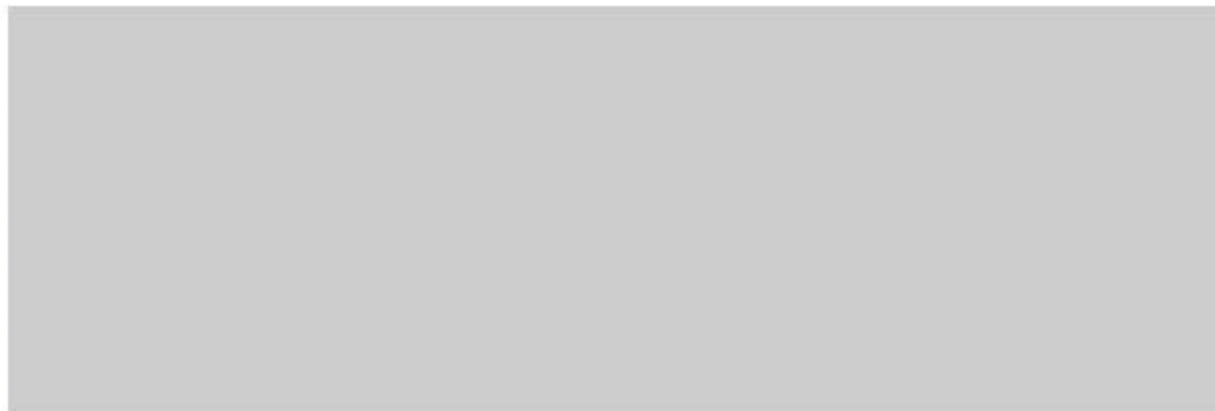




Promoting Canada's Economic and Financial Well-being

Remarks to the Greater Summerside Chamber of Commerce
Summerside, Prince Edward Island

12 November 2014



Lawrence Schembri
Deputy Governor
Bank of Canada

Overview

- Bank of Canada's mandate
- Four key responsibilities
- Economic and financial system outlook

Bank of Canada's mandate



Four key responsibilities

1. Monetary policy
2. Financial system
3. Currency
4. Funds management

1. Monetary policy

Target of 2 per cent established in agreement with the federal government

Benefits:

- greater certainty of future buying power
- lower interest rates
- lower unemployment rate and more stable economic growth

Our objective: To safeguard confidence in the value of money by keeping inflation low, stable and predictable

- Under normal circumstances, one instrument to work with: the policy rate
- Policy rate decisions announced eight times a year on a fixed schedule
- A flexible exchange rate – an essential component of inflation-targeting regime
- Transparency improves regime’s effectiveness
- Monetary policy must be forward-looking – important to use several models and consult extensively

Business Outlook Survey

Results of the Summer 2014 Survey | Vol. 11.2 | 7 July 2014

The summer Business Outlook Survey continues to offer some encouraging signs for the economic outlook, although lingering uncertainty amid intense competition still hinders the pace of growth.

Overview

- Overall, the outlook of businesses has not changed materially from the spring survey. While responses suggest a more modest improvement in past sales activity, expectations for future sales growth remain positive, and there are indications that business sentiment regarding exports is gradually firming.
- Expectations for U.S. economic growth continue to strengthen, and orders from domestic and international customers show improvement from a year ago. The balance of opinion on investment in machinery and equipment remains firmly positive, although investment plans are tied primarily to upgrading or replacing existing equipment over the near to medium term of more robust growth in foreign demand over the year to longer-term are leading some exporters to favour investments with a longer-term strategic focus.
- Fewer firms anticipate difficulty meeting an unexpected increase in demand, and reports of labour shortages are little changed. On balance, firms expect input prices to rise at a somewhat slower pace than over the past 12 months as upward pressure from the recent depreciation of the Canadian dollar gradually dissipates. Strong competition continues to restrain expectations for output prices. Inflation expectations are unchanged and remain concentrated in the bottom half of the Bank's inflation-control range.
- The balance of opinion on credit conditions moved more strongly into easing territory.

