

# Promoting Canada's Economic and Financial Well-Being in an Uncertain World

Remarks to the Thompson  
Chamber of Commerce  
Thompson, Manitoba  
17 November 2011



Jean Boivin  
Deputy Governor  
Bank of Canada

# Outline

---

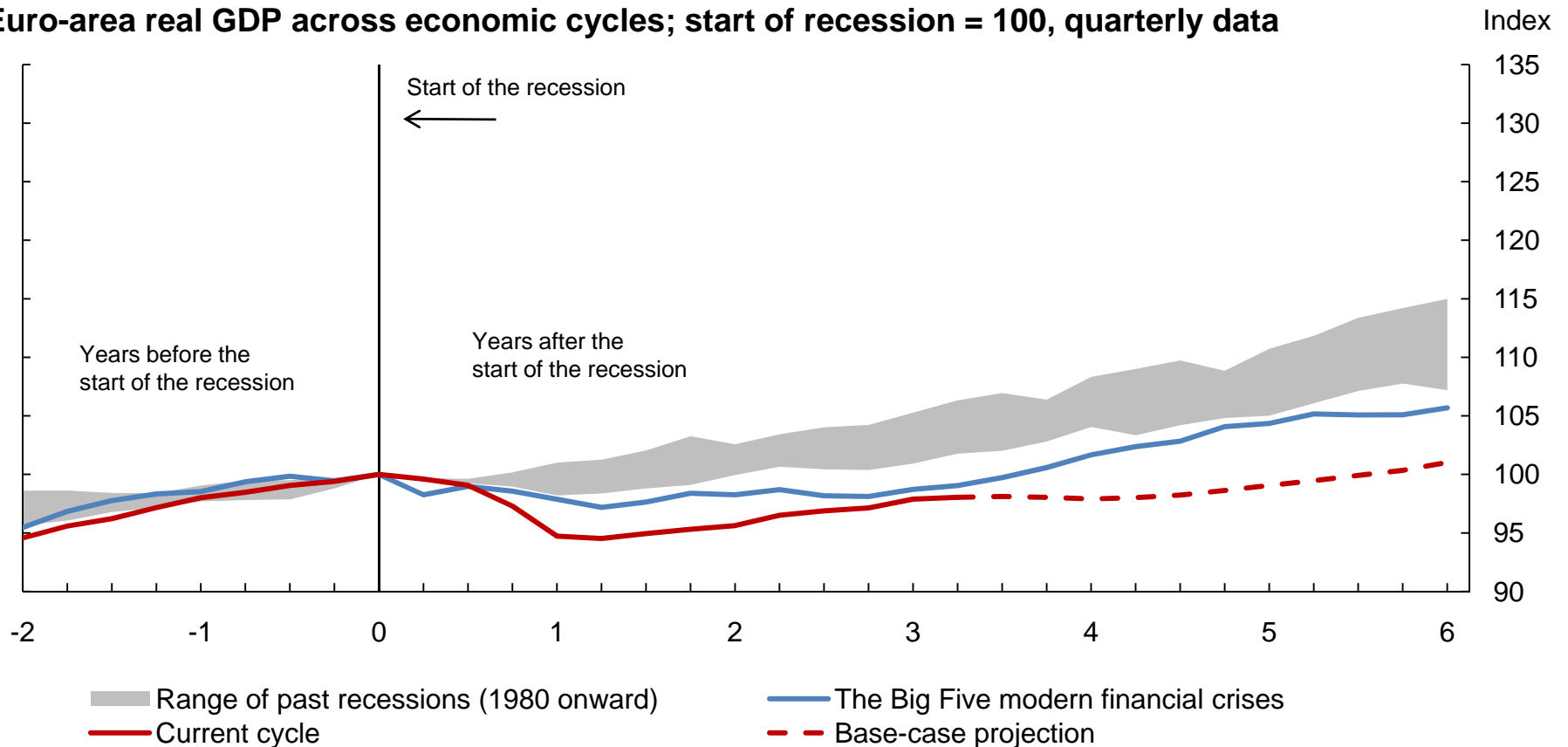
- Economic Outlook
- Taking a Step Back: Recession to Recovery
- The Bank's Four Key Responsibilities:
  - Monetary policy
  - Financial stability
  - Funds management
  - Currency

# Economic Outlook



# Europe: Mild recession—modest recovery

**Euro-area real GDP across economic cycles; start of recession = 100, quarterly data**

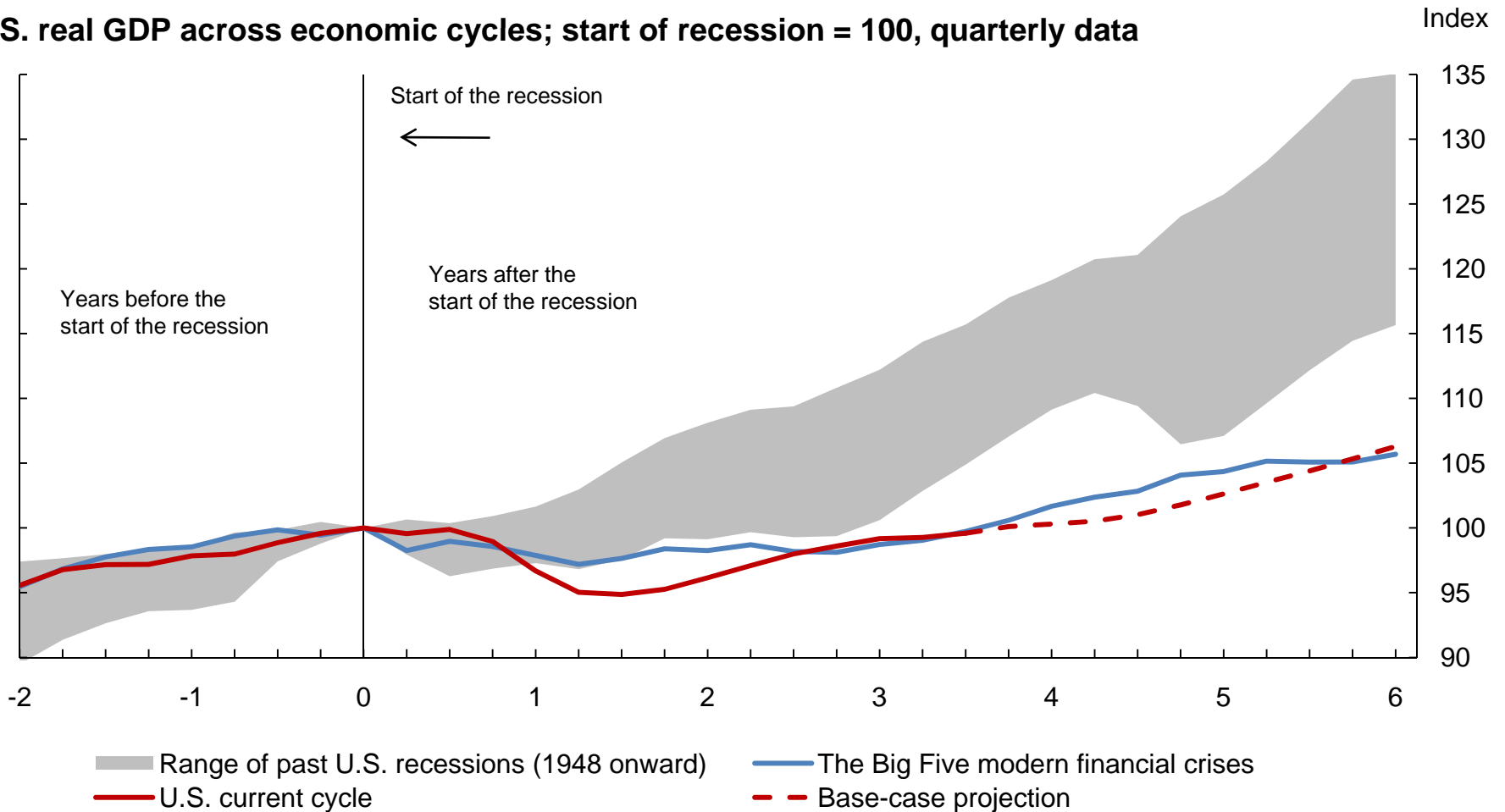


Note: The Big Five modern financial crises as described in Reinhart and Rogoff (2008) are Spain (1977), Norway (1987), Finland (1991), Sweden (1991) and Japan (1992). See C.M. Reinhart and K.S. Rogoff, "Is the 2007 U.S. Sub-Prime Financial Crisis So Different? An International Historical Comparison," *American Economic Review: Papers and Proceedings* 98, no. 2 (2008): 339-44

