Mark Carney: Summary Canada's latest *Monetary Policy Report*

Opening statement by Mr Mark Carney, Governor of the Bank of Canada, at the press conference following the release of the *Monetary Policy Report*, Ottawa, 22 October 2009.

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

- Recent indicators point to the start of a global recovery. Economic and financial developments have been somewhat more favourable than we expected in July, although significant fragilities remain.
- In Canada, as expected, a recovery in economic activity is also under way, following three consecutive quarters of sharp contraction.
- This resumption of growth is supported by monetary and fiscal stimulus, increased household wealth, improving financial conditions, higher commodity prices, and stronger business and consumer confidence.
- However, heightened volatility and persistent strength in the Canadian dollar are working to slow growth and subdue inflation pressures. The current strength in the dollar is expected, over time, to more than fully offset the favourable developments since July.
- Given all these factors, the Bank now projects that, relative to our July Report, the composition of aggregate demand will shift further towards final domestic demand and away from net exports. We now expect growth to average slightly lower over the balance of the projection period.
- The Bank projects that the Canadian economy will contract by 2.4 per cent this year and then grow by 3.0 per cent in 2010 and 3.3 per cent in 2011. This projected recovery will be somewhat more modest than the average of previous cycles.
- Total CPI inflation declined to a trough of -0.9 per cent in the third quarter, reflecting large year-on-year drops in energy prices. Total CPI inflation should rise to 1.0 per cent this quarter, while the core rate of inflation is projected to reach its trough of 1.4 per cent during the same period.
- Owing to the substantial excess supply that has emerged in the economy, the Bank expects both core and total inflation to return to the 2 per cent target in the third quarter of 2011, one quarter later than we projected in July.
- The main upside risks to inflation relate to the possibility of a stronger-than-anticipated recovery in the global economy and more robust Canadian domestic demand.
- On the downside, a stronger-than-assumed Canadian dollar, driven by global portfolio movements out of U.S.-dollar assets, could act as a significant further drag on growth and put additional downward pressure on inflation. Another important downside risk is that the global recovery could be even more protracted than projected.
- 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 that we outlined in the April MPR.