The Business Outlook Survey summarizes interviews conducted by the Bank's regional offices with the senior management of about 100 firms selected in accordance with the composition of Canada's gross domestic product. The summer 2014 survey was conducted from 30 May to 12 June 2014. The balance of opinion and its content is analysis on the Bank of Canada's website. The survey results of rounding. Additional information on the survey and its content is available on the Bank of Canada's website. The survey results summarize opinions expressed by the respondents and do not necessarily reflect the views of the Bank of Canada.

Enquête sur les perspectives des entreprises

Résultats de l'enquête de l'été 2014 | Vol. 11.2 | 7 juillet 2014

L'été fait encore ressortir des signes encourageants en ce qui concerne les perspectives économiques, même si l'incertitude persistante, conjuguée à une concurrence accrue, continue de freiner le rythme de croissance.

Ensemble, les perspectives des entreprises n'ont pas changé de manière marquée par rapport à l'enquête de printemps. Bien que les réponses laissent espérer une amélioration modeste de l'activité commerciale passée, les attentes de croissance restent positives à l'égard des ventes futures, et il y a des indications que le sentiment des entreprises en ce qui a trait aux exportations se raffermira progressivement.

Les perspectives de croissance de l'économie américaine continuent d'être positives, et les commandes de clients provenant du Canada et de l'étranger ont augmenté par rapport à il y a un an. Le bilan des opinions sur l'investissement en matériel demeure fermement positif, bien que les plans d'investissement soient principalement liés à une mise à jour ou à un remplacement de matériel existant au cours des 12 prochains mois, plutôt qu'à une croissance plus robuste de la demande étrangère, à long terme.

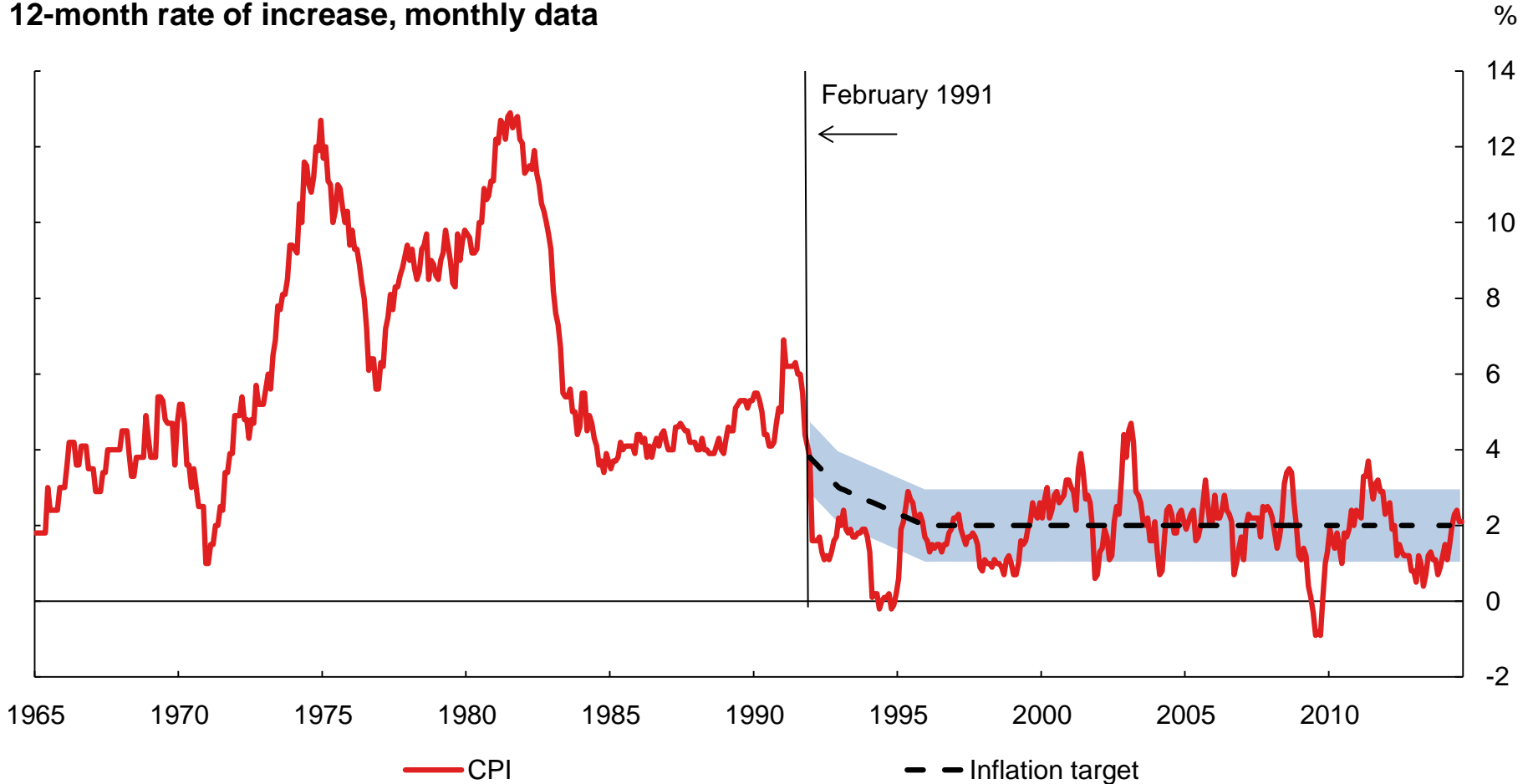
Moins de firmes anticipent de rencontrer des difficultés à faire face à une hausse inattendue de la demande, et les rapports de pénurie de main-d'œuvre sont restés globalement inchangés. En l'ensemble, les firmes s'attendent à ce que les prix des intrants augmentent à un rythme plus lent qu'au cours des 12 derniers mois, car la pression exercée par la dépréciation du dollar canadien se dissipe progressivement. Les attentes de croissance des prix de vente restent inchangées et restent concentrées dans la moitié inférieure de la fourchette de contrôle de l'inflation visée par la Banque.

