See details on the **key inputs to the projection**. Numbers in parentheses are from the projection in the previous Report.

† Core inflation is the average of CPI-trim and CPI-median.

‡ Over the projection horizon, 2024Q3 and 2024Q4 are the only quarters for which some information about real GDP growth was available at the time the projection was conducted. For longer horizons, fourth-quarter-over-fourth-quarter percentage changes are presented. They show the Bank's projected growth rates of CPI and real GDP within a given year. As such, they can differ from the growth rates of annual averages shown in **Table 1**.

Sources: Statistics Canada and Bank of Canada calculations and projections

Global projection

The global economy is forecast to grow at around 3% in 2025 and 2026 (**Chart 22**).

Table 3: Projection for global economic growth

		Projected growth* (%)			
	Share of real global GDP† (%)	**2023**	**2024**	**2025**	**2026**
United States	16	2.9 (2.5)	2.8 (2.3)	2.4 (2.1)	2.2 (2.2)
Euro area	12	0.5 (0.6)	0.7 (0.7)	1.2 (1.3)	1.6 (1.6)
Japan	4	1.7 (1.8)	-0.1 (0.0)	1.3 (1.1)	1.0 (0.7)
China	18	5.2 (5.2)	4.6 (4.7)	4.3 (4.3)	4.1 (4.0)
Oil-importing EMEs‡	34	3.9 (3.9)	3.7 (3.9)	4.0 (3.8)	4.0 (3.9)
Rest of the world§	16	1.4 (1.4)	2.0 (1.8)	2.2 (2.5)	2.2 (2.5)
World	100	3.2 (3.1)	3.0 (2.9)	3.1 (3.0)	3.0 (3.0)

* Numbers in parentheses are projections used in the previous Report.

† Shares of gross domestic product (GDP) are based on International Monetary Fund (IMF) estimates of the purchasing-power-parity valuation of country GDPs for 2022 from the IMF's October 2023 *World Economic Outlook*. The individual shares may not add up to 100 due to rounding.

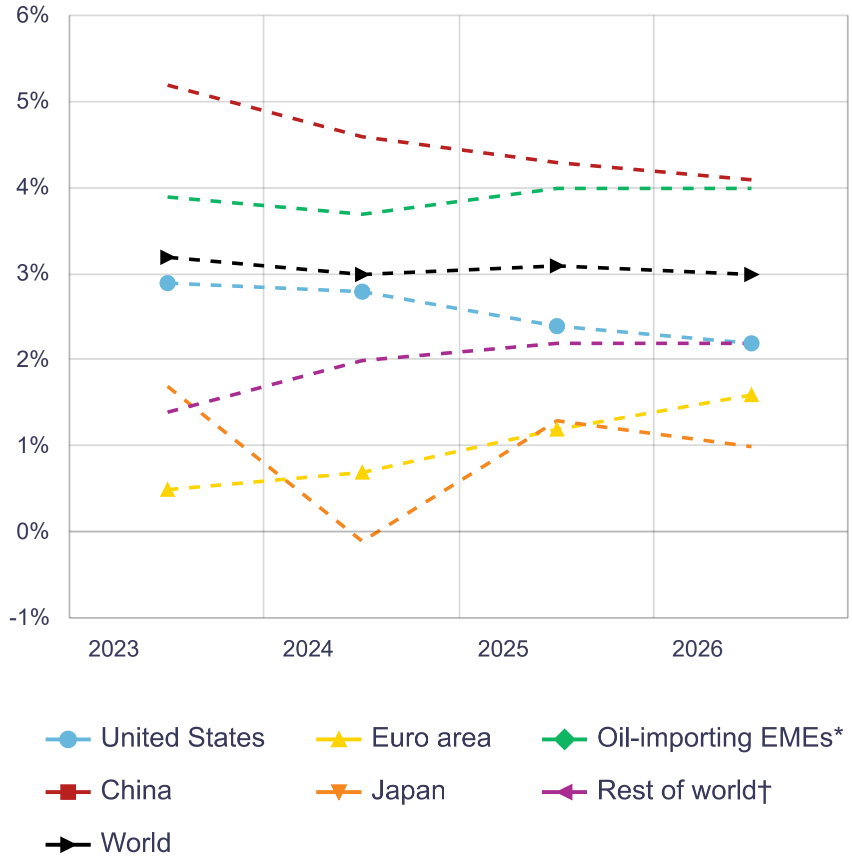
‡ The oil-importing emerging-market economies (EMEs) grouping excludes China. It is composed of large EMEs from Asia, Latin America, the Middle East, Europe and Africa (such as India, Brazil and South Africa) as well as newly industrialized economies (such as South Korea).

