

David Dodge: Summary of the latest Monetary Policy Report

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, 26 April 2007.

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

Growth of the Canadian economy has been essentially in line with the Bank's expectations as set out in the January *Monetary Policy Report Update*. But inflation has been higher than expected. After considering the full range of indicators, the Bank now judges that the Canadian economy was operating just above its production capacity in the first quarter of this year.

Over the projection horizon, domestic demand continues to be the main driver of growth in Canada. With the U.S. slowdown now expected to be somewhat more prolonged than previously projected, net exports should exert a slightly greater drag on growth in 2007. The Canadian economy is projected to grow by 2.2 per cent in 2007 and 2.7 per cent in both 2008 and 2009, returning to its production capacity in the second half of 2007 and remaining there through 2008 and 2009.

Core inflation should remain slightly above 2 per cent over the coming months, given pressures on capacity and the impact of higher core food prices. But with the economy projected to return to its production capacity in the second half of this year and with further easing of pressures from housing prices, upward pressure on core inflation is expected to moderate, bringing core inflation back to 2 per cent by the end of 2007.

Total CPI inflation is projected to rise above the 2 per cent inflation target in the second half of this year, peaking below 3 per cent near the end of 2007 before returning to the target by mid-2008.

The Bank continues to judge that the risks to its inflation projection are roughly balanced, although there is now a slight tilt to the upside.

On Tuesday, the Bank left its key policy rate unchanged at 4 1/4 per cent. The current level of the policy interest rate is judged, at this time, to be consistent with achieving the inflation target over the medium term.