Le bilan des opinions sur les conditions de crédit a évolué plus fortement vers un assouplissement.

Les résultats de l'enquête sur les perspectives des entreprises sont basés sur les entrevues réalisées par le personnel des bureaux régionaux de la Banque du Canada avec les dirigeants de quelque 100 entreprises sélectionnées en fonction de la composition du produit intérieur brut du Canada en 2014. L'enquête a été menée du 30 mai au 12 juin 2014. Le bilan des opinions et son contenu sont analysés sur le site Web de la Banque du Canada. Les résultats de l'enquête sont arrondis. Des renseignements supplémentaires sur l'enquête et son contenu sont disponibles sur le site Web de la Banque du Canada. Les résultats de l'enquête résumés ne reflètent pas forcément l'avis de la Banque.

Monetary policy: On target

12-month rate of increase, monthly data



2. Financial system



Our objective: To promote the stability and efficiency of the financial system

Canada's financial system includes:

- financial institutions
- financial markets
- clearing and settlement systems

The Bank shares responsibility for financial stability with other regulatory authorities.



Principal activities to promote stability of financial system

The Bank:

- provides liquidity and acts as lender of last resort
- oversees systemically important payment clearing and settlement systems
- contributes to development of policies governing the financial system
- assesses vulnerabilities and risks
 - publishes findings in *Financial System Review*

Key risks identified in June 2014 *Financial System Review*

The Canadian financial system is robust, but can still be subject to important risks such as:

- a sharp correction in house prices
- a sharp increase in long-term rates
- stress emanating from China and other emerging markets
- financial stress from the euro area