Sources: Eurostat and Organisation for Economic Co-operation and Development

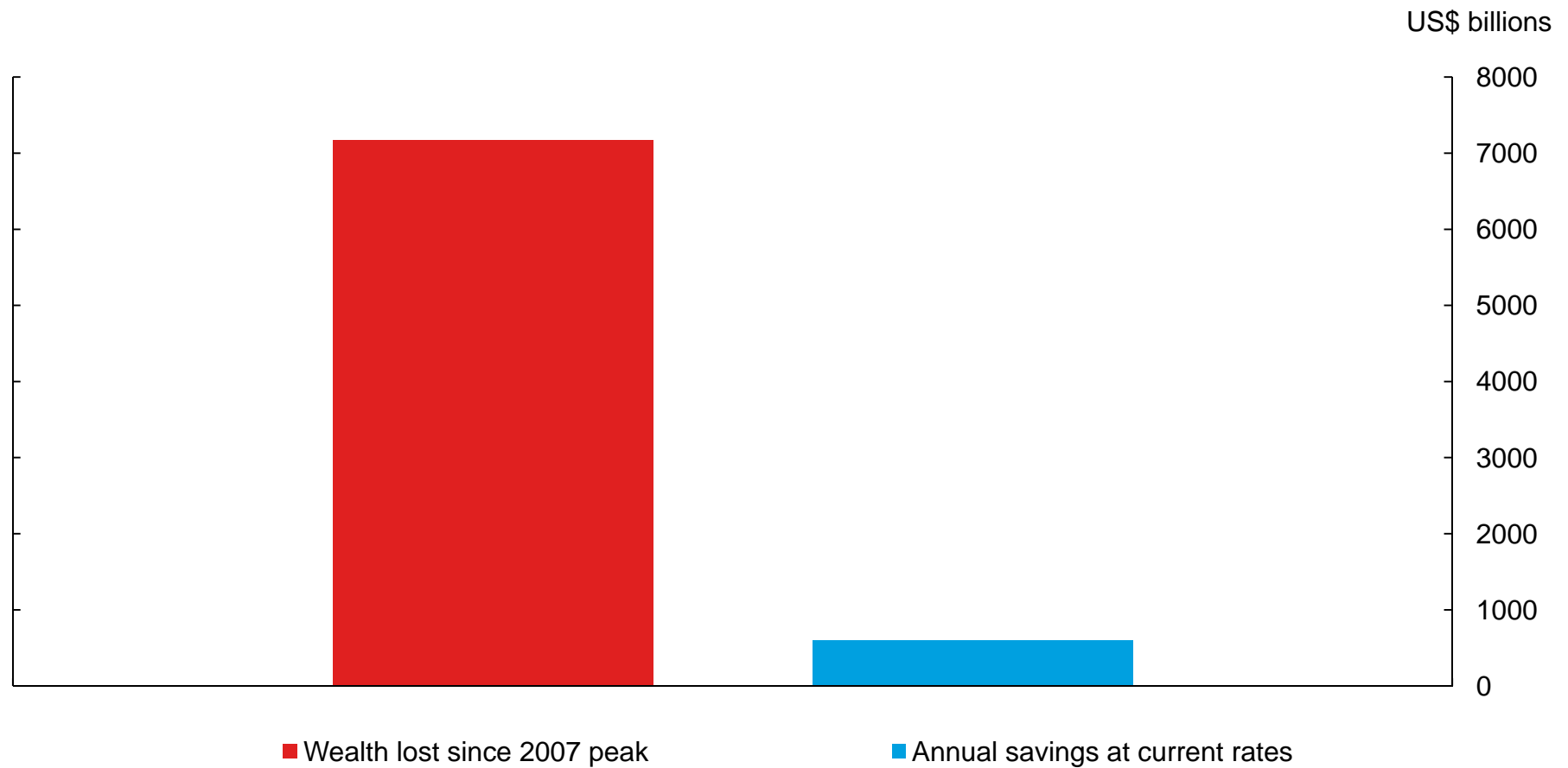
# United States: Subdued growth in line with recoveries following severe financial crises

**U.S. real GDP across economic cycles; start of recession = 100, quarterly data**



Sources: U.S. Bureau of Economic Analysis and Organisation for Economic Co-operation and Development

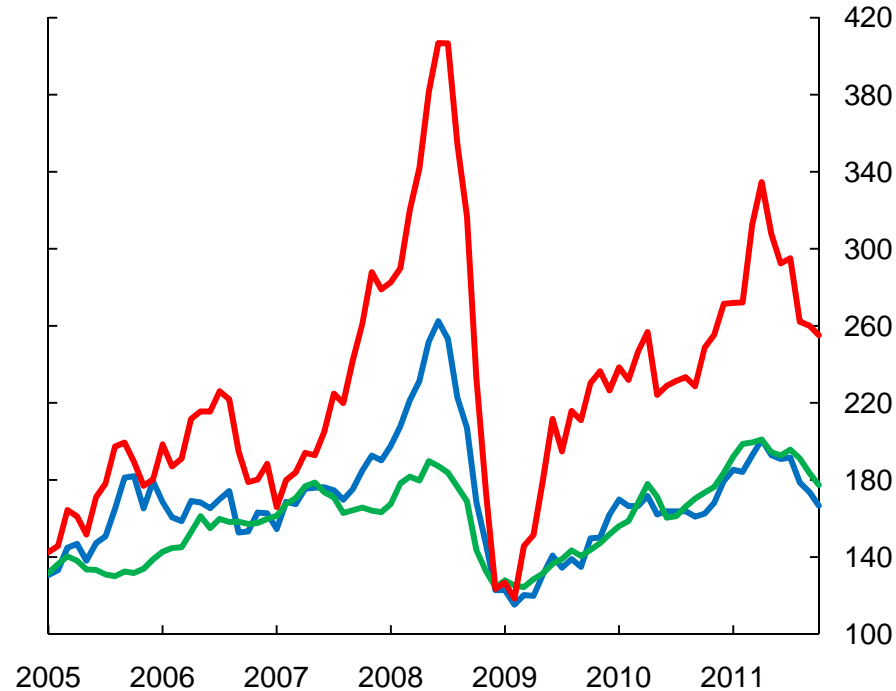
# Rebuilding wealth in the United States will take time



Sources: U.S. Bureau of Economic Analysis, U.S. Federal Reserve and Bank of Canada calculations

# October MPR: Commodity prices and Canadian dollar had fallen, but were still elevated

**Monthly data: Bank of Canada commodity price index**

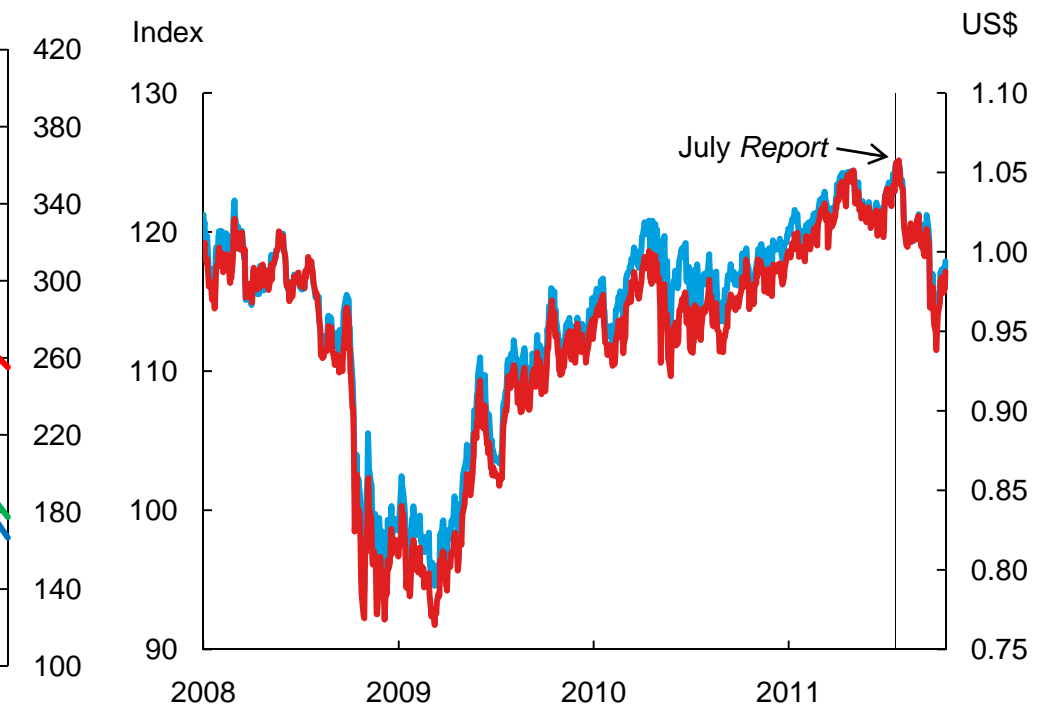


- All commodities (US\$)
- Non-energy commodities (US\$)
- Crude oil (US\$)

