Mark Carney: Statement on the July *Monetary Policy Report*

Opening statement by Mr Mark Carney, Governor of the Bank of Canada, at a press conference following the release of the Monetary Policy Report, Ottawa, 23 July 2009.

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Good morning. Senior Deputy Governor Paul Jenkins and I are pleased to be here with you today to discuss the July *Monetary Policy Report*, which we published this morning.

- Global economic activity appears to be nearing its trough, and there are increasing signs that activity has begun to expand in many countries in response to monetary and fiscal policy stimulus and measures to stabilize the global financial system.
- However, this recovery is nascent. To sustain global growth, effective and resolute policy implementation remains critical.
- The Bank has long expected that economic growth in Canada would resume in the second half of this year and pick up in 2010. Indeed, growth in Canada should resume this quarter. The dynamics of the recovery projected in today's MPR are broadly consistent with the Bank's medium-term outlook in April.
- Stimulative monetary and fiscal policies, improved financial conditions, firmer commodity prices, and a rebound in business and consumer confidence are spurring domestic demand growth.
- However, the higher Canadian dollar, as well as ongoing restructuring in key industrial sectors, is significantly moderating the pace of overall growth.
- Some of the early strength in domestic demand represents a bringing forward of household expenditures, which modestly alters the profile of growth over the projection period relative to the April MPR. We now expect the Canadian economy will contract by 2.3 per cent this year and then grow by 3.0 per cent in 2010 and 3.5 per cent in 2011.
- Total CPI inflation declined to -0.3 per cent in June and should trough in the third quarter of this year. While core inflation held up at 1.9 per cent in the second quarter of this year, the Bank still expects core inflation to diminish in the second half of this year.
- The Bank expects both total and core inflation to return to the 2 per cent target in the second quarter of 2011 as aggregate supply and demand return to balance.
- A stronger and more volatile Canadian dollar represents an important downside risk to output and inflation.
- On Tuesday, the Bank reaffirmed its conditional commitment to maintain its target for the overnight rate at the effective lower bound of 1/4 per cent until the end of June 2010 in order to achieve the inflation target.
- The Bank retains considerable flexibility in the conduct of monetary policy at low interest rates, consistent with the framework outlined in the April MPR.

With that, Paul and I would be pleased to take your questions.