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Opening Statement by Stephen S. Poloz
Governor of the Bank of Canada
Appearance Before the Standing Senate
Committee on Banking, Trade and Commerce
13 April 2017
Ottawa, Ontario

Good morning, Mr. Chairman and committee members. Senior Deputy Governor Wilkins and I are pleased to be back before you today to discuss the Bank's *Monetary Policy Report* (MPR), which we published yesterday.

At the time of our last appearance in October, I spoke about the factors that caused us to downgrade our outlook for the Canadian economy. Six months later, I'm pleased to say that I can discuss the factors that have led us to upgrade our forecast.

For some time, we have been talking about how the oil price shock that began in 2014 set in motion a complex series of adjustments throughout the economy, including a significant restructuring in the oil and gas sector. What we are seeing now is that energy-related activity has stopped declining and is transitioning to a new level that is commensurate with the current level of oil prices.

Because that large negative force is now essentially past, it is no longer masking the sources of strength that have been at work for some time, particularly the growth in output and employment that is being driven by the service sector. The expansion over the past six months has exceeded our earlier forecasts, and we have revised up our outlook for average annual growth in 2017 to a bit over 2 1/2 per cent, one-half percentage point greater than we projected in the January MPR. We project growth of just under 2 per cent in 2018 and 2019.

A crucial question for the Bank now is whether the stronger economic data that we have been seeing are signalling increasing momentum. Some of the strength is coming from factors that are unlikely to continue at the same pace. For example, the very strong growth in consumption in the first quarter was supported by a temporary boost from the Canada Child Benefit. Housing activity has also been stronger than expected. While we have incorporated some of this strength in a higher profile for residential investment, we still anticipate slowing over the projection horizon. The current pace of activity in the Greater Toronto Area (GTA) and parts of the Golden Horseshoe region is unlikely to be sustainable, given fundamentals. House price growth in the GTA has accelerated sharply in recent months, suggesting that speculative forces are at work.

In terms of the labour market, recent data have been mixed. While job growth has certainly been firm, both wages and unit labour costs have grown only slowly. The data suggest that material slack remains in the Canadian labour market, in contrast with the US labour market, which is close to full employment.

At the same time, Canadian exports and business spending are still weaker than you would expect to see at this stage of the business cycle. Companies are telling us that while they plan to raise spending, the planned increases are modest, or tied to maintenance, rather than expansion. In short, the economy is not yet firing on all cylinders.

In addition, Canadian companies are dealing with heightened levels of uncertainty related to US tax and trade policies. We still do not know what tax changes are coming, or when. And the range of potential trade measures under discussion is even wider now than it was in January. It includes a border-adjustment tax, increased tariffs aimed at specific industries or countries, non-tariff barriers and even broader, multilateral measures. We do not know which of these will be enacted; their timing is uncertain; and each would affect the global and Canadian economies through a different, complex set of channels. With all of this uncertainty, we cannot reliably model the impact of changes to US trade policy. Instead, we have built in an extra degree of caution in our forecast for exports and investment relative to our January projection.

Total inflation has been close to 2 per cent and is expected to dip to about 1.7 per cent in the middle of the year before returning to near its target. However, our core inflation measures are all in the lower half of the target band and have been trending downward. This supports the view that the economy continues to have significant excess capacity. Our current base-case forecast calls for the Canadian economy to absorb its excess capacity sometime in the first half of 2018, which is a bit sooner than we projected three months ago.

We are certainly happy to see the recent strength in the economic data and want to see more of it in order to be confident that growth is on a solid footing. We judge that the economy still has material room to grow. And we remain mindful that significant uncertainty continues to weigh on the outlook.

Given all of this, we judged that the current stance of monetary policy is still appropriate and maintained the target for the overnight rate at 1/2 per cent.

With that, Mr. Chairman, Senior Deputy Wilkins and I would be happy to answer questions.