

David Dodge: Monetary Policy Report – introductory statement

Opening statement by Mr David Dodge, Governor of the Bank of Canada, at a press conference following the release of the Monetary Policy Report, Ottawa, 19 October 2006.

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

The Canadian economy is judged to be operating just above its production capacity. While global economic growth is expected to be a little higher than previously anticipated, a weaker near-term outlook for the U.S. economy has curbed the near-term prospects for Canadian exports and growth. The Bank's outlook for growth in the Canadian economy has been revised down slightly from that outlined in July's *Monetary Policy Report Update*. The Bank's base-case projection now calls for average annual GDP growth of 2.8 per cent in 2006, 2.5 per cent in 2007, and a return to 2.8 per cent in 2008. Weakness in labour productivity growth has led the Bank to lower its assumption for potential growth to 2.8 per cent for the 2006-08 period. Together, these factors imply that the small amount of excess demand now in the economy will be eliminated by mid-2007.

Core inflation is expected to move a bit above 2 per cent in the coming months but return to the 2 per cent target by the middle of 2007 and remain there through 2008. Lower energy prices have led to a downward revision to the near-term projection for total CPI inflation. Total inflation (which includes the temporary impact of the GST reduction) will likely average about 1 1/2 per cent through the second quarter of 2007, before returning to the 2 per cent target and remaining there through to the end of 2008.

As we noted at the time of our 6 September interest rate announcement, the risks around the base-case projection are judged to be a little greater than at the time of the July *Update*. The main upside risk relates to the momentum in household spending and housing prices, while the main downside risk is that the U.S. economy could slow more sharply than expected, leading to lower Canadian exports. The Bank judges that the risks to its inflation projection are roughly balanced.

On 17 October, we left our key policy rate unchanged at 4.25 per cent. The current level is judged, at this time, to be consistent with achieving the inflation target over the medium term. We at the Bank will continue to pay close attention to the evolution of risks as well as to economic and financial developments in the Canadian and global economies.