



BANK OF CANADA

**FOR IMMEDIATE RELEASE**  
**12 June 2003**

**CONTACT: Pierre Laprise**  
**(613) 782-8782**

### **Governor Reviews Recent Economic Developments**

MONTRÉAL, QUEBEC—Bank of Canada Governor David Dodge reviewed some of the developments that are influencing both demand and prices for Canadian goods and services in a speech today to the Conseil du patronat du Québec.

The Canadian economy continued to expand in the first quarter of 2003, reflecting firmness in domestic demand. This was broadly in line with expectations in the Bank's *April Monetary Policy Report*. The Governor said that recent developments, including continuing weakness in the U.S. and global economies, and concerns about the impact of Severe Acute Respiratory Syndrome (SARS) and Bovine Spongiform Encephalopathy (BSE), point to some near-term softness in the Canadian economy. The greater-than-expected appreciation of the Canadian dollar against the U.S. dollar will have a dampening influence on aggregate demand later this year and next, Mr. Dodge noted. Nevertheless, "it remains our view that growth in Canada's economy will be underpinned by the strength of domestic demand and a rebound in the U.S. economy towards the end of 2003 and through 2004," added the Governor.

Inflation has declined more than previously expected, Mr. Dodge noted. Some of the decline is due to transitory factors, such as electricity rebates in Ontario. The effect of these factors will likely unwind in the months ahead. However, other factors, such as an expected moderation in auto insurance premiums, the appreciation of the Canadian dollar, and some near-term softness in demand, will help restrain CPI inflation. Thus, "it now appears that both core and total CPI inflation will return to the 2 per cent target somewhat earlier than the Bank had expected in April," the Governor said.

"We will continue to assess the economic data carefully. We will continue to talk to businesses about their plans," the Governor added. The Bank's next full assessment of the economy will be published in its *Monetary Policy Report Update*, on 17 July.