Mark Carney: Summary of the latest *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, 18 January 2012.

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

- The outlook for the global economy has deteriorated and uncertainty has increased since the Bank released its October MPR. The sovereign debt crisis in Europe has intensified, conditions in international financial markets have tightened, and risk aversion has risen. The recession in Europe is now expected to be deeper and longer than previously anticipated.
- The Bank continues to assume that European authorities will implement sufficient measures to contain the crisis, although this assumption is clearly subject to downside risks.
- In the United States, the rebound in real GDP during the second half of 2011 was stronger than anticipated. However, the Bank expects the recovery will proceed at a more modest pace going forward, owing to ongoing household deleveraging, fiscal consolidation and the spillovers from Europe.
- Chinese growth is decelerating, as expected, toward a more sustainable pace.
- Prices for most commodities are expected to remain relatively elevated, although at levels below those anticipated in October.
- The Bank's overall outlook for the Canadian economy is little changed from October. While there was more momentum than anticipated in the second half of 2011, the pace of growth going forward is expected to be more modest than previously envisaged, largely due to the external environment.
- Household spending is now projected to grow at a steady pace through 2013. Reflecting an upwardly-revised profile for residential investment, household expenditures are now expected to remain high relative to GDP over the projection horizon and the ratio of household debt to income is projected to rise further.
- While dampened somewhat by the external environment, business investment is expected to grow at a solid pace. Net exports are expected to contribute little to growth, reflecting moderate foreign demand and ongoing competitiveness challenges, including the persistent strength of the Canadian dollar.
- The Bank estimates that the Canadian economy grew by 2.4 per cent in 2011 and projects that it will grow by 2.0 per cent in 2012 and 2.8 per cent in 2013. While the economy appears to be operating with less slack than previously assumed, given the more modest growth profile, it is only anticipated to return to full capacity by the third quarter of 2013.
- The dynamics for inflation are similar to those anticipated in October, although its profile is marginally firmer. Both total and core inflation are expected to moderate in 2012 before reaching 2 per cent by the third quarter of 2013, as excess supply is slowly absorbed, labour compensation grows modestly and inflation expectations remain well-anchored.
- Several significant upside and downside risks are present in the inflation outlook for Canada.

- The three main upside risks to inflation in Canada relate to the possibility of stronger-than-expected inflationary pressures in the global economy, stronger-than-expected growth in the U.S. economy and stronger momentum in Canadian household spending.
- The two main downside risks to inflation in Canada relate to sovereign debt and banking concerns in Europe and the possibility that growth in household spending could be weaker than projected.
- Overall, the Bank judges that these risks are roughly balanced over the projection horizon.
- Reflecting all of these factors, the Bank yesterday maintained the target for the overnight rate at 1 per cent. With the target interest rate near historic lows and the financial system functioning well, there is considerable monetary policy stimulus in Canada. The Bank will continue to monitor carefully economic and financial developments in the Canadian and global economies, together with the evolution of risks, and set monetary policy consistent with achieving the 2 per cent inflation target over the medium term.

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