§ *Rest of the world* is a grouping of other economies not included in the first five regions. It is composed of oil-exporting EMEs (such as Russia, Nigeria and Saudi Arabia) and other advanced economies (such as Canada, the United Kingdom and Australia).

Sources: National sources via Haver Analytics, and Bank of Canada calculations and projections

Chart 22: Projection for global economic growth

Year-over-year percentage change



* The oil-importing emerging-market economies (EMEs) grouping excludes China. It is composed of large EMEs from Asia, Latin America, the Middle East, Europe and Africa (such as India, Brazil and South Africa) as well as newly industrialized economies (such as South Korea).

† *Rest of the world* is a grouping of other economies not included in the first five regions. It is composed of oil-exporting EMEs (such as Russia, Nigeria and Saudi Arabia) and other advanced economies (such as Canada, the United Kingdom and Australia).

Sources: National sources via Haver Analytics, and Bank of Canada calculations and projections

Changes to the projection

The following changes have been made to the Canadian and global economic projections, reflecting new information since the July Report.

Global outlook

The outlook for global growth is broadly unchanged, although in the near term, the composition is somewhat different. A stronger outlook for the United States is largely offset by a weaker outlook for growth in some emerging-market economies, particularly China.

- The outlook for US economic growth is revised up over 2024 and 2025. This is due to greater resilience in consumption, stronger productivity growth and easier financial conditions. The revisions to US growth imply stronger foreign demand for Canadian non-commodity exports.
- The near-term outlook for China has been revised down. The weakness in China's domestic demand will likely persist because property prices are continuing to fall, which will have an adverse impact on consumer and business confidence.

Canadian outlook

The outlook for growth in Canada is roughly unchanged from the July Report.

- Growth in the second quarter of 2024 was about one-half of a percentage point higher than projected. Government spending and business investment were both stronger than expected. These sources of strength were partially offset by weaker-than-expected consumption, residential investment and exports.
- Growth in the third and fourth quarters of 2024 is now assessed to be somewhat weaker.
- The forecast for growth in 2025 and 2026 is broadly unchanged. While weaker commodity prices are weighing on growth, greater foreign demand —particularly from the United States—and easier financial conditions are providing support. The outlook for population growth is unchanged.
- The outlook for potential output growth is also largely unchanged. As a result, excess supply over the projection horizon is broadly in line with the July Report.

Inflation has been revised down over the near term and is expected to remain close to 2% over the projection horizon.

- Consumer price index inflation in the third quarter of 2024 came in 0.2 percentage points weaker than expected.
- Inflation in the third quarter fell by more than expected primarily due to lower energy prices. Inflation in goods excluding food and energy and in services excluding shelter was also somewhat weaker than expected.
- In 2025, inflation is forecast to be 0.2 percentage points lower, reflecting a lower assumed path for energy prices. The outlook for inflation in 2026 is roughly unchanged.

Key inputs to the projection

The Bank of Canada's projection is conditional on several key inputs and assumptions about their future path. The Bank regularly reviews these assumptions and adjusts the economic projection accordingly.

