

David Dodge: 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, Ontario, 13 July 2006.

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

Overall, the Bank's outlook for growth and inflation in Canada is largely unchanged from that in its April *Monetary Policy Report (MPR)*. Growth in the first half of 2006 appears to have been a little stronger than projected, and the Canadian dollar has traded in a higher range than was envisaged in the April *MPR*. The economy is currently judged to be operating just above its production capacity.

Growth in 2007-08 is expected to be a little weaker than was anticipated in the April *MPR*, owing primarily to the lagged effects of the higher Canadian dollar. With some anticipated moderation in U.S. growth, combined with past interest rate and exchange rate increases, the Canadian economy is projected to return to its production capacity by the end of 2008.

The Bank projects economic growth of 3.2 per cent in 2006, 2.9 per cent in 2007, and 2.8 per cent in 2008. Total CPI inflation is expected to average just over 1 1/2 per cent from mid-2006 to mid-2007 - with the reduction in the GST lowering the inflation rate by 0.6 percentage points over this period - and then return to the 2 per cent target and remain there through the projection period. Core inflation should also remain at about 2 per cent through to the end of 2008.

There are important upside and downside risks to the Bank's projection. But the Bank continues to judge that these risks are roughly balanced, with a small tilt to the downside later in the projection period because of the possibility of a disorderly resolution of global imbalances.

On 11 July, the Bank kept its target for the overnight rate unchanged at 4.25 per cent. The current level of this policy rate is judged, at this time, to be consistent with achieving the inflation target over the medium term. The Bank will continue to monitor global and domestic economic and financial developments, including adjustments in the Canadian economy, relative to its projection.