Source: Bank of Canada

Last observation: October 2011

**Daily data: Canadian dollar**



- CERI: Canadian-dollar effective exchange rate index (against U.S. dollar, euro, yen, U.K. pound, Mexican peso and Chinese renminbi) (left scale, 1992 = 100)
- Closing spot exchange rate for Canadian dollar vis-à-vis U.S. dollar (right scale)

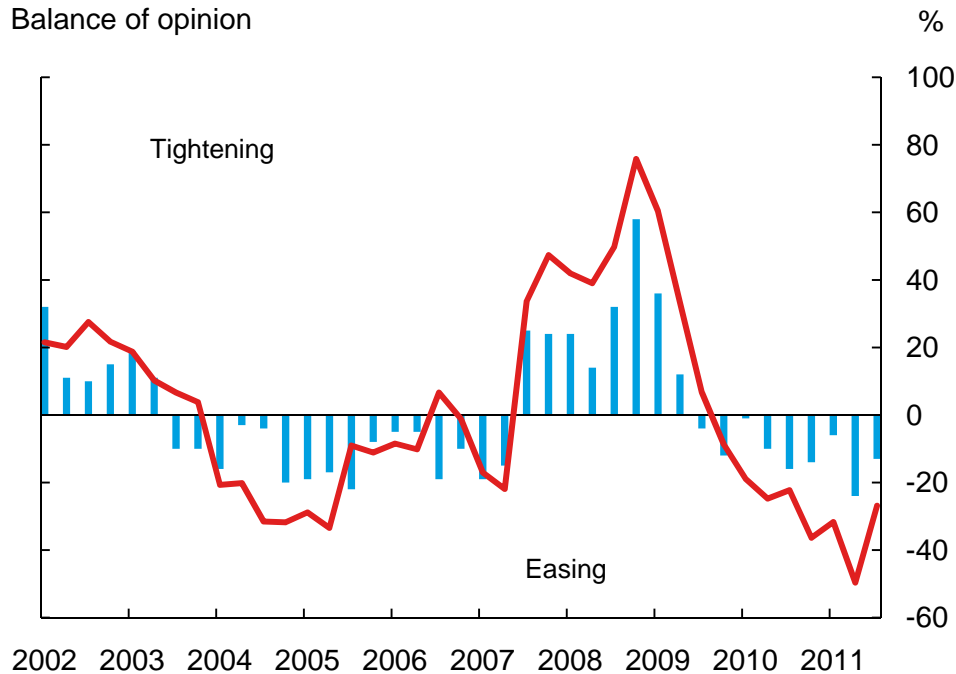
Source: Bank of Canada

Last observation: 21 October 2011

# Stimulative credit conditions

## Survey results suggest that credit conditions for Canadian non-financial firms eased further in 2011Q3

Balance of opinion



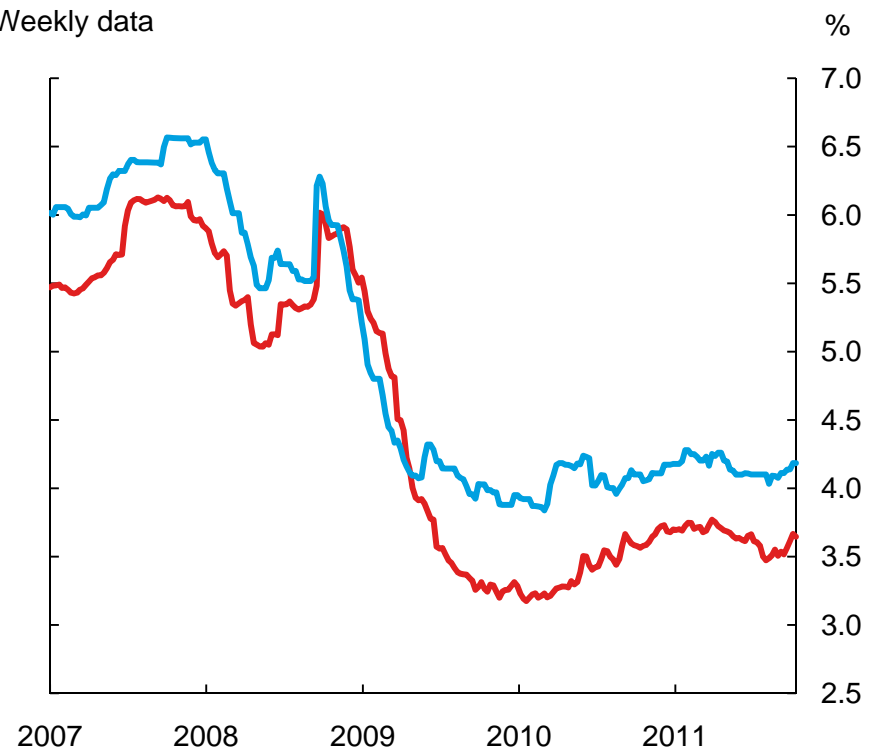
- Overall credit conditions from the Business Outlook Survey
- Overall business-lending conditions from the Senior Loan Officer Survey\*

