

David Dodge: Summary of the latest monetary policy report

Opening statement by David Dodge, Governor of the Bank of Canada, at a press conference following the release of the *Monetary Policy Report Update*, Ottawa, 26 January 2006.

* * *

Today, we released the *Update* to our October *Monetary Policy Report (MPR)*. The *Update* reviews economic and financial trends in the context of Canada's inflation-control strategy.

The Canadian and world economies are evolving essentially in line with the Bank's expectations, and the outlook for growth and inflation in Canada is similar to that in the October *MPR*. Canada's economy continues to adjust to global developments and to the associated changes in relative prices. The Bank continues to judge that the Canadian economy is operating at its production capacity and will grow roughly in line with its production potential through 2007. Annual GDP growth is expected to be 3.1 per cent this year and 2.9 per cent in 2007, with strong growth in domestic demand and further gains in exports.

Total CPI inflation, which was 2.3 per cent in the fourth quarter of 2005, will continue to be affected by the prices of crude oil and natural gas. The Bank projects that total inflation will be about 2.5 per cent in the first half of 2006, easing to 2 per cent by the first half of 2007. Core inflation, which was 1.6 per cent in the fourth quarter of 2005, should also return to 2 per cent by the first half of next year.

Risks to the Bank's projection remain balanced for 2006. Through 2007 and beyond, risks are tilted to the downside, as the unwinding of global imbalances could involve a slowdown in world economic activity.

In line with the Bank's base-case projection and current assessment of risks, some modest further increase in the policy interest rate would be required to keep aggregate supply and demand in balance and inflation on target over the medium term.