Mark Carney: Summary of the latest Monetary Policy Report update

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, 21 January 2010.

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

- The global economic recovery is underway. Economic and financial developments have been slightly more favourable than we projected in October, and the outlook for global economic growth through 2010 and 2011 is somewhat stronger.
- Although the recession in Canada was severe, with real GDP contracting for three consecutive quarters, the magnitude of the downturn was more modest than in other major advanced economies. In particular, domestic demand held up much better in Canada than elsewhere, reflecting the soundness of Canada's banking system, relatively healthy household and corporate balance sheets, and the speed and scale of monetary policy actions.
- Economic growth in Canada resumed in the third quarter of 2009 and is expected to have picked up further in the fourth quarter. Nevertheless, considerable excess supply remains, and the Bank judges that the economy was operating about 3 ¼ per cent below its production capacity in the fourth quarter of 2009.
- In Canada, the recovery is expected to evolve largely as anticipated in October, with the economy returning to full capacity in the third quarter of 2011. This recovery is still expected to be more subdued than usual. The main factors supporting the Canadian recovery are: monetary and fiscal policy support, increased confidence, a firming global economy, and higher terms of trade.
- At the same time, the persistent strength of the Canadian dollar and the low absolute level of U.S. demand continue to act as significant drags on economic activity.
- For the year as a whole, the Canadian economy contracted by an estimated 2.5 per cent in 2009. It is projected to grow by 2.9 per cent in 2010 and 3.5 per cent in 2011.
- As a result of year-over-year increases in energy prices, total CPI inflation turned positive in the fourth quarter of 2009, as had been anticipated.
- In spite of the large amount of excess supply in the economy, the core rate of inflation has been slightly stronger than expected in recent months. This stickiness of core inflation is likely related to the fact that wage growth had remained high relative to the underlying trend in productivity.
- The core rate of inflation is projected to increase gradually, returning to 2 per cent in the third quarter of 2011. Total CPI inflation is projected to follow a very similar path and return to the 2 per cent target also in Q3 of next year.
- The main upside risks to inflation are associated with the possibility of a stronger than- anticipated global recovery and of Canadian domestic demand that is more robust and has more momentum than projected.
- On the downside, there is the risk that persistent strength of the Canadian dollar 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 its conduct of monetary policy at low interest rates, consistent with the framework outlined in the April 2009 MPR.

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