- Population growth of people aged 15 and over is estimated to be 3.3% in 2024 and 1.7% on average in 2025–26. The Bank's assumptions about immigration policy, which are laid out in the July Report, are broadly aligned with recent announcements by the federal government.
    - The Bank's assumptions about the future net inflows of non-permanent residents are subject to risks on both sides.
    - The Bank's assumptions for population growth will be revised as further measures are announced and the impacts of program changes become clearer.
- Potential output growth in Canada is expected to slow from about 2.4% in 2024 to around 1.9% on average over 2025 and 2026, unchanged from the July Report.
- The Bank estimates that the output gap is between -0.75% and -1.75% in the third quarter.
- The projection incorporates information from published budgets and recent fiscal reports that have been tabled at the time of writing.
- Over the projection horizon, the per-barrel prices for oil are assumed to be US$75 for Brent, US$70 for West Texas Intermediate and US$55 for Western Canadian Select. These prices are US$10 lower than in the July Report.
- By convention, the Bank does not forecast the exchange rate in the *Monetary Policy Report*. The Canadian dollar is assumed to remain at 73 cents US over the projection horizon, as in the July Report.
- The nominal neutral interest rate in Canada is estimated to be in the range of 2¼% to 3¼%. The economic projection assumes that the neutral rate is at the midpoint of this range. The real neutral rate is the rate to which the policy rate would converge in the long run, when output is sustainably at its potential and inflation is at target (i.e., after all cyclical shocks have dissipated). It is a medium- to long-term equilibrium concept. The Bank re-examines estimates of the neutral rate each year in April.

Risks

The Bank of Canada sees both upside and downside risks to the inflation outlook, but the base-case scenario is considered the most likely outcome.

Overall, the Bank views the risks to inflation to be balanced. With inflation near 2%, the Bank is equally concerned with inflation coming in higher or lower than expected.

Assumptions and uncertainties

The projection for the growth of real gross domestic product (GDP) depends heavily on the assumed path for population growth (see **Key inputs to the projection** in the Projections section). The federal government has announced a series of measures to reduce the number of new non-permanent residents arriving in Canada. As highlighted in the July Report, uncertainty about the precise timing of the reductions, along with the possibility of further measures, means that the path for population growth is more difficult to predict than usual.

The outlook is also subject to increased geopolitical uncertainty. This includes conflicts in the Middle East and Ukraine, increased trade tensions and the outcome of the elections in the United States and elsewhere. These events could affect the outlook for economic growth and inflation in Canada and around the world.

Main upside risks

There are two broad types of upside risks: inflation in services prices could be more persistent than in the base case, and global geopolitical developments could renew inflationary pressures.

Inflation in services prices could persist

Inflation in shelter prices is expected to slow but stay elevated. The housing vacancy rate remains near record lows. Interest rate cuts, pent-up demand and the recent changes in mortgage rules could spur more demand for housing than expected in the projection. This could lead to larger increases in house prices and rents.

For many non-shelter services, labour costs represent a large share of the total costs. The projection includes a slowdown in wage growth and a pickup in productivity, which both contribute to lower cost pressures. Higher-than-expected labour costs could lead to higher-than-expected inflation.

Geopolitical shifts could stoke inflation

Inflation in goods prices could rise by more than expected in the projection. The possibility of a broadening conflict in the Middle East that could affect Iran's oil production presents an important upside risk to oil prices. In addition, shipping costs could rise amid ongoing attacks on global shipping routes. The war in Ukraine continues with the possibility of escalation, which could impact the global supply of key commodities. If these disruptions persist or worsen, they could increase producer costs and quickly push up inflation in the prices of goods.

At the same time, trade tensions have been rising, with restrictions being placed on a widening range of goods and services. This could lead to disruptions of trade flows and to additional tariffs, which together would put upward pressure on inflation.

Main downside risks

Weak household spending in Canada and a slowdown in the global economy are the main downside risks to inflation.

Household spending could remain subdued

Household spending could be weaker than in the base case. Many Canadians will face higher debt-servicing costs due to upcoming mortgage renewals. If labour market conditions turn out to be weaker than expected, consumer spending would be adversely impacted. Slower consumption growth would, in turn, make Canadian businesses less willing to invest or hire new workers. Overall, softer economic activity would exert additional downward pressure on inflation.

Inflation in goods prices could be weaker than expected

Inflation in goods prices has been weak globally. If domestic demand in China proves to be weaker than expected, producers may shift more goods to foreign markets. This would put additional downward pressure on global prices for goods. In addition, soft domestic demand in China could exert further downward pressure on oil and other commodity prices. As a result, inflation in energy and goods prices in Canada would be lower than projected.