Source: Bank of Canada calculations

Last observation: 2011Q3

## Borrowing costs remain at exceptionally low levels

Weekly data



- Effective business interest rate
- Effective household interest rate

Source: Bank of Canada calculations

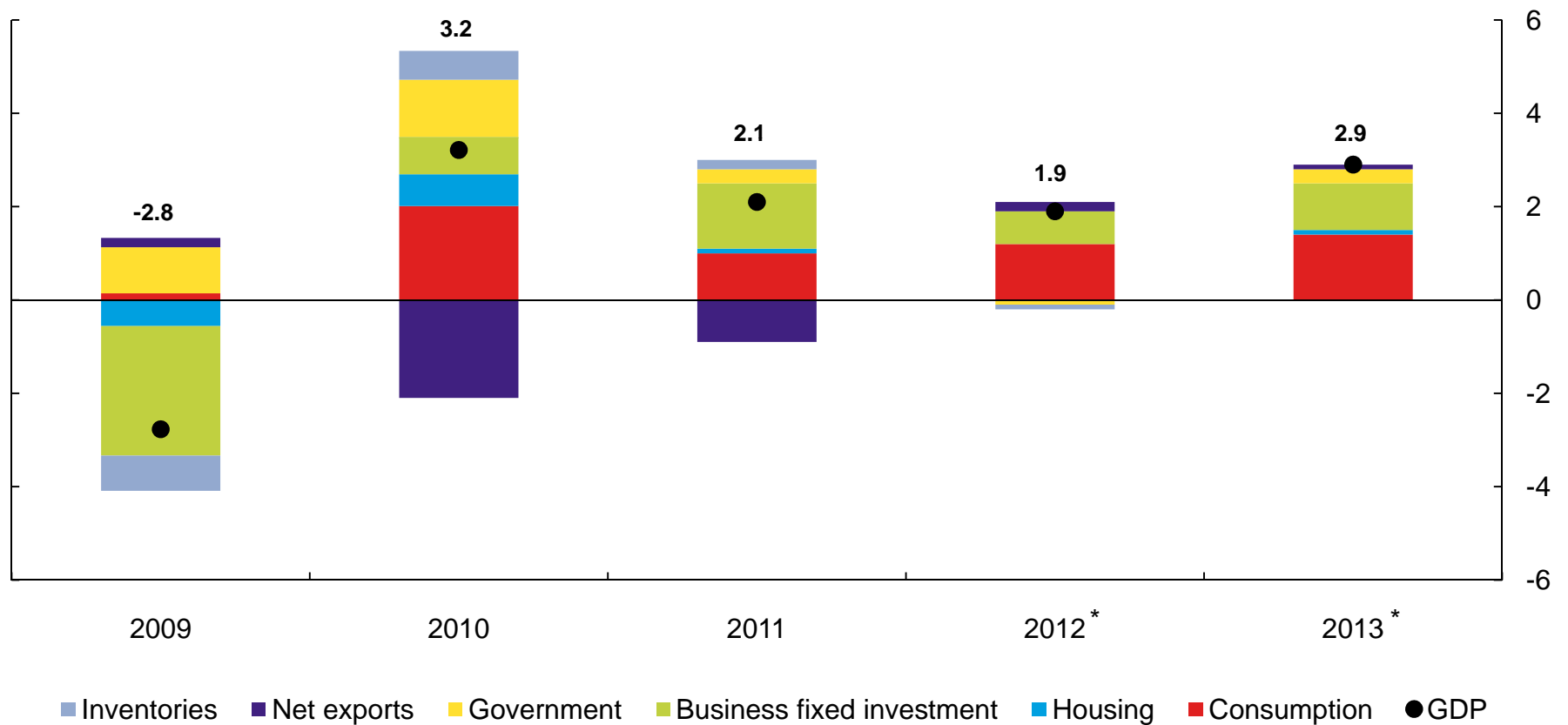
Last observation: 21 October 2011



# Domestic demand projected to be weaker, but remains the primary driver of growth

Contributions to real GDP growth

Percentage points

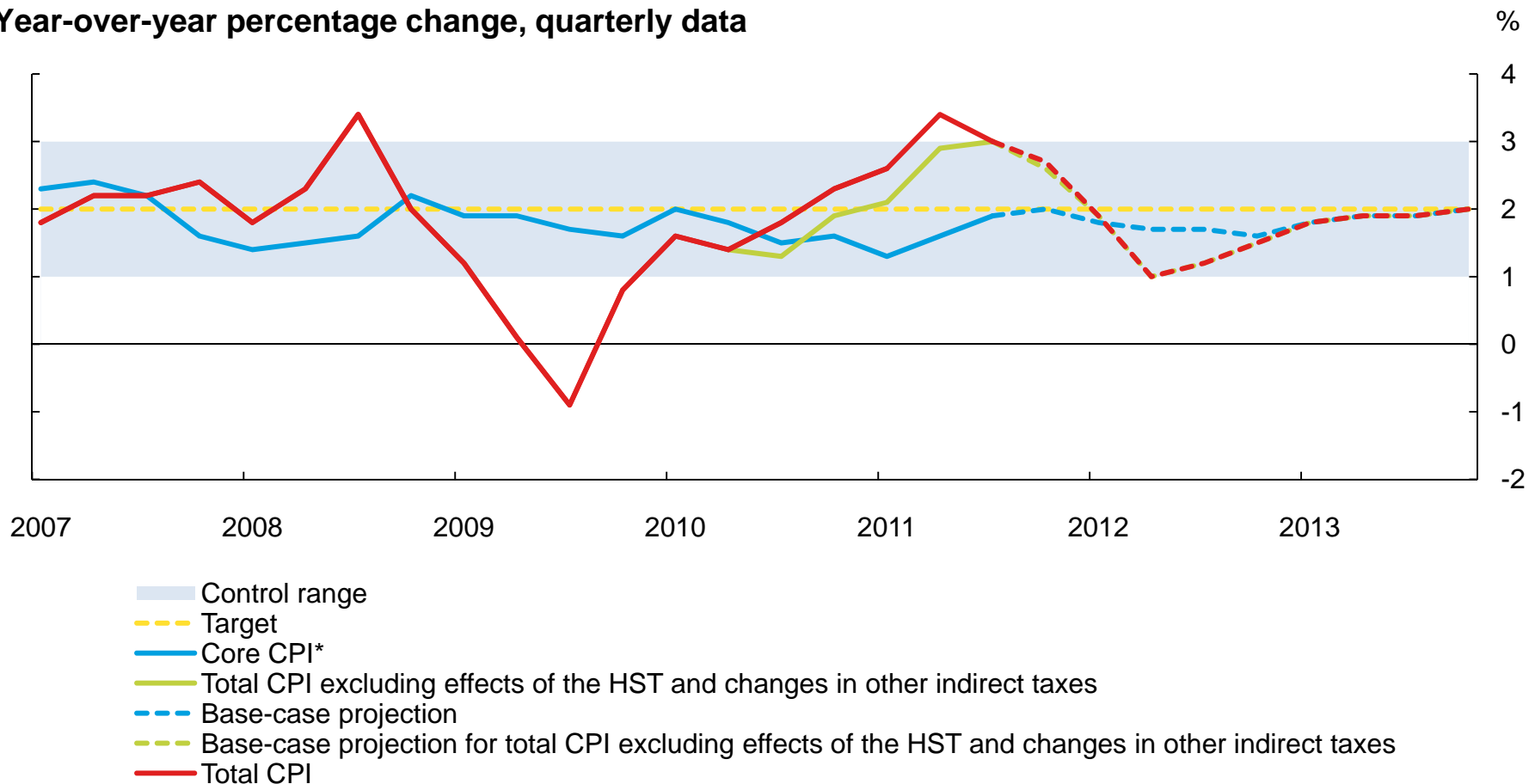


\*Indicates projection

Sources: Statistics Canada and Bank of Canada calculations

# Total CPI and core inflation to decline in 2012, returning to 2 per cent by the end of 2013

Year-over-year percentage change, quarterly data



\*CPI excluding eight of the most volatile components and the effect of changes in indirect taxes on the remaining components

Sources: Statistic Canada and Bank of Canada calculations and projections

# Risks

---

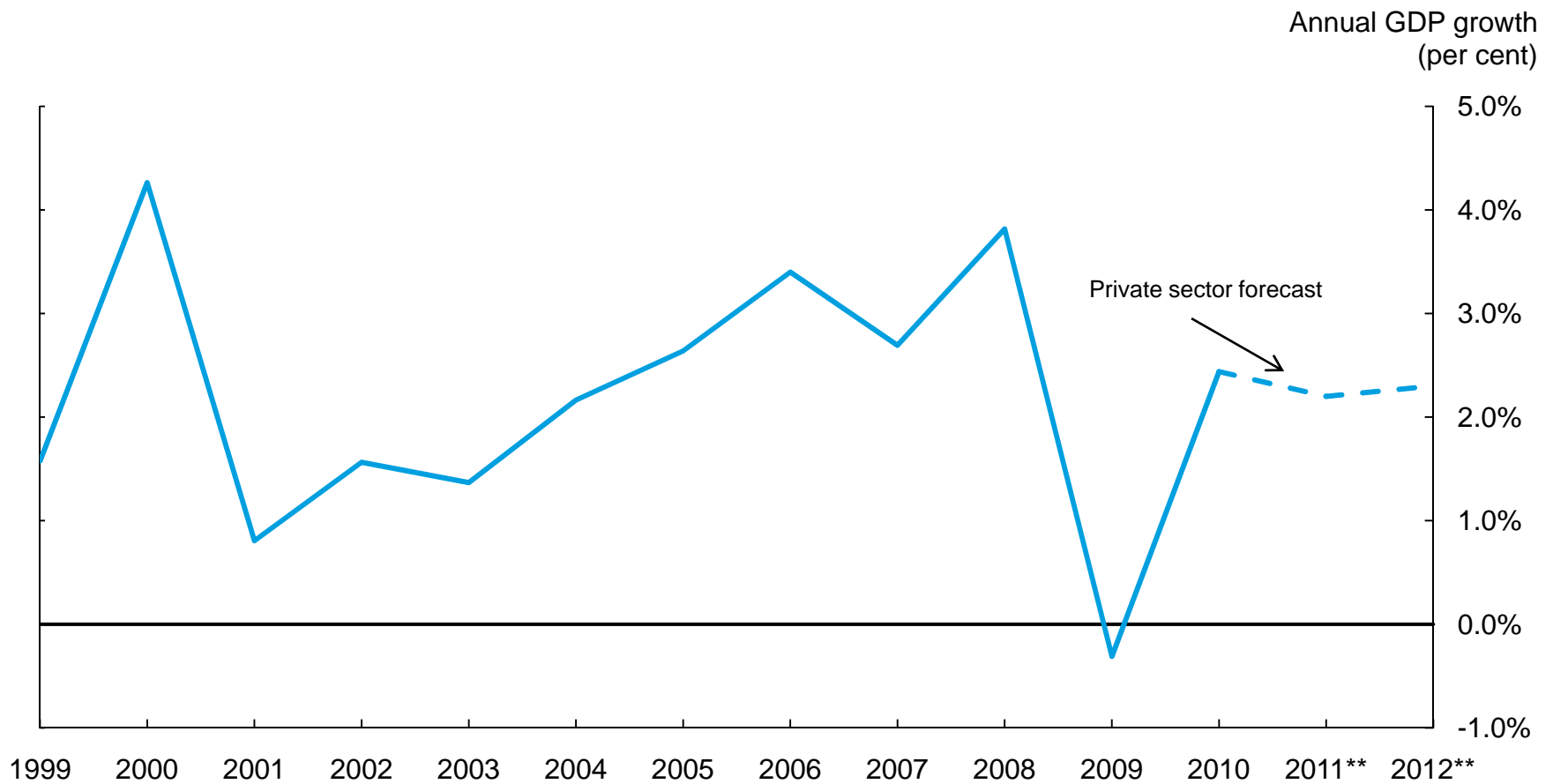
- Main upside risks
  - More persistent global inflationary pressures
  - Stronger-than-expected momentum in household expenditures in Canada
  - More decisive policy actions in major advanced economies
  
- Main downside risks
  - Failure to contain the crisis in Europe
  - U.S. recession would have material adverse consequences in Canada
  - Sharper-than-expected deceleration in household spending in Canada
  
- Risks to the inflation outlook in Canada are roughly balanced

## Economic outlook: Manitoba

---

- Private sector forecasts: Moderate growth averaging 2.2% in 2011 and 2.3% in 2012. Global weakness will dampen growth in manufacturing sector.
- Employment is relatively flat, but the labour market remains tight. Wage gains have been strong.
- Adverse weather and flooding early in year are expected to lower crop yields.
- Overall, the mining sector (non-energy and energy mining) is still contributing to growth.