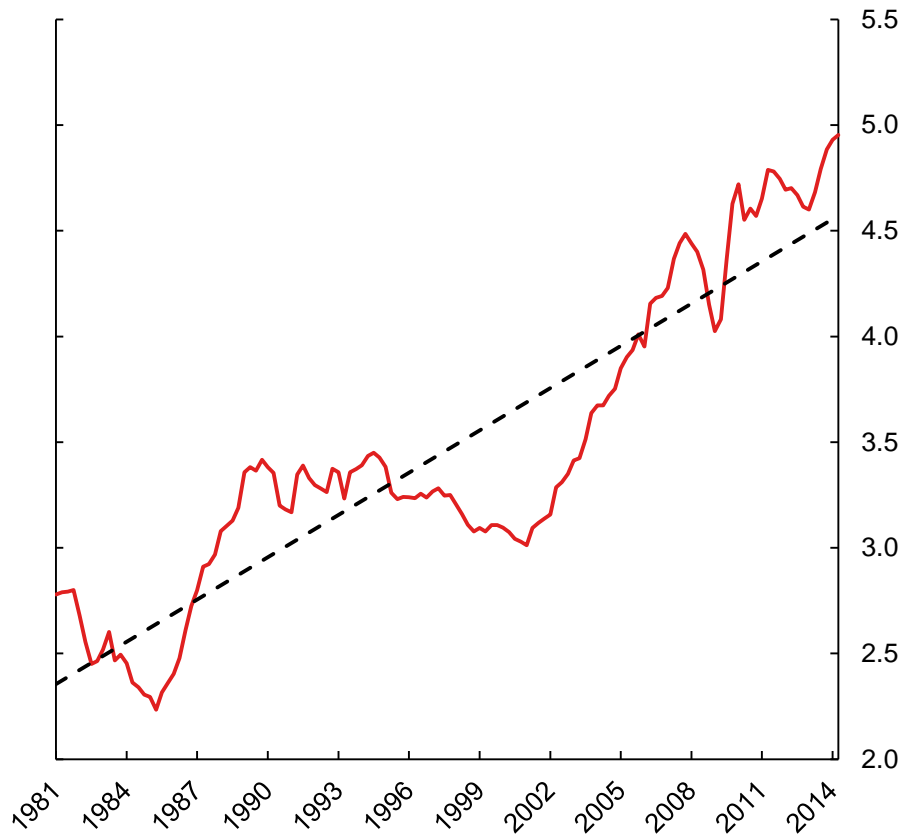


Key domestic vulnerabilities identified in June 2014

Financial System Review

House prices in Canada are still high relative to disposable income

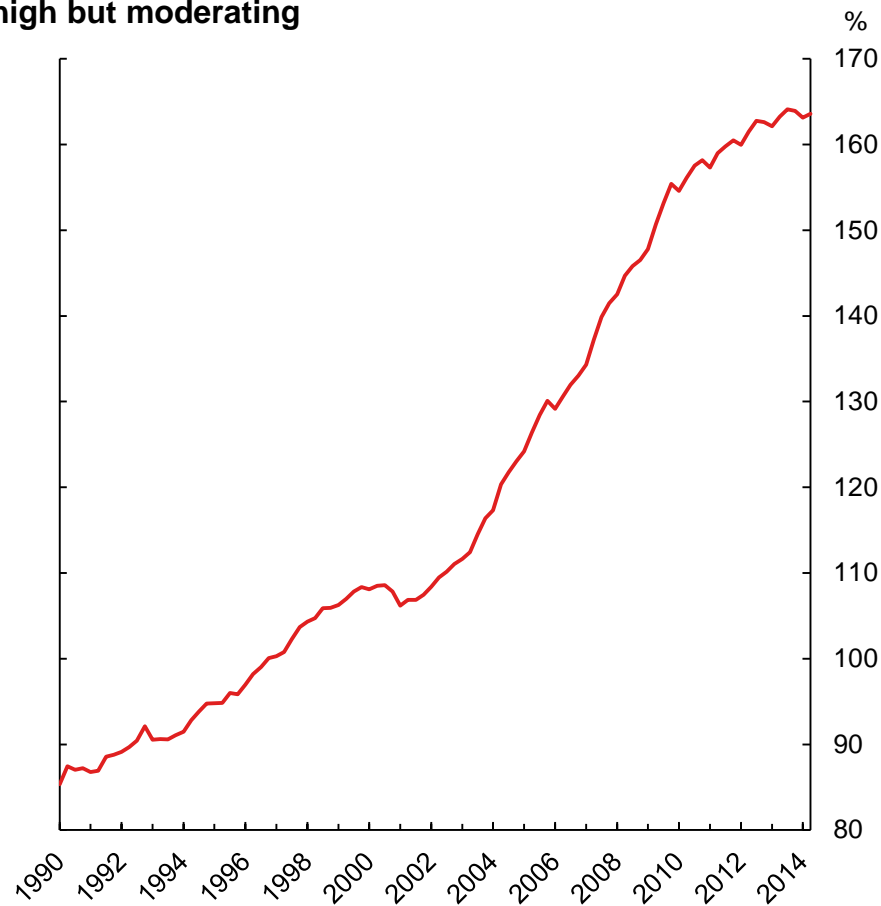
House-price-to-income ratio and linear trend



