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**AMBER KANWAR, BLOOMBERG:**

Let's unpack all of this. We've got Earl Davis, Head of Fixed Income and Money Markets at BMO Global Asset Management joining me on the desk, and Allison Boxer, Economist at PIMCO.

**KANWAR:**

And Allison, this is the first chance that the Bank of Canada will get in a meaningful way to address its own outlook with respect to interest rates at a time where we have seen quite a bit of easing take place in the bond market.

**ALLISON BOXER, PIMCO:**

Yeah, I think what we're seeing really reflects the fact that the Bank of Canada is in just a challenging balancing act right now. On the one hand, the economy is really slowing, but on the other hand, you know, inflation, they're still concerned about how sticky it looks, particularly on wages. So I think that for now, the Bank of Canada just needs to remain on hold and sort of wait for more data before they can look to start to ease.

**KANWAR:**

And some ways we're in the hardest part of monetary policy, Allison, with the bank referencing that core inflation is still around three and a half to four percent, but the economy is showing material signs of deterioration, particularly on the unemployment perspective. This is where the bank really has to walk that line between dealing with inflation, but not tipping us over into a worse slowdown than necessary.

**BOXER:**

Yeah, absolutely. I think this is certainly a challenging point for them, you know where inflation tends to lag activity and we're seeing activity soften, but the bank, as we can see in the statement today, doesn't want to fully let up. While inflation is still above their target and there's still concerns, particularly on the wage side. So I think what they're doing now is sort of signaling, they're maintaining this hiking bias, they're keeping rates on hold, and they're just not quite ready to fully pivot towards easing until they see more progress on inflation.

**KANWAR:**

Allison, tomorrow Deputy Governor Gravelle, even though we don't have the press conference today, we'll be, you know, give us an opportunity to further flesh out where the Bank of Canada is sitting. What are some outstanding items you'd like to hear the bank discuss?

**BOXER:**

Yeah, I think one of the things we're really focused on for them next year is just how they're going to deal with this challenge around shelter price inflation. You know, Canada is sort of unique amongst the different developed market economies and that you have, you know, mortgage interest costs directly in the inflation basket. That's actually really, you know, rents and mortgage interest costs have been what's driving inflation in recent months. I think that's another thing that we're sort of looking for. How is the bank going to deal with that next year? Are they going to ultimately pivot towards focusing on a more core inflation measure than they have so far? So that's one of the things we're looking for from them.

**KANWAR:**

Allison, what's the threshold for rate cuts? What do you think the bank needs to see?

**BOXER:**

Yeah, I think the bank needs to see more of what we've been getting recently, more progress on core inflation, getting closer to at least the, you know, sort of upper end of their target range. And I think we need to see the unemployment rate rise further.

**KANWAR:**

And Allison, in some ways, you know, Canada obviously is a lot more interest rate sensitive than the U.S., and yet we are expecting a similar tone and outcome from the Federal Reserve. How are you thinking about that?

**BOXER:**

Yeah, so I think next week's Fed meeting in a lot of ways, I agree with you. It is similar to what we saw from the Bank of Canada. We expect the Fed to stay on hold, and we think they also are sort of facing this balancing act. There's been some more limited signs of slowing in the U.S. economy, and the Fed is just trying to make sure that the financial conditions stay tight enough, that they stay on course with restrictive monetary policy while they wait for more data and see how the economy evolves in the coming months.

**KANWAR:**

Allison, what's your number? What do you think that is kind of cuts, but not as much, obviously, not down to zero?

**BOXER:**

Yeah, we've been saying, you know, normally what happens when you have a cutting cycle is central banks, we say, “go down the elevator.” They tend to cut rates very rapidly in the face of recession.We think, you know, both for the Fed and the Bank of Canada, it could look more like going down the stairs, at least for a little while initially. The banks are going to be a little bit cautious when they start the cutting cycle, just given what's been going on with inflation.

**KANWAR:**

Allison, thanks so much for this perspective. That's Allison Boxer, Economist at PIMCO, Earl Davis, sticking with me on the desk.