# GDP growth in Manitoba



\*\* Mean of Private Sector Forecasts for Manitoba  
Sources: Statistics Canada,

# Taking a Step Back: Recession to Recovery



# The Great Recession in Canada

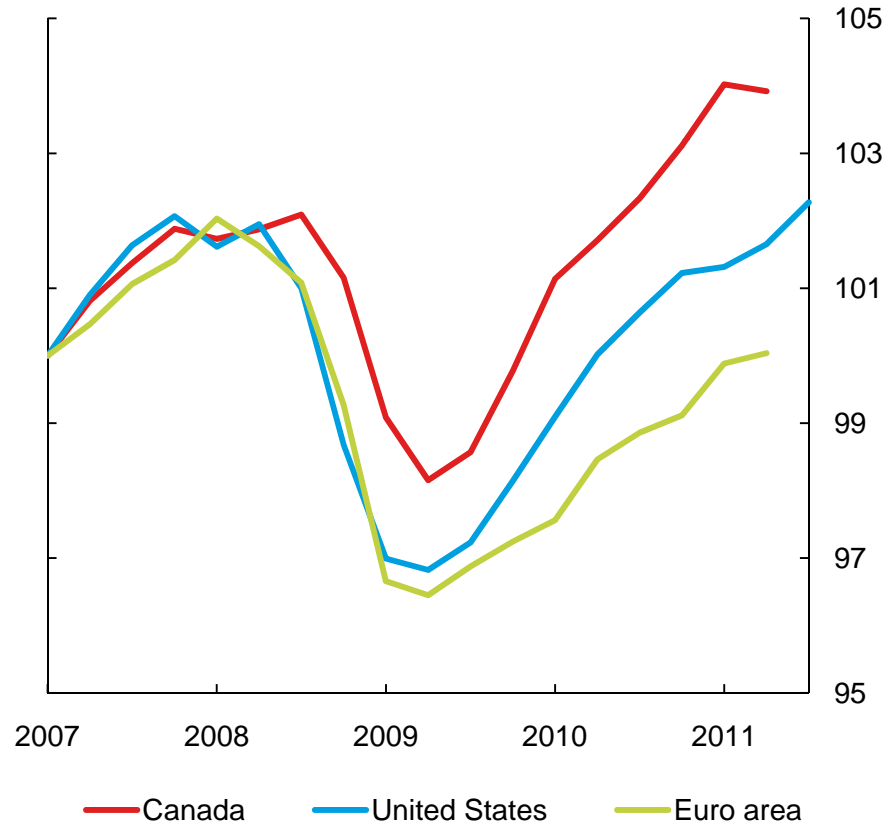
---

- Sharp decline in economic activity in G-7 countries
- Rapid increase in number of unemployed: roughly 30 million globally – almost equal to the entire population of Canada
- Canada not epicentre of crisis, but contagion spread quickly to Canada