The factors behind the rise in unemployment

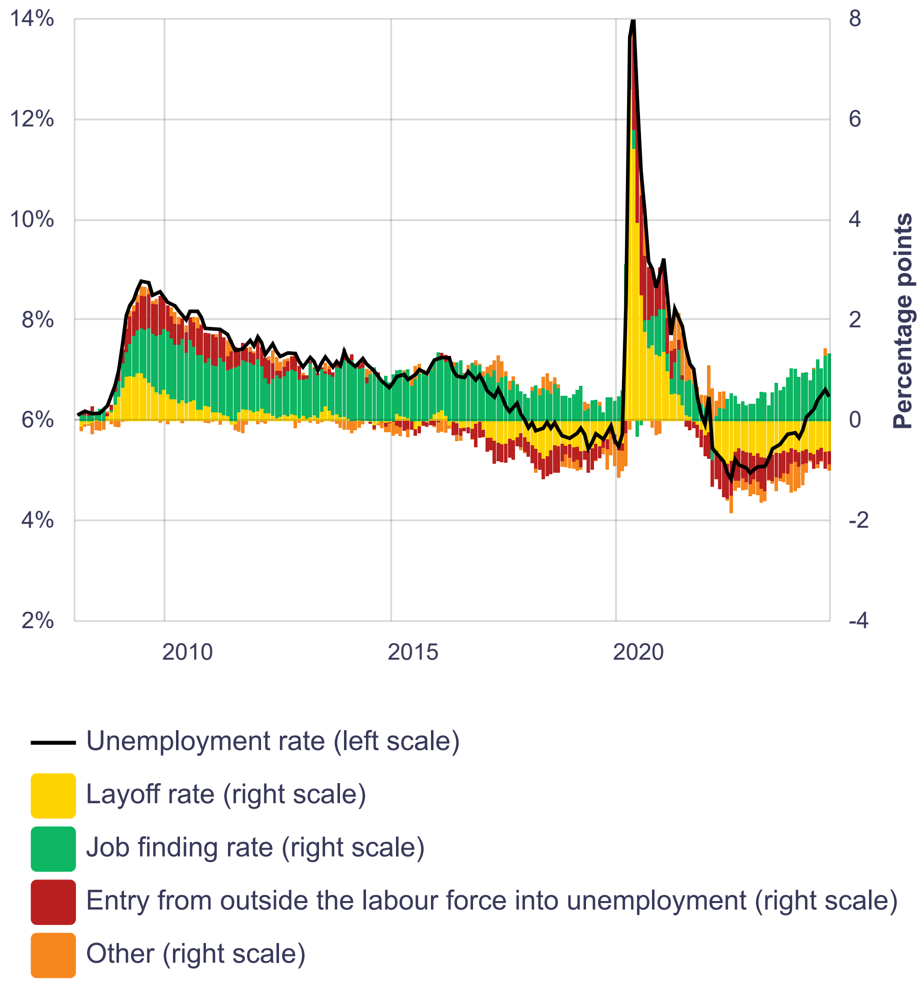
The rise in unemployment since early 2023 has been mainly due to increased difficulty finding a job. Layoffs have not played a large role.

The unemployment rate has risen

The unemployment rate rose from 5% at the start of 2023 to 6.5% in September 2024. This increase primarily reflects a rising share of the existing unemployed continuing to be unable to find work (**Chart 23**, green bars). The rise in the unemployment rate is also due to a growing share of new workers joining the labour force without a job (**Chart 23**, red bars). Layoffs, in contrast, have not contributed much to the rise in unemployment (**Chart 23**, yellow bars).

Chart 23: The unemployment rate has risen mainly because jobs are hard to find, but layoffs remain low

Contribution of flows to unemployment rate change since January 2008, monthly data



Note: *Other* refers to all other instances where people can flow in and out of unemployment. For example, this category includes quits and movements of the unemployed out of the labour force.

Sources: Statistics Canada and Bank of Canada calculations

Last observation: September 2024

Businesses' decision not to lay off workers at a faster pace than they have been in the current cycle could be explained by the following factors:

- When the economy was in excess demand, businesses were trying to rapidly increase output. As economic conditions have cooled, businesses have been able to eliminate unfilled job vacancies and slow their pace of hiring rather than reduce the size of their workforce.
- If businesses are concerned about being able to find workers when the economy picks up, they may hold onto more labour than they currently need.[1]