Sources: Statistics Canada, Canadian Real Estate Association and Bank of Canada calculations

Last observation: 2014Q2

The ratio of household debt to disposable income is high but moderating



Source: Statistics Canada

Last observation: 2014Q2

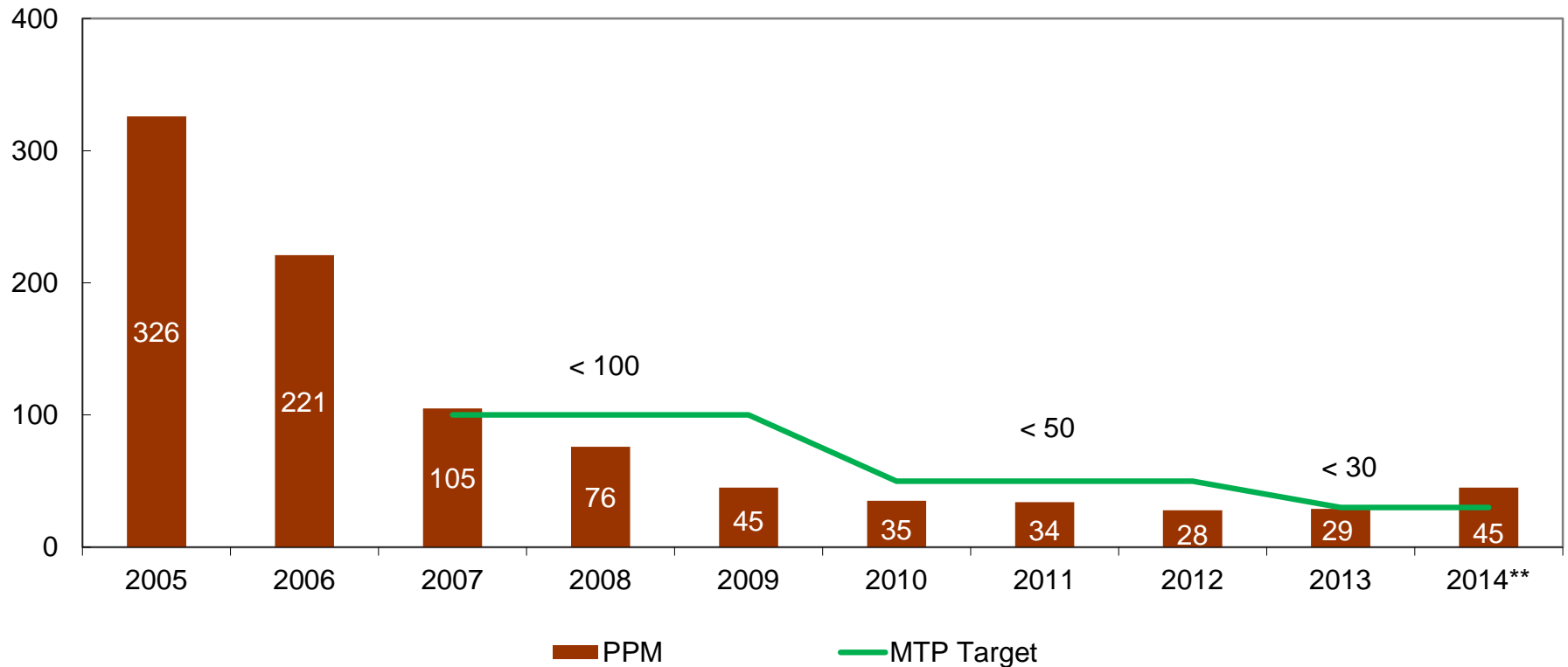
3. Currency



Our objective: To provide Canadians with bank notes that they can use with confidence

Number of counterfeit bank notes detected per million notes in circulation*

Parts per million (ppm)



