Mark Carney: Monetary policy report

Opening statement by Mr Mark Carney, Governor of the Bank of Canada, at the press conference following the release of the *Monetary Policy Report*, Ottawa, 22 July 2010.

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Good morning. It is my pleasure to introduce to you Tiff Macklem, who assumed the post of Senior Deputy Governor of the Bank of Canada on Canada Day. We are pleased to be here with you today to discuss the July *Monetary Policy Report*, which the Bank published this morning.

- The global economic recovery is proceeding but is not yet self-sustaining. A greater emphasis on balance sheet repair by households, banks, and governments in a number of advanced economies is expected to temper the pace of global growth relative to the Bank's outlook in April.
- The policy response to the European sovereign debt crisis has reduced the risk of an adverse outcome and increased the prospect of sustainable long term growth. However, it is also expected to slow the global recovery over the projection horizon. Global growth is now projected to average slightly less than 4 per cent through 2012.
- The U.S. economy continues to recover, but growth is projected to be slightly weaker than anticipated in April. This is owing to the fallout from the sovereign debt crisis in Europe and a more protracted recovery in household demand.
- In Canada, the economic recovery is unfolding largely as expected, and is supported by continued fiscal and monetary stimulus, higher terms of trade, improved labour markets, and household confidence, as well as the global recovery.
- The level of real GDP is now close to its pre-recession peak.
- The Bank expects the pace of growth in Canada to moderate to a slightly greater degree than it had expected in April. GDP is now projected to grow 3.5 per cent in 2010, 2.9 per cent in 2011, and 2.2 per cent in 2012.
- The Bank continues to expect consumer spending to slow to a pace more consistent with income growth.
- Business fixed investment has been more subdued than expected and its level is still depressed. Going forward, we expect it to increase to levels consistent with previous recoveries, driven by the need to expand capacity and to increase productivity in a more competitive international environment.
- Inflation in Canada has been broadly in line with the Bank's April projection. Both total CPI and core inflation are expected to remain near 2 per cent throughout the projection period. The Bank will look through the transitory effects on inflation of changes to provincial indirect taxes.
- The risks around this projection remain elevated and are judged to be roughly balanced over the projection horizon. Globally, on the upside, the boost in confidence as advanced countries restore fiscal sustainability could generate greater-than-expected offsets to the fiscal consolidation. On the downside, global private demand around the world, including in the United States, may be insufficient to sustain the recovery.
- In Canada, there are important two-sided risks to the outlook for private demand. On the upside, private demand might have greater momentum than expected, reflecting

strong confidence and easy credit conditions. On the downside, it is possible that households reduce expenditures more than currently anticipated or that the recovery in business investment is further delayed.

- Since April 2010, with improvements in the economy, the Bank has ended its extraordinary conduct of monetary policy. On 20 April 2010, the Bank removed its conditional commitment, which had provided considerable additional stimulus during a period of very weak economic conditions and major downside risks to the global and Canadian economies.
- On 1 June 2010, the Bank raised its target for the overnight rate by one-quarter of one percentage point to 1/2 per cent. As part of that interest rate decision, the Bank re-established its normal operating framework for the implementation of monetary policy.
- On Tuesday, 20 July 2010, the Bank raised its target for the overnight rate by a further one-quarter of one percentage point to 3/4 per cent.
- These decisions leave considerable monetary stimulus in place, consistent with achieving the 2 per cent inflation target in light of the significant excess supply in Canada, the strength of domestic spending, and the uneven global recovery.
- Given the considerable uncertainty surrounding the outlook, any further reduction of monetary stimulus would have to be weighed carefully against domestic and global economic developments.

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