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**JON ERLICHMAN, BLOOMBERG:**

Tiffany Wilding is joining us now, Managing Director and Economist at PIMCO with her perspective. And here in studio Royce Mendes, Managing Director and Head of Macro Strategy at Desjardins. Great to have both of you with us. Tiffany, let me just start with you and your key takeaways from the Bank of Canada's decision this week.

**TIFFANY WILDING, PIMCO:**

Yeah, well, ultimately, I think their interest rate policy, it clearly is starting to or has been cooling off the Canadian economy. There are more interest rate resets in the pipeline in 2024. So we expect to continue to drag from monetary policy. So really, the question is, when did they get comfortable? We've seen inflation really decelerate, but when did they get comfortable or confident in the parlance of their southern neighbor, Jay Powell, that inflation is more sustainably at target? I think there were hints of that. Obviously the January CPI print in Canada was good news in that regard. There's been more mixed news on the wage front, we think they probably need a couple of more months and maybe kind of a mid-year first cut. But ultimately, they will get there this year.

**ERLICHMAN:**

I mean, Tiffany, there was an acknowledgement by Tiff Macklem, that when you look at the whole basket of inflation, the percentage of that basket that is worrisome has improved quite dramatically. And yet to Royce's point, there is still that unwillingness to take, I guess, a victory lap, if you will, on inflation.

**WILDING:**

Yeah, I mean, I think the one thing, frankly, that probably is a little bit concerning to them is just the strength of U.S. growth. Obviously, the Canadian economy follows. We've seen more divergence lately in the true growth paths between the economy than we have in quite some time, but nevertheless, it's the strength of the U.S. economy and the potential spillovers there could be worrisome. I think the other thing that holds some uncertainty is obviously immigration in Canada has been quite strong. That has boosted growth to some extent. I think that there's some question around the extent to which that's boosted inflation. Within the labor market, we really haven't seen it have a dramatic effect on wages, and it's probably boosting shelter costs within the rent's category of inflation. So I definitely think there's some cross currents here that can lead them to be more cautious. But again, nevertheless, what we would just point to is that monetary policy is clearly working in the economy to cool things off. And so really, it's kind of a matter of time here, we think, before interest rate cuts are more appropriate in their eyes.

**ERLICHMAN:**

We do have a jobs report tomorrow. We're expecting to see net growth in the employment market, but at the same time, and I think Tiffany, you were talking about this too. We're seeing a huge surge in the actual population of the country, so I think the most common comment around the jobs market is, “if we are adding jobs, are we adding as many jobs as the number of new Canadians as a proper percentage on that front?” So, I guess at the end of the day, we've got positive and negative inputs, as one always does, when you're trying to do an economic scorecard, and a lot of people are just trying to figure out what this all means for the interest rate environment going forward. Tiffany, let me start with you. What are your own expectations right now on the interest rate path ahead for the Bank of Canada?

**WILDING:**

Yeah, I mean, so like I said, I mean, we think that kind of around mid-year is a reasonable time for them to start cutting rates, in something like 100 basis points this year, we think ultimately when they do start, they probably will go at a faster pace than the Fed, for example. And it's the reasons that we discussed, or that we have been discussing, which is that the interest rate pass-through of higher rates into the Canadian economy is just more quick than it is in the U.S., for example. And even though we do expect cuts this year, just given the magnitude of the hiking cycle, you'll still have a lot of mortgage interest rate resets that are still moving higher, even in the context of the BOC cutting rates. But we think there's definitely room for them to cut more throughout the back half of this year.

**ERLICHMAN:**

Now, the pace at which we eventually likely see Tiffany see rate reductions is kind of an interesting conversation actually yesterday at a chance to ask the Bank of Canada governor, Tiff Macklem, the question, “when you do potentially start cutting rates, what will that pace look like?” In other words, would it be you cut and then maybe pause? Because what if this inflation story doesn't necessarily easily go away? What's that going to look like? He was quite reluctant to say anything, but he did say that the pace of cuts will not resemble the speed at which we saw interest rates rise. And I think that kind of invites the question, there's an expectation of the market that rates go down to address everything that both of you have talked about. But is there a point where rates are at a more normal level in this, in this call it, “more normal environment?” In other words, are we going back to interest rates at zero at some point in the near future?

**WILDING:**

Yeah, so I think this whole idea of going up on the elevator, coming down on the staircase, in terms of interest rates, I think that that relies on the assumption that the economy is okay, you are getting a soft landing, you're not going into a recession. And I think the outlook for that has certainly gotten a lot better, just given how quickly inflation has come down, with relatively little pain within the labor market. But nevertheless, we would argue that we're not out of the woods yet. In terms of the mortgage rate resets that we've been discussing, there's still a lot of headwinds from monetary policy that are going to be unleashed or they're continuing to drag on the economy. And so in that kind of world, a relatively small potential negative economic shock that's exogenous, could result in some sort of mild recession. And in that kind of environment, certainly, we would expect the Bank of Canada to cut rates quickly, to get policy not only out of restrictive territory, but potentially even ease. But I think that's the scenario, clearly that's the scenario where that happens, is that you have some sort of mild recession.

**ERLICHMAN:**

Thank you very much for your time. Royce Mendes is the Managing Director and Head of Macro Strategy at Desjardins. And Tiffany Wilding, thanks as always for your perspective. Tiffany Wilding, Managing Director and Economist at PIMCO, joined us.