

# Grow

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The Rate Debate - Is a June or July cut on the horizon?



As progress on the inflation front unfolds, it's a coin toss as to whether the Bank of Canada or the Fed will be the first to cut rates.

The Canadian economy is performing much better than expected. Real gross domestic product (GDP) rose by 0.6% in January, well above the flash estimate of 0.4%, and February is looking to be another strong month. After growing less than 0.1% from March to December 2023, the economy appears to be showing new life.

The end of the public sector strike in Quebec was a major factor in January, contributing 0.4 percentage points after reducing output by 0.2-0.3 percentage points in December. Overall, service sectors were higher in January, particularly the healthcare sector, which saw a month-over-month (m/m) advance of 0.8%, and the real estate sector, which rose by 0.4%.

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On the goods side, manufacturing saw a 0.9% m/m increase, which fully offset December's decline, while the utilities sector grew by a substantial 3.2% m/m. However, these gains were partially offset by a 1.9% m/m drop in the mining, quarrying and oil & gas sector, primarily due to a 4.2% m/m decline in oil and gas extraction.

Looking ahead, it's expected that a rebound in the oil and gas, manufacturing, and finance and insurance sectors will contribute to gains in February.

The unexpected GDP growth in January, along with the guidance for February, have first-quarter GDP tracking above the Bank of Canada's current forecast of 0.5% quarter-on-quarter annualized. While the data could be a statistical illusion from a warmer winter upsetting the seasonality adjustments, the slight uptick in consumer confidence indicates that it may not solely be a statistical artifact.

While this strong economic data presents a challenge for the Bank of Canada, the market is still pricing in a rate cut in June. The April Monetary Policy Report will give us a good indication if the Bank intends to hold off until July.

## U.S. RATE OUTLOOK

The slightly lower than expected U.S. inflation figure last Friday supports the outlook of a mid-year rate cut by the Fed. There were upward revisions to prior rates for both the headline and core inflation measures. This suggests the Fed will not immediately pull the trigger on its first rate cut of the year. However, Fed Chairman Jerome Powell noted that the data was "pretty much in line with our expectations."

Despite the Fed notching up its inflation and growth projections, it has indicated a willingness to tolerate higher inflation levels for an extended period and an openness to easing back on its quantitative tightening measures. This suggests that the Fed could move on rates as early as June.

# ABOUT THE AUTHOR



## KEVIN FETTIG PRESIDENT OF CMI FINANCIAL GROUP

Kevin has had a long career in capital markets, housing finance, and public policy. He has worked as an economist for Alberta Treasury, Saskatchewan Policy Secretariat, the Bank of Canada, and the Department of Finance Canada. His work has included tax policy, economic forecasting, as well as monetary policy and debt management. While at the Bank of Canada, he authored two Bank of Canada Review articles on monetary policy tactics. Kevin has worked on a variety of debt programs from treasury bills to domestic and foreign bond issues, and interest rate swaps. He worked on building and managing the federal real return bond program, the Canada Savings Bond program, and built out the bond buyback program and a synthetic foreign funding program – two programs which are still in use today by the federal government. While at CMHC, Kevin managed the market funding program for social housing, built and managed the Canada Mortgage Bonds program, and expanded the products offered under the NHA MBS program. He has worked for several mortgage insurers including CMHC, Canada Guaranty, Triad Guaranty and Genworth. This work encompassed product development and risk management across housing markets in North America, Europe, Asia, Australia, and New Zealand. More recently he has had senior management roles with residential lenders managing underwriting, risk, product development, capital markets, and strategic planning.

### ***Independent Opinion***

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