



BANK OF CANADA  
BANQUE DU CANADA

# Colleges Ontario Annual Conference:

**Knowledge is Power – Advancing  
Competitiveness in Changing Times**

**Town Hall: Economic Trends**

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23 February 2009



# Outline

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- ❖ Global and Canadian Outlook
- ❖ Uncertainty and Need for Policy Action
- ❖ Three Challenges Facing Canada and Ontario



# 1. Global Outlook

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- Outlook for the global economy has deteriorated significantly in recent months.
- The recession that originated in the United States is now spreading globally through confidence, financial, and trade channels.
- In the Bank's January *MPRU*, we projected that global growth will be tepid this year, just 1.1 per cent, before rebounding mildly to a below-trend rate of 3.7 per cent in 2010.



## 2. Canadian Outlook

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- 2009 will be a difficult year for Canada's economy.
- Our economy is projected to contract through the middle of this year, with real GDP dropping by 1.2 per cent in 2009 on an average annual basis.
- In the Bank's base-case projection, real GDP is expected to rebound in 2010, growing by 3.8 per cent.



## 2. Canadian Outlook (continued)

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### Recovery to be supported by:

- Timeliness and scale of monetary policy response
- Our relatively well-functioning financial system and gradual improvements in financial conditions in Canada next year
- Strengths of Canadian household, business, and bank balance sheets
- Past depreciation of the Canadian dollar
- Stimulative fiscal policy measures
- Rebound in external demand, particularly in emerging markets, and the associated firming of commodity prices
- End of the stock adjustments in Canadian and U.S. residential housing



## 3. Uncertainty and Need for Policy Action

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- In the current environment, the Bank's projections – and those of all forecasters – are subject to an unusually high degree of uncertainty.
- Stabilization of the global financial system is a precondition for economic recovery globally and in Canada.
- Throughout the world, policy-makers have acted aggressively and creatively. However, this task is far from complete.
- Canadians can rely on the Bank of Canada to fulfill its mandate to keep inflation low, stable, and predictable.



## 4. Three Challenges

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- Think market based
- Think open economy
- Think medium term



## 4. Three Challenges (continued)

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### Think market based

- The price system is the most efficient way to organize and allocate resources or economic activity more generally.
- A successful economic strategy will be one that reads (relative) price signals correctly and responds to those signals.
- However, markets can, and do, fail, as we have vividly witnessed recently.
- Canada is working closely with its G7/G20 partners to address these market failures and to strengthen the regulation of global financial markets.





## 4. Three Challenges (continued)

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### Think open economy

- **Open world economy has led to great benefits globally, and the possibilities going forward are tremendous.**
- **Openness has helped Canada prosper, and that openness will enable us to meet future challenges.**
- **Needed from governments: policies that promote sound macroeconomic frameworks; and policies that promote flexibility to enable our economy to adjust to changing global circumstances.**
- **Needed from businesses and workers: identify and seize opportunities in terms of how business is conducted, the types of goods and services produced, and the markets developed.**



## 4. Three Challenges (continued)

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### Think medium term

- **Need to think about what is required to shape and transform economies in response to major economic forces: demographic trends, integration of emerging economies, and technological innovations.**
- **In concrete terms, this means making investments that look at needs and returns from a medium-term perspective.**
- **I would point to three types of investments that we must focus on:**
  - **investment in our human capital**
  - **investment in our physical capital**
  - **investment in our natural resource capital**



## 4. Three Challenges (continued)

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- Investment in human capital, for example.
- Education and training enable an economy to leverage every other investment that is made.
- Given the speed of global change, we can't predict what skills will be in most demand in 5, 10, 20 years.
- But we do know that the need for specialized skills is going to continue to increase and the economies that have those skills will be the ones that will prosper.
- Thus, the need to create an environment that promotes continuous learning; an attitude of adaptability and flexibility; and a focus on comparative advantage, based on the production of high-valued goods and services.