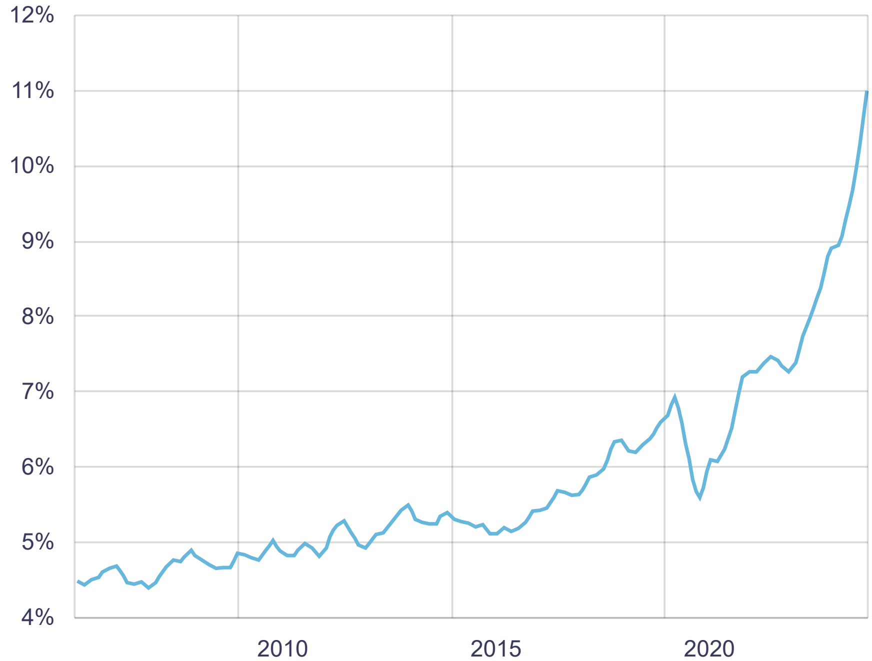
The rise in the unemployment rate largely reflects the challenges faced by newcomers and youths, who have had a harder time finding work than others in the labour force (see **Chart 7** in the Current conditions section). While these groups make up only about one-quarter of the labour force, they account for roughly three-quarters of the increase in the unemployment rate since the start of 2023.[2]

Several possible reasons can explain why newcomers and youths have been most affected:

- The overall pace of hiring has slowed as past interest rate increases have eliminated excess demand in the economy. Slowdowns in hiring disproportionately affect new entrants into the labour force, such as newcomers and youth.
  - These two groups tend to be employed in sectors that have recently seen weak employment growth, such as accommodation and food services.
- The number of newcomers has risen dramatically in recent years, mainly due to increased inflows of non-permanent residents.
  - Newcomers averaged roughly 11% of the labour force between July and September 2024. In contrast, they averaged 7% of the labour force in the last quarter of 2022 (**Chart 24**).

Chart 24: The share of newcomers in the labour force has risen

3-month moving average, monthly data



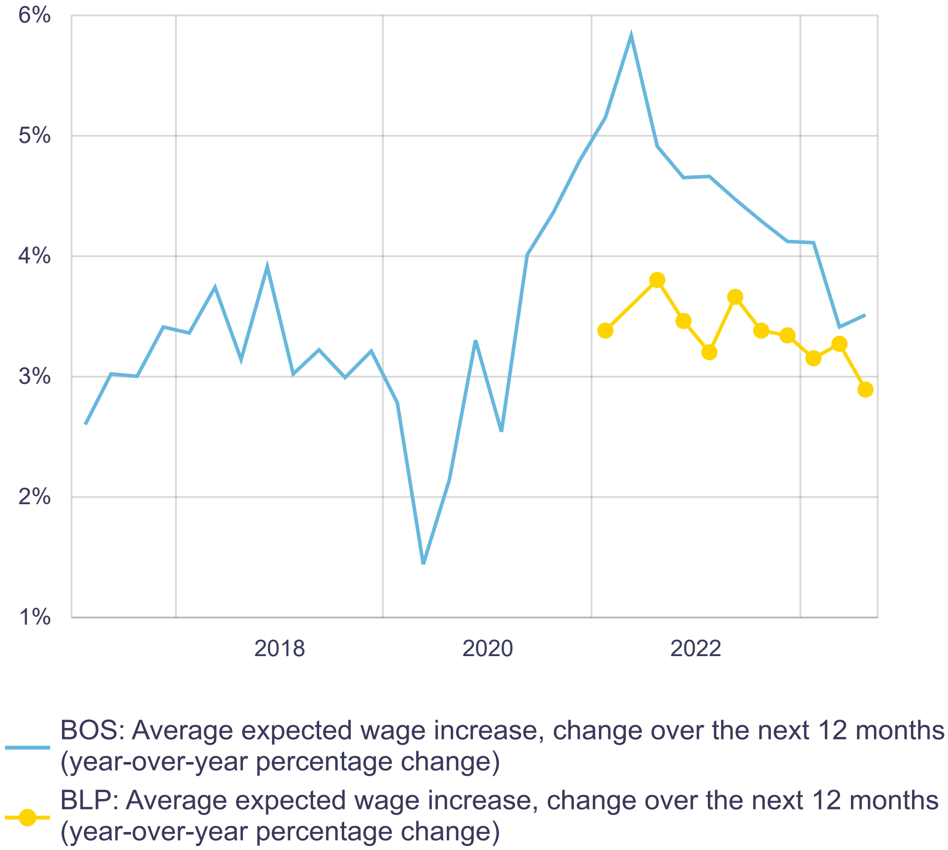
Note: *Newcomers* are permanent residents and naturalized citizens who have arrived within the last five years as well as non-permanent residents.
Sources: Statistics Canada and Bank of Canada calculations
Last observation: September 2024