# A milder recession in Canada

## Real GDP

2007Q1 = 100, quarterly data



Sources: Statistics Canada, U.S. Bureau of Economic Analysis, and Eurostat

Last observation: Q2 and Q3 2011

## Inflation rates

Year-over-year percentage change in total CPI, monthly data %



Sources: Statistics Canada, U.S. Department of Labor and Eurostat

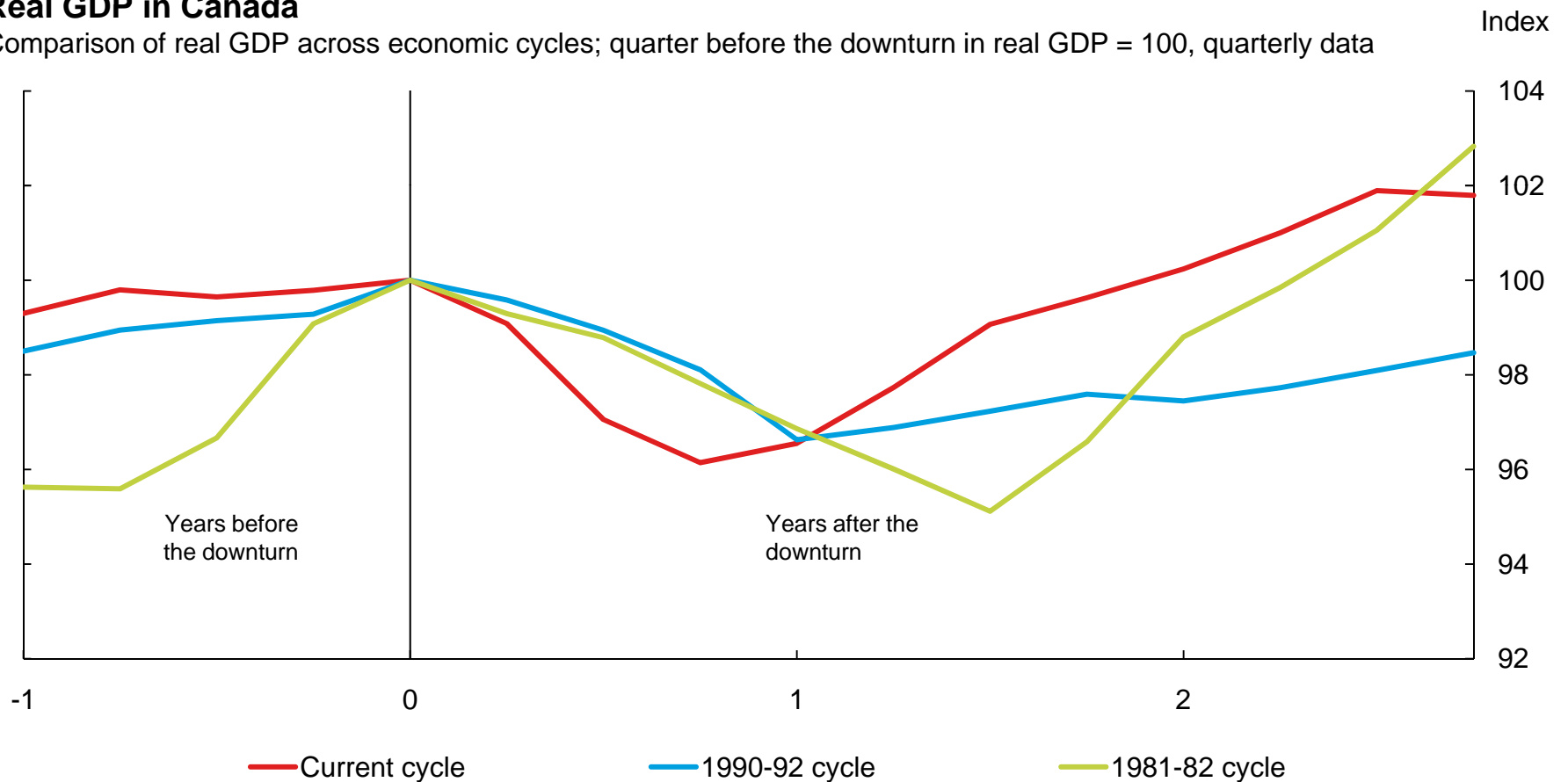
Last observation: September 2011



# Not worse than the most recent recessions...

## Real GDP in Canada

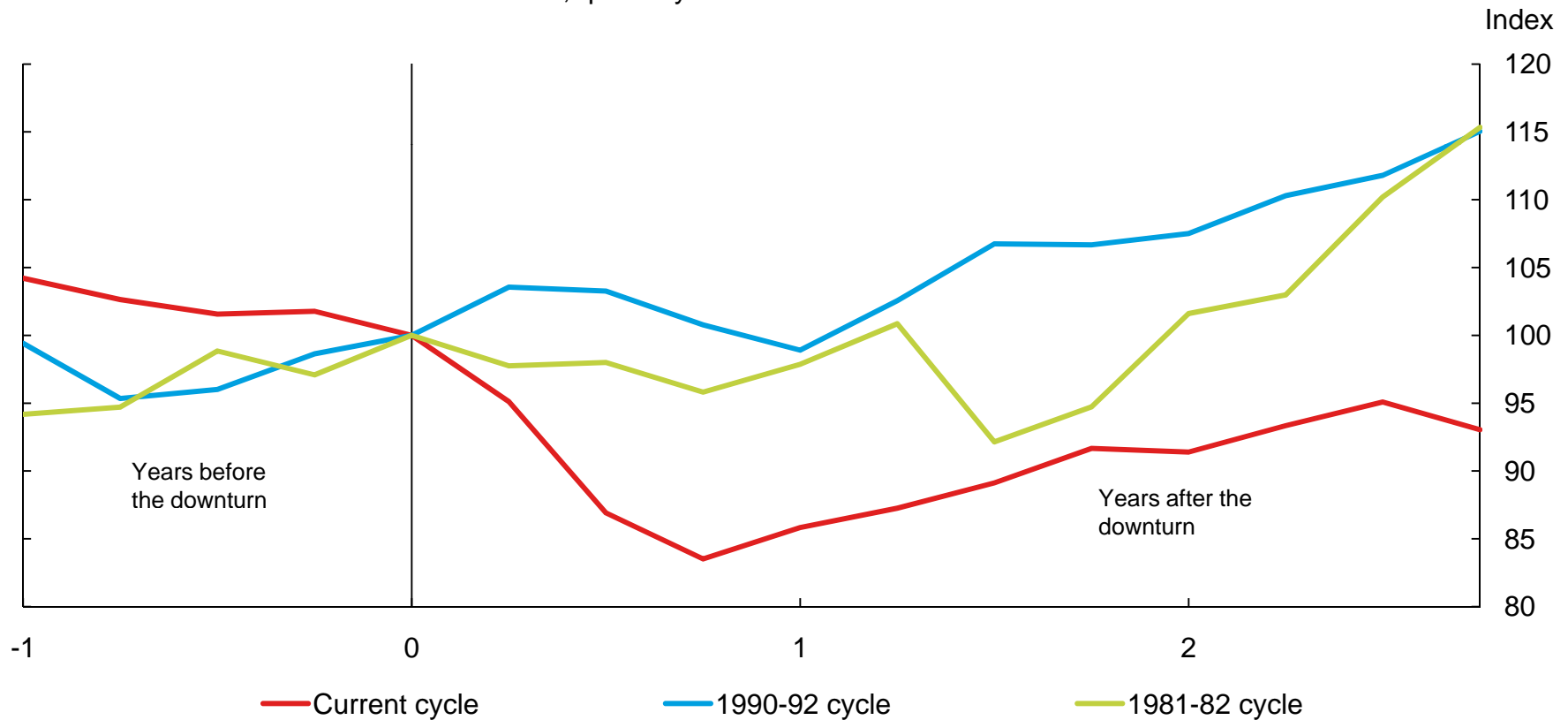
Comparison of real GDP across economic cycles; quarter before the downturn in real GDP = 100, quarterly data



Sources: Statistics Canada and Bank of Canada calculations

## ... but exports take a significant hit

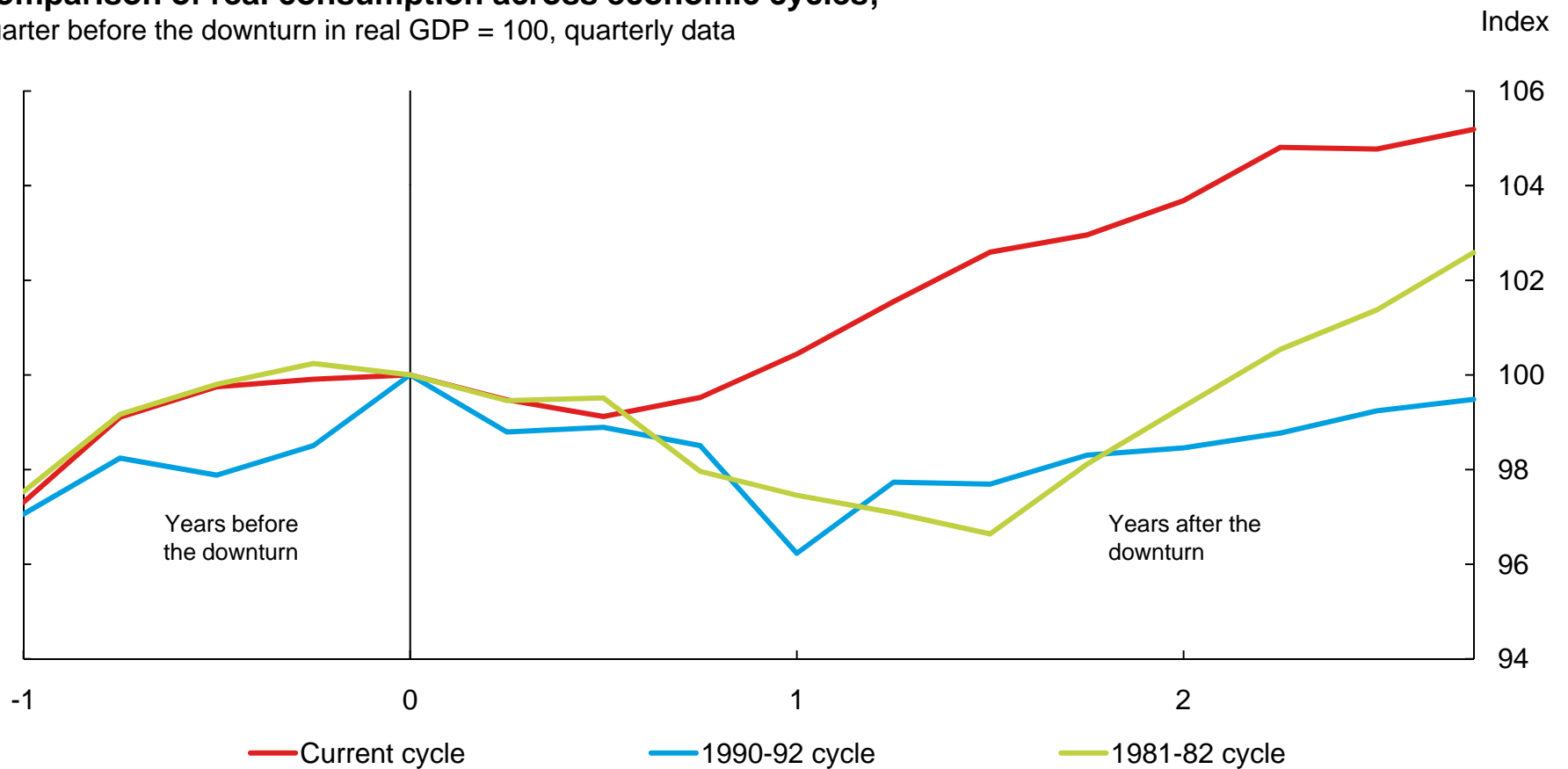
**Comparison of real exports across economic cycles;**  
quarter before the downturn in real GDP = 100, quarterly data