* Target for the 2013-15 Medium-term plan is below 30 ppm

** Annualized (January to August, inclusive)

4. Funds management



Manage Canada's foreign exchange reserves and federal government's cash balances as well as public debt with the Department of Finance



Provide the means of final settlement of daily flows of payments among financial institutions



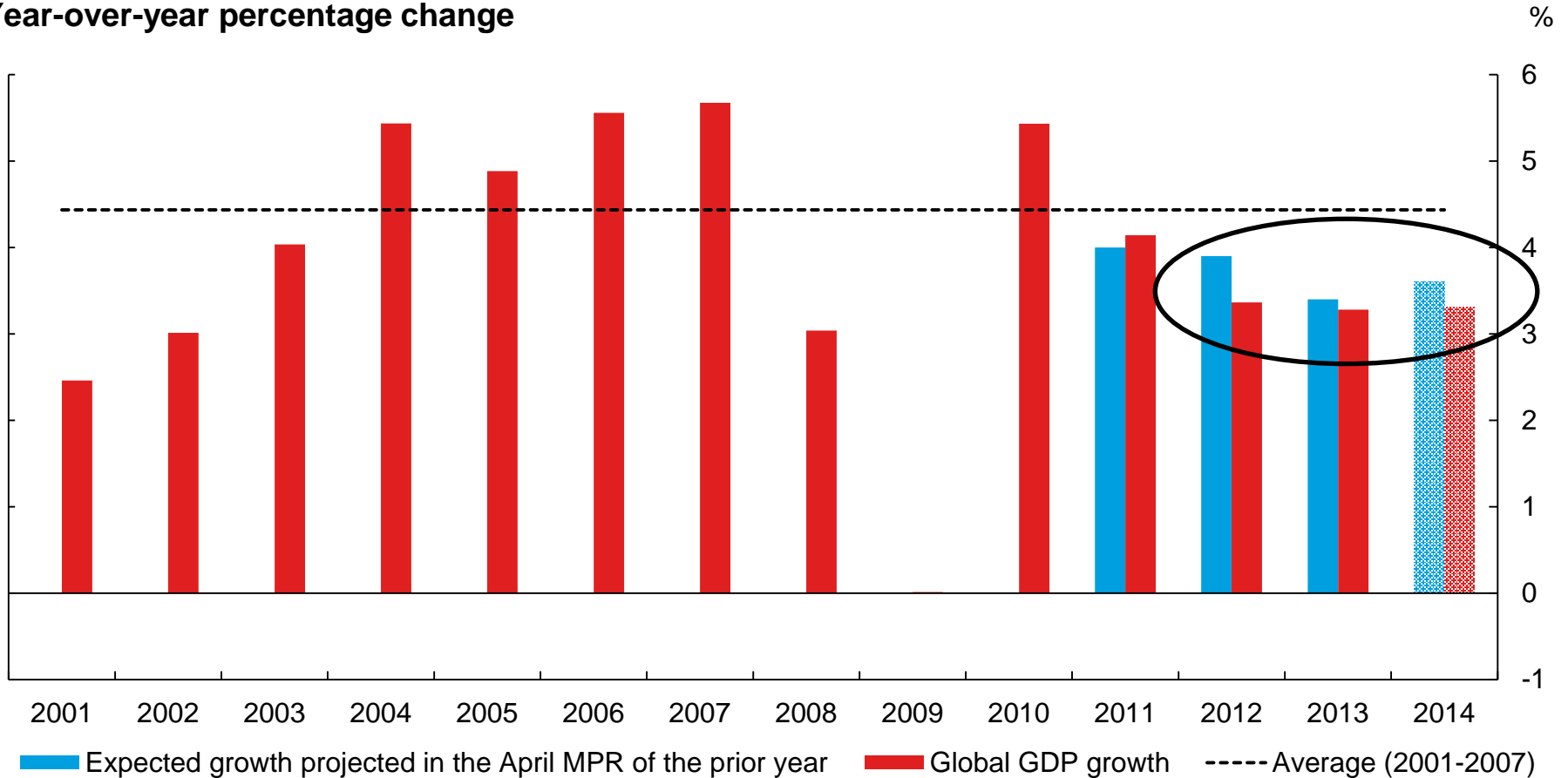