Wage growth is expected to ease

Nominal wage growth in Canada is around 4%, above the level of productivity growth plus 2% inflation. The cooling labour market is anticipated to slow wage growth over time. This is consistent with views reported by businesses, which expect wage growth to moderate over the next year (**Chart 25**).

Chart 25: Businesses expect wage growth to moderate gradually

Business Outlook Survey (BOS) and Business Leaders' Pulse (BLP), quarterly data



Note: *Average expected wage increase* is what businesses expect their wage increase to be, on average, 12 months from now. This question was not asked in any month during the second quarter of 2022.

Source: Bank of Canada

Last observations: Business Outlook Survey, 2024Q3; Business Leaders' Pulse, September 30, 2024

Endnotes

1. This factor could also be one of the reasons for the slow rate of productivity growth in recent years.[←]
2. Newcomers are permanent residents and naturalized citizens who have arrived within the past five years as well as non-permanent residents.[←]

In focus: How the frequency of price changes affects inflation

Prices change all the time, and some change more often than others. How often prices change can affect how quickly shifts in economic conditions affect inflation.

Prices adjust at different frequencies

Prices tend to change more frequently when demand outpaces supply and inflation is high. This is why businesses adjusted their prices more often in the years after the pandemic than they had in the past.

More recently, however, businesses' pricing behaviour has returned to normal.[1] But even in normal times, businesses adjust some prices more or less frequently than others. The price of the median consumer product changes about once every five months. However, some prices—like that of gasoline—change every day, while others—such as the price of insurance—are typically contracted for a year.

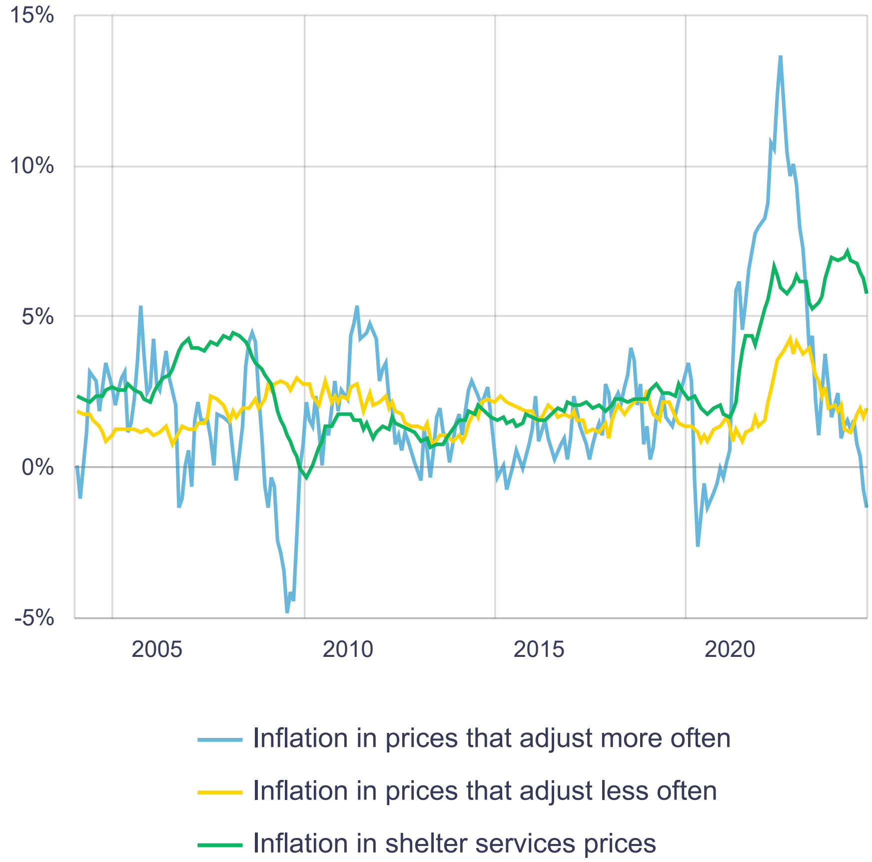
Prices that adjust more often are pulling inflation down

