

## David Dodge: Summary of the latest Monetary Policy Report Update

Opening statement by Mr David Dodge, Governor of the Bank of Canada, at a press conference following the release of the Monetary Policy Report Update, Ottawa, 18 January 2007.

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Today we released the January *Monetary Policy Report Update*, which discusses current economic and financial trends in the context of Canada's inflation-control strategy.

The Canadian economy is judged to have been operating at, or just above, its production capacity at the end of 2006, following weaker-than-expected growth in the second half of last year. This slowdown stemmed from reduced demand for Canadian exports - related to weakness in the U.S. automotive and housing sectors - and from the need for Canadian businesses to adjust inventories.

Looking ahead, real GDP growth is now expected to average about 2 1/2 per cent in the first half of 2007, rising to about 2 3/4 per cent in the second half of this year. In 2008, growth is projected to remain in line with the growth of potential output (estimated at 2.8 per cent), keeping the economy operating near its capacity throughout the projection period. Expressed on an average annual basis, this profile implies growth of 2.3 per cent in 2007 and 2.8 per cent in 2008.

Total consumer price inflation will continue to be affected by movements in energy prices and, during the first half of 2007, by last year's reduction in the Goods and Services Tax (GST). Total inflation should average just above 1 per cent in the first half of this year, returning to the 2 per cent target in early 2008. Core inflation should return to 2 per cent in the first half of 2007 and stay there.

On 16 January, the Bank left its key policy rate unchanged at 4.25 per cent. The risks around the Bank's inflation projection continue to be judged to be roughly balanced, but the main upside and downside risks have diminished somewhat since the October *MPR*. The current level of the policy interest rate is judged, at this time, to be consistent with achieving the inflation target over the medium term.