Mark Carney: Opening statement before the House of Commons Standing Committee on Finance – April *Monetary Policy Report*

Opening statement by Mr Mark Carney, Governor of the Bank of Canada and Chairman of the Financial Stability Board, before the House of Commons Standing Committee on Finance, Ottawa, 23 April 2013.

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Good morning. Tiff and I are pleased to be here with you today to discuss the April *Monetary Policy Report*, which the Bank published last week.

- Global economic growth has evolved broadly as anticipated in January.
- In the United States, the economic expansion is continuing at a modest pace, with gradually strengthening private demand partly offset by accelerated fiscal consolidation.
- Significant policy stimulus has been introduced in Japan.
- Europe, in contrast, remains in recession, with economic activity constrained by fiscal austerity, low confidence and tight credit conditions.
- After picking up to very strong rates in the second half of 2012, growth in China has eased.
- Commodity prices received by Canadian producers remain elevated by historical standards and, despite recent volatility, overall they are little changed since January.
- The Bank expects global economic activity to grow modestly in 2013 before strengthening over the following two years.
- Following a weak second half of 2012, growth in Canada is projected to regain some momentum through 2013 as net exports pick up and business investment returns to more solid growth.
- Consumer spending is expected to grow at a moderate pace over the projection horizon, while residential investment declines further from historically high levels. Growth in total household credit has slowed and the Bank continues to expect that the household debt-to-income ratio will stabilize near current levels.
- Despite the projected recovery in exports, they are likely to remain below their pre-recession peak until the second half of 2014 owing to restrained foreign demand and ongoing competitiveness challenges, including the persistent strength of the Canadian dollar.
- On a quarterly basis, growth in Canada is expected to pick up to about 2.5 per cent in the second half of this year. Despite this expected pickup, with the weak growth in the second half of 2012, annual average growth is now projected to be 1.5 per cent in 2013. The economy is then projected to grow by 2.8 per cent in 2014 and 2.7 per cent in 2015, reaching full capacity in mid-2015. This is later than anticipated in January.
- Total CPI and core inflation have remained low in recent months, broadly in line with expectations in January. Muted core inflation reflects material excess supply in the economy, heightened competitive pressures in the retail sector, and some special factors. Total CPI inflation has been restrained by low core inflation and declining mortgage interest costs, with some offset from higher gasoline prices.
- Both total and core inflation are expected to remain subdued in coming quarters before gradually rising to 2 per cent by mid-2015 as the economy returns to full

capacity, the special factors subside, and inflation expectations remain well-anchored.

- The inflation outlook in Canada is subject to upside and downside risks, which are similar to those identified in January.
- The three main upside risks relate to the possibility of stronger-than-expected growth in the U.S. and global economies, a sharper-than-expected rebound in Canadian exports, and renewed momentum in Canadian residential investment.
- The three main downside risks relate to the European crisis, more protracted weakness in business investment and exports in Canada, and the possibility that growth in Canadian household spending could be weaker.
- Overall, the Bank judges that the risks are roughly balanced over the projection horizon.
- Reflecting all of these factors, on 17 April, the Bank maintained the target for the overnight rate at 1 per cent.
- With continued slack in the Canadian economy, the muted outlook for inflation, and the constructive evolution of imbalances in the household sector, the considerable monetary policy stimulus currently in place will likely remain appropriate for a period of time, after which some modest withdrawal will likely be required, consistent with achieving the 2 per cent inflation target.

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