Rates of inflation are now below their historical averages for many components of the consumer price index (CPI) that have frequent price changes. Indeed, as a group, these components are seeing their prices decline (**Chart 26**).[2] This deflation reflects a quick response to slowing growth in global input costs and weak domestic demand. Components whose prices change frequently include goods such as clothing and motor vehicles and a few services such as automobile rentals.

Inflation in the prices of these more flexible products is expected to pick up as demand recovers.

Chart 26: Inflation for prices that adjust more often is low

Year-over-year percentage change, monthly data



Note: Prices that adjust more often and prices that adjust less often do not include shelter services prices.
Sources: Statistics Canada and Bank of Canada calculations
Last observation: September 2024

Inflation is back to normal for some prices that adjust less often

Inflation in prices that adjust less often, on average, is close to its historical norm.[3] However, several components are still below or above this average. For instance, inflation in communications services is currently below normal, in part due to regulatory changes. At the same time, inflation remains elevated in some of the other components within this grouping. These include products for which labour costs are a significant share of the cost of production, such as personal care services and food purchased from restaurants.

Wages are typically negotiated once per year, so they tend to adjust slowly to changes in economic conditions. As wages and costs gradually change, they feed into prices, which also adjust infrequently.

The softening in labour market conditions has set the stage for labour cost growth to slow over the next year. This, over time, should lead to a gradual decline in inflation for the prices in this grouping that have experienced high inflation.

Inflation in shelter prices is slow to respond to market conditions

Shelter components in general have inflation that is well above their historical averages. Inflation for the rent component of the CPI, for example, is about 8% now, compared with roughly 3% in 2019. Two factors cause rent inflation in the CPI to adjust slowly:

- Rental contracts are typically renegotiated only once per year.
- Government regulations limit price increases for many renters who remain in their homes.

As a result, pressures in the rental market are passed on to the CPI rent component over time. This means that rent inflation will be relatively slow to decline, even as underlying market conditions improve.

Summary

The Bank of Canada expects inflation to remain close to the 2% target. The path for overall inflation reflects the evolution of goods and services prices, which tend to adjust to changes in economic conditions at different frequencies. Predicting the timing of these dynamics is challenging, and the evolution of inflation may not be as smooth as in the projection.

Endnotes

1. For more discussion on how the frequency of price changes depends on the state of the economy, see N. Vincent, "**Understanding the unusual: How firms set prices during periods of high inflation**" (speech to the Chamber of Commerce of Metropolitan Montreal, Montréal, Quebec, October 3, 2023) and O. Bilyk, M. Khan and O. Kostyshyna, "**Pricing behaviour and inflation during the COVID-19 pandemic: Insights from consumer prices microdata**," Bank of Canada Staff Analytical Note No. 2024-6 (April 2024).[←]

2. Using microdata from the CPI, Bank staff assess a product's price as changing frequently or infrequently depending on whether it changes more or less often than the price of the median product. Staff then apply this assessment to the CPI data at the 55-component level.[←]

3. Shelter services are excluded from this grouping because most of their prices do not appear in the microdata.[←]