Sources: Statistics Canada and Bank of Canada calculations

# A resilient household sector

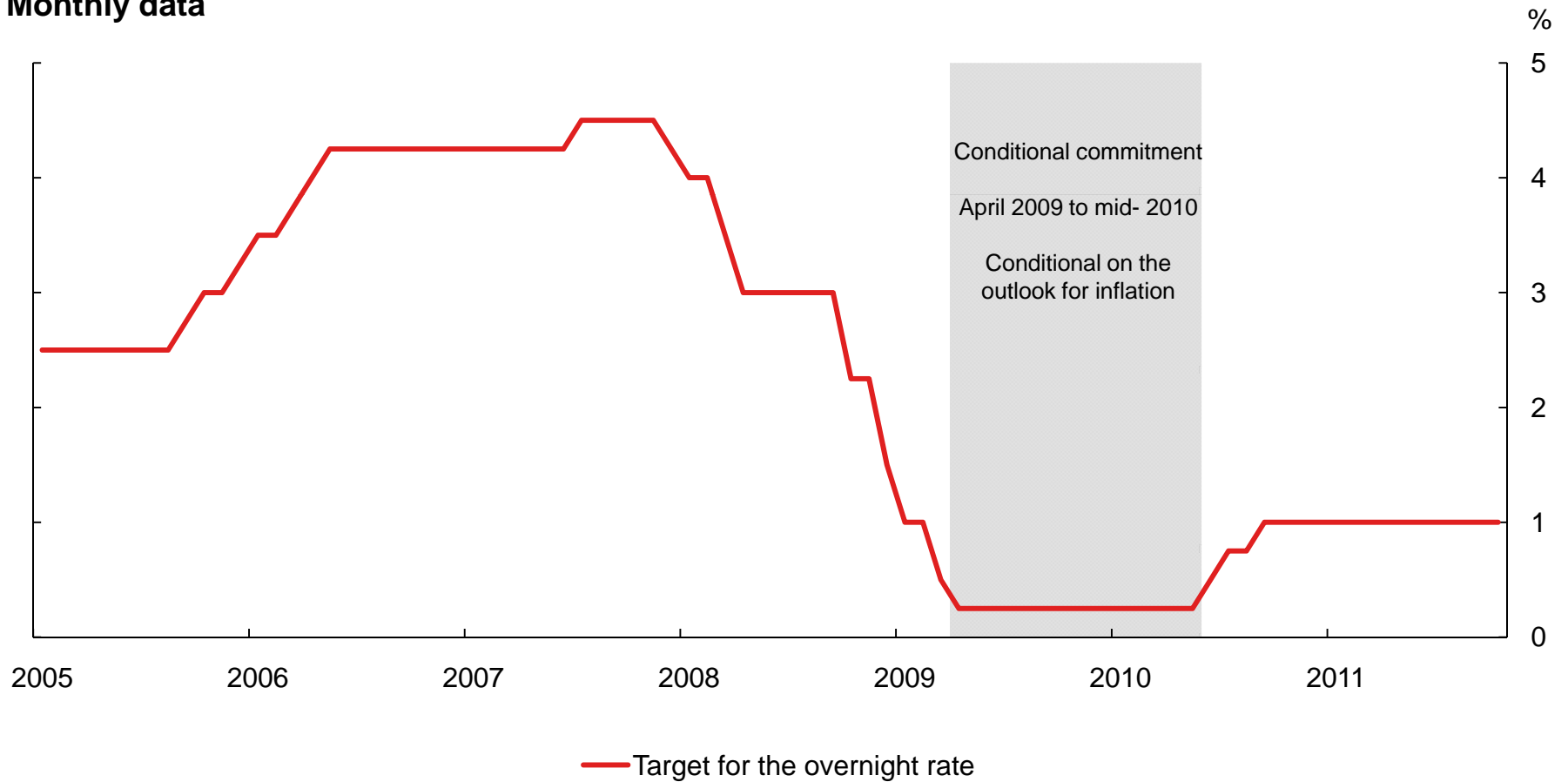
**Comparison of real consumption across economic cycles;**  
quarter before the downturn in real GDP = 100, quarterly data



Sources: Statistics Canada and Bank of Canada calculations

# Canada's policy rate during the Great Recession

## Monthly data



Sources: Statistics Canada and Bank of Canada

Last observation: October 2011

# The Bank of Canada's Four Key Responsibilities



# Mandate

---

The Bank of Canada's mandate is to contribute to the economic well-being of Canadians:

- through monetary policy aimed at keeping inflation low, stable and predictable
- promoting a stable and efficient financial system
- providing banking services to the federal government and key financial system players
- supplying secure, quality bank notes

# Key responsibilities: Monetary policy

---

**Our objective:** to foster confidence in the value of money by keeping inflation low, stable and predictable

- A means to an end – a stable, well-functioning economy
- Allows consumers, businesses, and investors greater certainty about future purchasing power of savings and income
- Lowers nominal and real interest rates
- Encourages more stable economic growth and lower, less-variable unemployment

# Flexible inflation-targeting regime

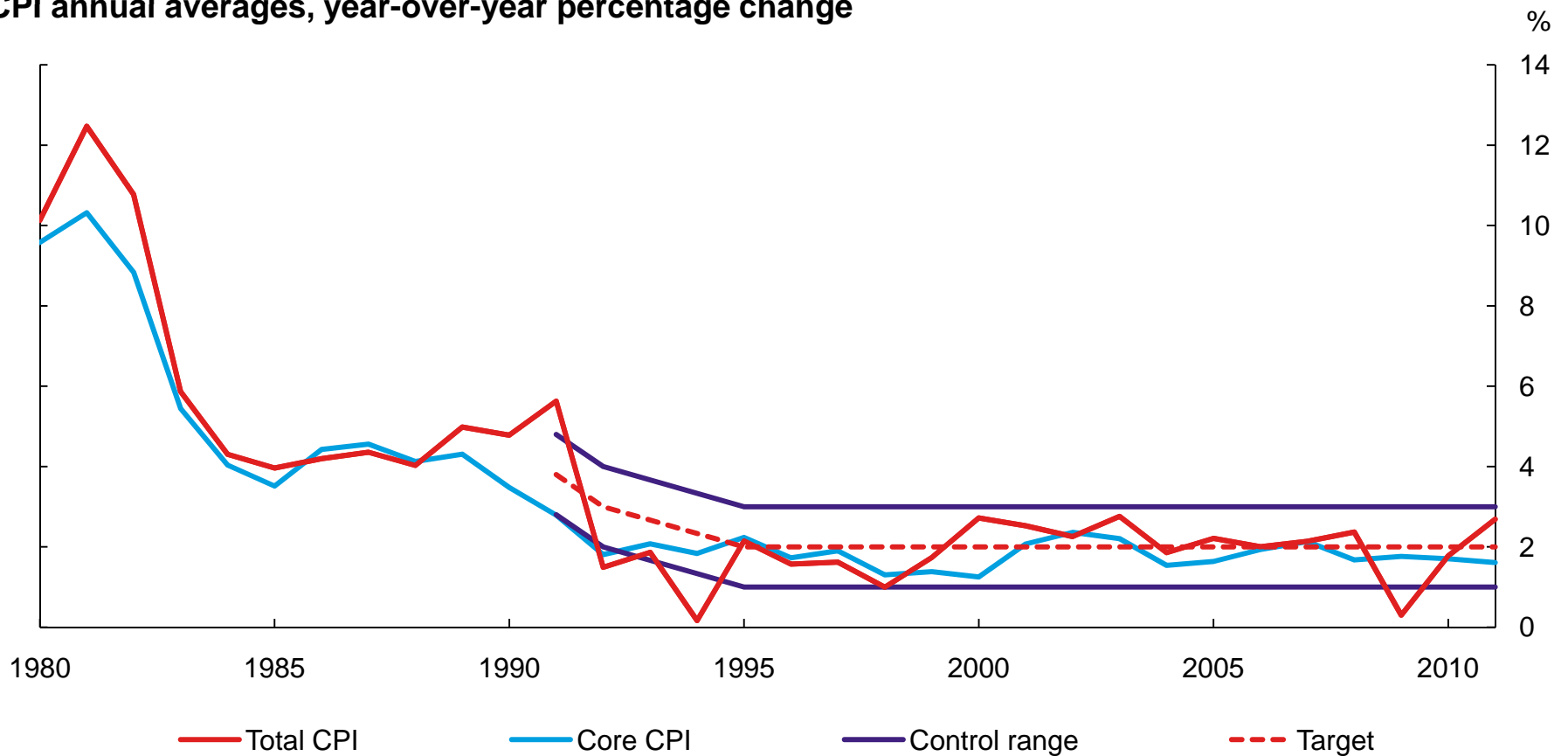
---

- Since 1991, Bank of Canada has targeted inflation under an agreement with Government of Canada
- Agreement renewed last week for five years
- Key elements of Canada's monetary policy framework:
  - Symmetry
  - Flexibility
  - Flexible exchange rate



# Monetary policy: Low and stable inflation

CPI annual averages, year-over-year percentage change



Note: Data for 2011 are current to September  
Source: Statistics Canada

## Key responsibilities: Financial system

---

**Our objective:** To promote the stability and efficiency of the financial system, in Canada and globally

Bank of Canada collaborates with other federal regulatory players and international partners

