BANK OF CANADA | CELEBRATING 75 YEARS
BANQUE DU CANADA | CÉLÉBRONS 75 ANS

Opening Statement by Mark Carney
Governor of the Bank of Canada
Standing Senate Committee on
Banking, Trade and Commerce
27 October 2010
Ottawa, Ontario

CHECK AGAINST DELIVERY

Good afternoon, Mr. Chairman and committee members. It is my pleasure to introduce to you Tiff Macklem, who assumed the post of Senior Deputy Governor of the Bank of Canada on 1 July 2010. We are pleased to appear before this committee today to discuss the Bank of Canada's views on the economy and our monetary policy stance. Before I take your questions, I would like to give you some of the highlights from our latest *Monetary Policy Report*, which was released last week.

- The global economic recovery is entering a new phase. In advanced economies, temporary factors supporting growth in 2010, such as the inventory cycle and pent-up demand, have largely run their course and fiscal stimulus will shift to fiscal consolidation over the projection horizon.

- The Bank expects that private demand in advanced economies will become sufficiently entrenched to sustain the recovery. However, the combination of difficult labour market dynamics and ongoing deleveraging in many advanced economies is expected to moderate the pace of growth, relative to prior expectations.

- These factors will contribute to a weaker-than-projected recovery in the United States in particular.

- Growth in emerging-market economies is expected to ease to a more sustainable pace as fiscal and monetary policies are tightened. Heightened tensions in currency markets and related risks associated with global imbalances could result in a more protracted and difficult global recovery.

- The economic outlook for Canada has changed. The Bank expects the economic recovery to be more gradual than it had projected in July, with growth of 3.0 per cent in 2010, 2.3 per cent in 2011, and 2.6 per cent in 2012. This more modest growth profile reflects a more gradual global recovery and a more subdued profile for household spending.

- Overall, the composition of demand in Canada is expected to shift away from government and household expenditures towards business investment and net exports. The strength of net exports will be sensitive to currency movements, the expected recovery in productivity growth, and the prospects for external demand.

- Inflation in Canada has been slightly below the Bank's July projection. The recent moderation in core inflation is consistent with the persistence of significant excess supply and a deceleration in the growth of unit labour costs.

- The Bank judges that the output gap is slightly larger and that the economy will return to full capacity by the end of 2012 rather than the beginning of that year, as had been anticipated in July.

- The inflation outlook has been revised down and both total CPI and core inflation are now expected to converge to 2 per cent by the end of 2012, as excess supply in the economy is gradually absorbed and inflation expectations remain well-anchored.

- Important risks remain around this outlook. The three main upside risks to the inflation outlook are higher commodity prices, a stronger-than-anticipated recovery in the U.S. economy, and the possibility of greater-than-projected momentum in the Canadian household sector.

- These upside risks are balanced by three downside risks relating to Canada's international competitiveness, global growth prospects, and the possibility of a more pronounced correction in the Canadian housing market. These risks are balanced.

- In response to the sharp, synchronous global recession, the Bank lowered the target rate rapidly over the course of 2008 and early 2009 to its lowest possible level. We almost doubled our balance sheet to provide the financial sector with exceptional liquidity. With our conditional commitment, the Bank provided exceptional guidance on the likely path of our target rate. These policies provided considerable additional stimulus during a period of very weak economic conditions and major downside risks to the Canadian economy.

- With the initial rapid narrowing of the output gap, the return of employment to its pre-crisis peak, the highly effective transmission of monetary policy in Canada, and the sustained momentum in household borrowing, the need for such emergency policies passed.

- Since the spring, the Bank has unwound the last of our exceptional liquidity measures, removed the conditional commitment, and raised the overnight rate to 1 per cent.

- On 19 October 2010, the Bank maintained the target for the overnight rate at 1 per cent. This leaves considerable monetary stimulus in place, consistent with achieving the 2 per cent inflation target in an environment of significant excess supply in Canada.

- At this time of transition in the global recovery, with a weaker U.S. outlook, constraints beginning to moderate growth in emerging-market economies, and domestic considerations that are expected to slow consumption and housing activity in Canada, any further reduction in monetary policy stimulus would need to be carefully considered.

With that, Tiff and I would be pleased to take your questions.