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Governor Carney Discusses Impacts of Globalization on Canada

VANCOUVER, BRITISH COLUMBIA – Canada has adjusted well to sharp movements in its terms of trade and is enjoying the many benefits of a globalized economy, Bank of Canada Governor Mark Carney said today in a speech to the British Columbia Chamber of Commerce and the Business Council of British Columbia.

Business investment has increased, and Canada's employment performance and wage growth have been impressive, due to both strong commodity prices and a growing service sector, said Governor Carney. "Rising terms of trade alone have bolstered real disposable income per capita by 8.5 per cent over the past five years, and have contributed to healthier corporate balance sheets and the continued improvement in government fiscal positions."

The current wave of globalization is unique because of the sheer scale of the process and the relative size of the emerging-market economies that are being integrated, noted the Governor. He said that adjustments prompted by globalization are not easy, as workers in industrialized countries such as Canada have shifted to more knowledge-based production, while workers in developing economies have taken on more of the labour-intensive production processes.

"The challenge for policy-makers is to ensure that the benefits of globalization are maximized and widely shared," Governor Carney said. "From the Bank of Canada's perspective, our challenge is to understand the various ways in which globalization affects both financial stability … and inflation."

In terms of the current economic situation, which is importantly influenced by global conditions, Governor Carney referred to the Bank's recent *Monetary Policy Report Update*. While there remain upside risks to the Bank's projection for the economy related to improvement in Canada's terms of trade, among other factors, there are also important downside risks: that tighter credit conditions could be greater and more protracted than assumed, and that there could be a more prolonged slowdown in the U.S. economy, exerting a greater drag on Canadian GDP growth and inflation.

The Governor noted that, in line with its base-case projection and the associated risks, the Bank has twice lowered its target for the overnight rate in recent months. The Bank has also said that further monetary stimulus is likely to be required in the near term to keep aggregate supply and demand in balance, and to return inflation to target over the medium term. "The timing and degree of that stimulus will be determined at future fixed announcement dates," the Governor concluded.