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Opening Statement by Stephen S. Poloz
Governor of the Bank of Canada
Senate Standing Committee on Banking, Trade and Commerce
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Thank you for the opportunity for Tiff and me to be with you today to discuss the October *Monetary Policy Report*, which the Bank published recently. The Bank aims to communicate our objectives openly and effectively and to stand accountable for our actions before Canadians. One of the best ways to do this is through appearances such as this one.

Allow me to spend a few minutes on the highlights of the *Report*. I'd like to flag some important changes that were introduced with this issue.

- We have modified the *Report* to explicitly capture the uncertainty that is inherent in our outlook. The goal is to present to Canadians a reflection of the evolution of the risks to the inflation outlook that are embedded in our policy, rather than simply compare a snapshot of the current forecast with that of our previous forecast.
- The picture is not always perfectly clear, and so we added new measures of *ex ante*, or before the fact, uncertainty to our five most critical projection variables. We added "rule of thumb" ranges around the base-case projection for the growth of Canadian and U.S. GDP and for Canadian total CPI inflation, as well as for the current level of the output gap and the growth rate of potential output in Canada.
- With this, we are reminding ourselves—and those who watch us—that economic projections are subject to considerable uncertainty and are revised over time as new economic data become available.
- Monetary policy formulation is more a process of risk management than one of engineering. In our policy deliberations, we evaluate and assess all of the risks, both positive and negative, and use judgment to determine the balance among them.
- As is customary in the October *Report*, we reviewed the forecast for potential output. Due to lower-than-expected labour productivity growth in the past year, as well as the delay in the expected pickup in demand for exports and investment, the forecast for potential output growth was revised down slightly.
- Since the *Report* was published four weeks ago, the outlook for the global and Canadian economies has not changed substantially.

- Let me remind you what we reported:
    - We expect the global economy to expand modestly in 2013. However, its near-term dynamic has changed, and the composition of growth is now slightly less favourable for Canada.
    - Uncertain global and domestic economic conditions are delaying the pickup in exports and business investment in Canada. This leaves the level of economic activity lower than the Bank had been expecting.
    - While household spending remains solid and some indicators in the housing sector continue to rise, we still expect a gradual unwinding of household imbalances.
    - The Bank expects that a better balance between domestic and foreign demand will be achieved over time and that growth will become more self-sustaining. But this will take longer than previously projected.
    - We are expecting investment growth to contribute to a rebound in the rate of labour productivity growth over the next couple of years. However, demographic factors, primarily the aging population, are expected to put a drag on the growth rate of trend labour input. This drag will largely offset the effects of rising investment. This is why we expect that the growth rate of potential output will remain fairly stable at around 2 per cent over the next three years.
    - Real GDP growth is projected to increase from 1.6 per cent this year to 2.3 per cent next year and 2.6 per cent in 2015. The Bank expects that the economy will return gradually to full production capacity, around the end of 2015.
    - Inflation in Canada has remained low in recent months. This reflects the significant slack in the economy, heightened competition in the retail sector, and some other sector-specific factors.
    - With larger and more persistent excess supply in the economy, both total CPI and core inflation are expected to return more gradually to 2 per cent, around the end of 2015.
- Although the Bank considers the risks around its projected inflation path to be balanced, the fact that inflation has been persistently below target means that downside risks to inflation assume increasing importance. However, the Bank must also take into consideration the risk of exacerbating already-elevated household imbalances.
- Weighing these factors, the Bank judged on 23 October that the substantial monetary policy stimulus in place remained appropriate and decided to maintain the target for the overnight rate at 1 per cent.

Since then, while some new data points have been released, our outlook remains roughly the same, as I mentioned. If you have any questions about the recent data, Tiff and I would be pleased to address them, as well as any other queries that you may have. Thank you.