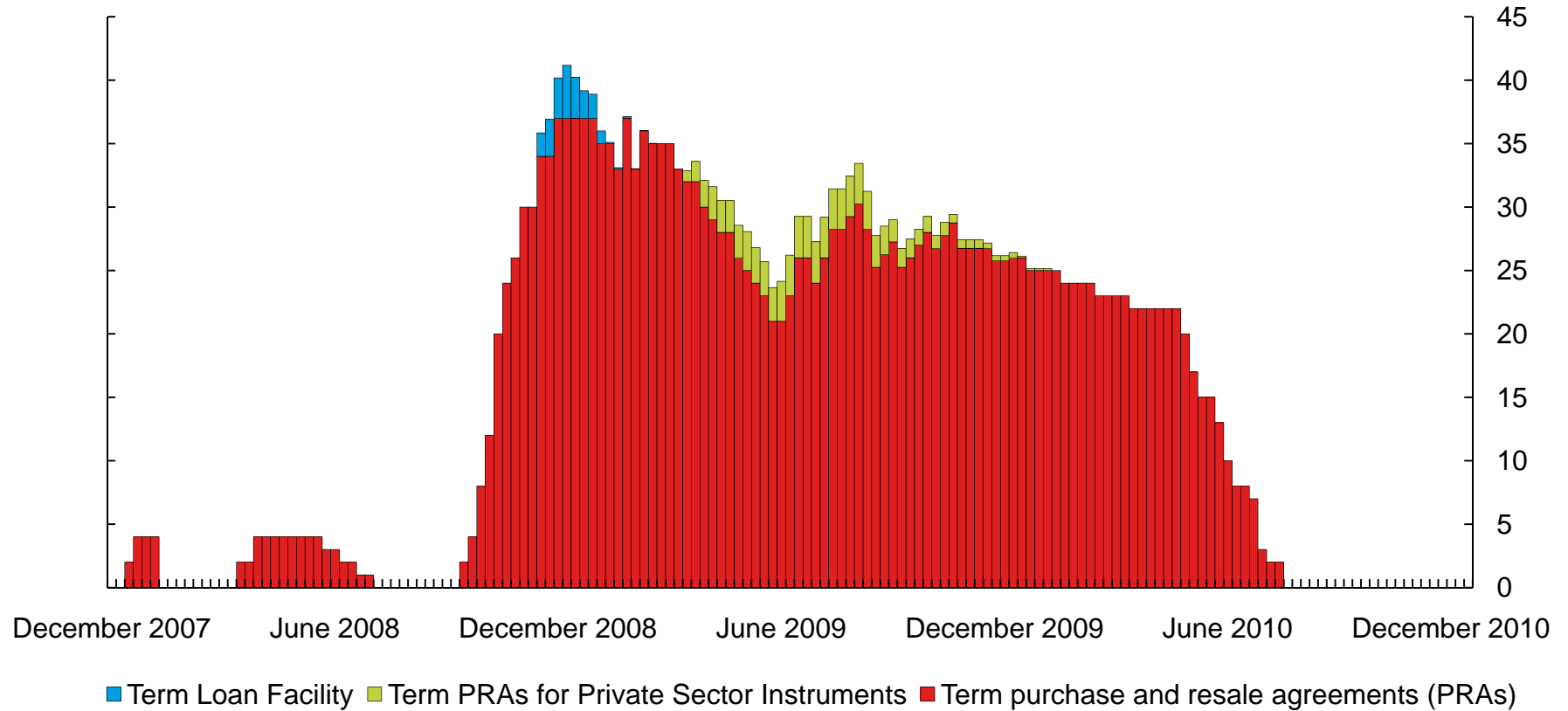
Bank of Canada:

- No direct regulatory role, other than oversight of systemically important market infrastructures
- Collaboration through various committees (e.g., FISC, SAC, HoA)
- Lender of last resort

# Extraordinary liquidity support in response to the crisis

Weekly par value outstanding at Bank of Canada liquidity facilities

Can\$ billions



Source: Bank of Canada

Last observation: 30 December 2010

# Key responsibilities: Funds management

---

**Our objective:** To provide effective banking services to the federal government and key financial system players. This involves:

- managing Canada's foreign exchange reserves, the federal government's cash balances and federal debt in collaboration with the Department of Finance
- administering the Canada Savings Bonds program
- providing the means of final settlement of daily flows of payment among financial institutions

## Key responsibilities: Currency

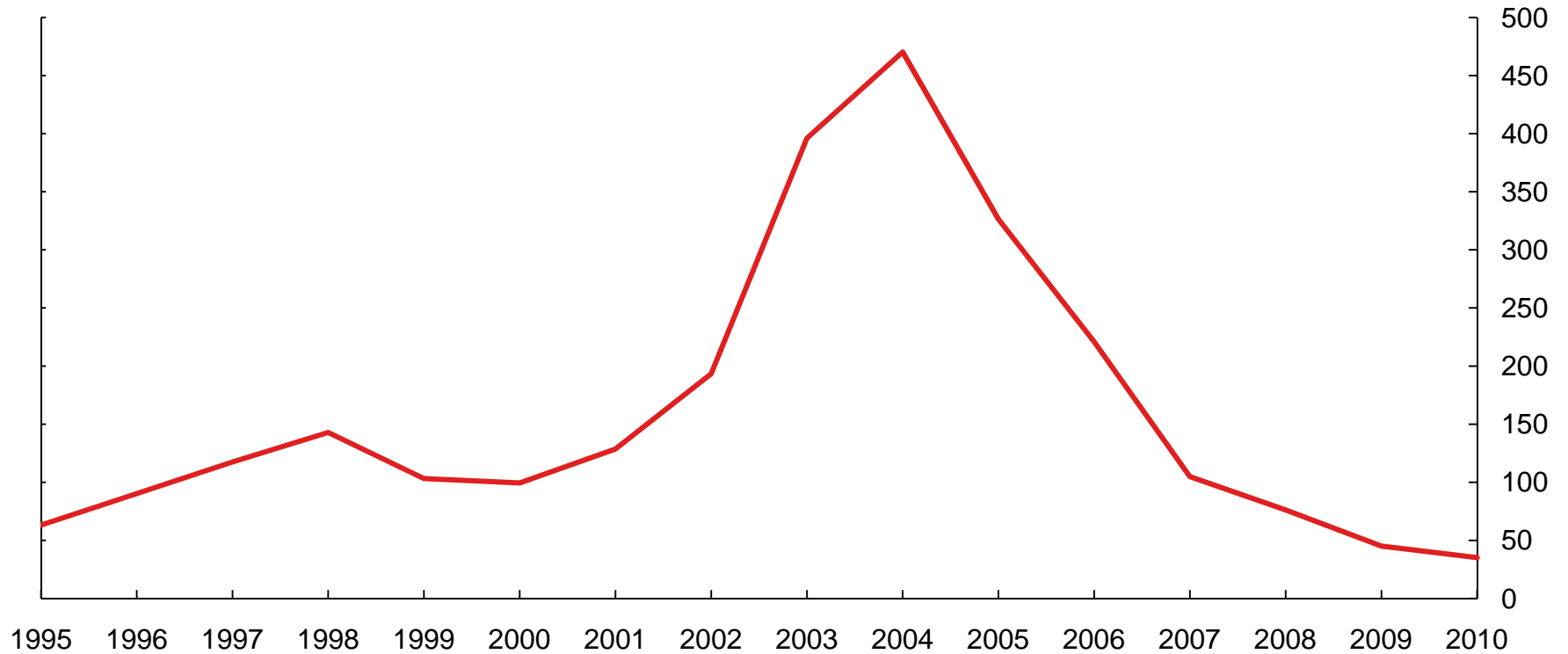
---

- Bank notes are the central bank's most tangible product
- The Bank of Canada is responsible for ensuring that Canada's bank notes are readily accepted and secure from counterfeiting

# Secure, quality bank notes

Counterfeit Canadian bank notes detected for each one million genuine notes outstanding

Parts per million



Source: Bank of Canada

Last observation: 2010

# Transparent, holographic polymer bank notes

More secure, more economical, better for the environment



# New bank notes—training

---

- 70,000 police officers and 5 million cash handlers need education
- Goal: reach 60 per cent of cash handlers in cash-intensive organizations by 2013
  - Banks
  - Gas stations
  - Convenience stores
  - Fast-food merchants
  - Top retail organizations —1,200 cash-intensive companies often the target of counterfeiters



# Bank of Canada Regional Director

---



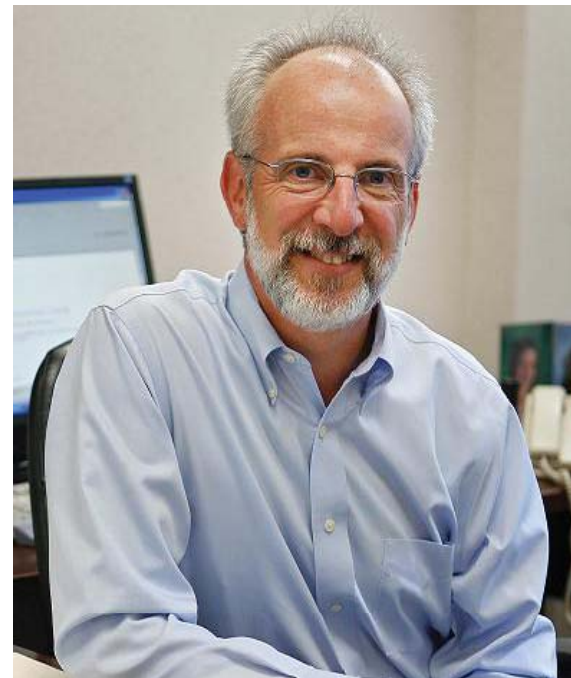
Leo Ledohowski  
Board Member  
Board of Directors

# Bank of Canada Regional Representatives

---



Alexander Fritsche  
Senior Regional Representative  
(Economics)  
Calgary



Ted Mieszkalski  
Senior Regional Representative  
(Currency)  
Calgary

# Thank you

