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Governor Carney Discusses the Role of Monetary Policy in the Face of the Commodities Boom

CALGARY, ALBERTA – The best contribution that the Bank of Canada can make to help all Canadians reap the benefits of the current commodities boom is to remain focused on achieving its inflation target, Governor Mark Carney said today in a speech to the *Commodities, the Economy, and Money* conference.

The Governor detailed some of the key characteristics of the current commodity super cycle and highlighted how it differs from past episodes. "The scale of price increases has been higher, and the range of affected commodities broader than in previous upturns … the current boom is also unusual in that it began earlier in the global economic cycle, and has lasted longer," he said. "The bulk of the evidence suggests that the increase in most commodity prices is due to the fundamentals of strong demand and weak supply."

He outlined the benefits and challenges for Canada of the current commodity boom. From the Bank's perspective, lessons from the previous commodity boom underscore that a relentless focus on inflation is paramount. "In the face of the largest commodity-price shock in our lifetimes, we cannot be complacent," the Governor said.

Governor Carney also discussed some of the challenges to the conduct of monetary policy in the current environment, saying that in its April *Monetary Policy Report,* the Bank had indicated that "some further monetary stimulus will likely be required," but also noted that the timing of "any stimulus will depend on the evolution of the global economy and domestic demand, and their impact on inflation in Canada."

He said that commodity-price developments were important considerations for the Bank's 10 June rate decision. Other considerations included stronger global growth than previously expected and higher global inflation, as well as the easing of many of the downside risks to inflation, he noted.

Together, these developments were sufficient to alter the Bank's April view. "As a result, the Bank now judges that the current accommodative stance of monetary policy is appropriate to bring aggregate demand and supply into balance and to achieve the 2 per cent inflation target," he said. "Going forward there remain important downside and upside risks to inflation, but these risks are now judged to be evenly balanced."