Canada Savings Bonds program

Economic and financial system outlook



Shock 1: The financial crisis and weak global recovery

Year-over-year percentage change



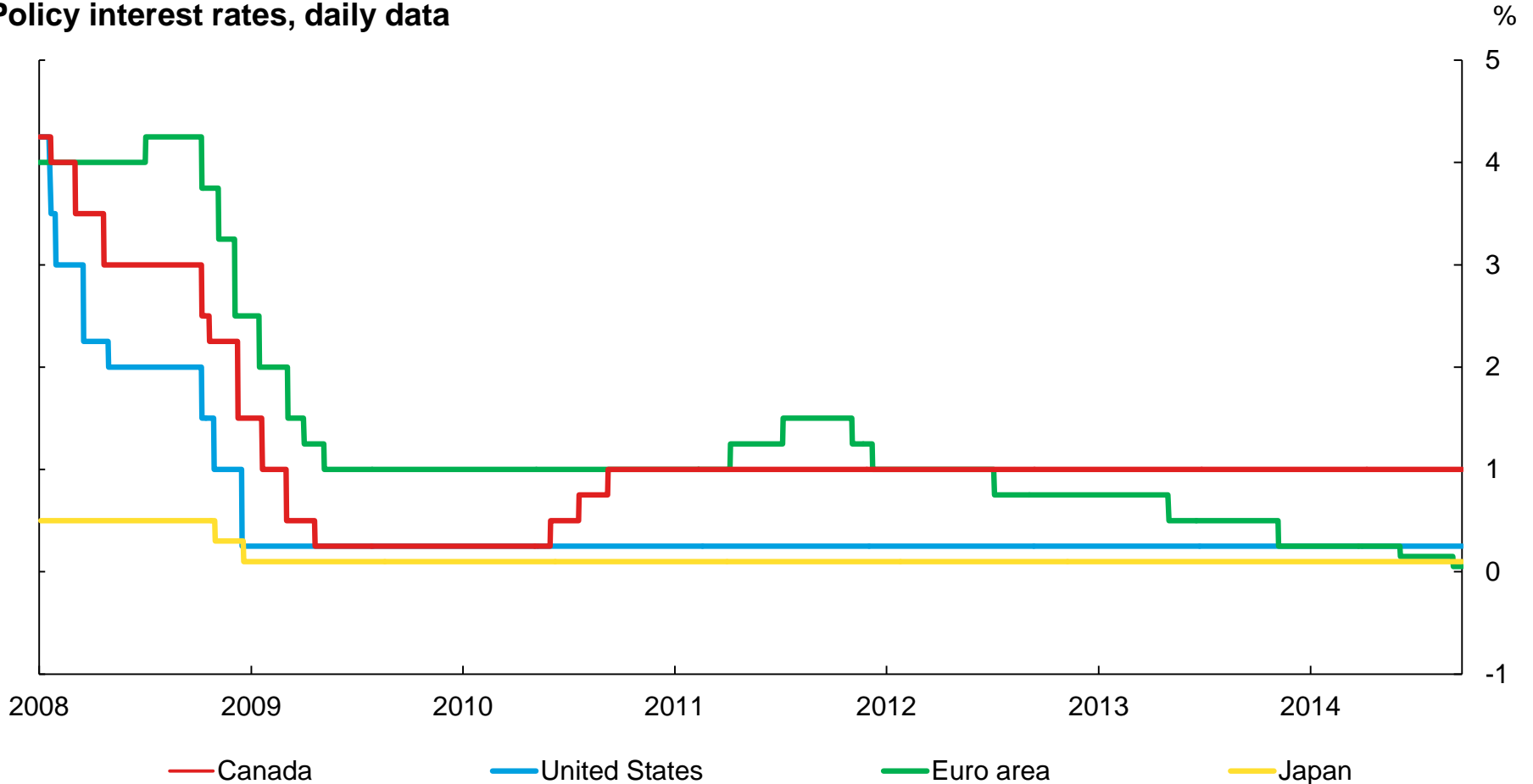
Shaded bars indicate projection.

Sources: Bank of Canada, IMF, *World Economic Outlook Update*, October 2014

Last observation: 2014

Central bank policy rates are at historic lows

Policy interest rates, daily data

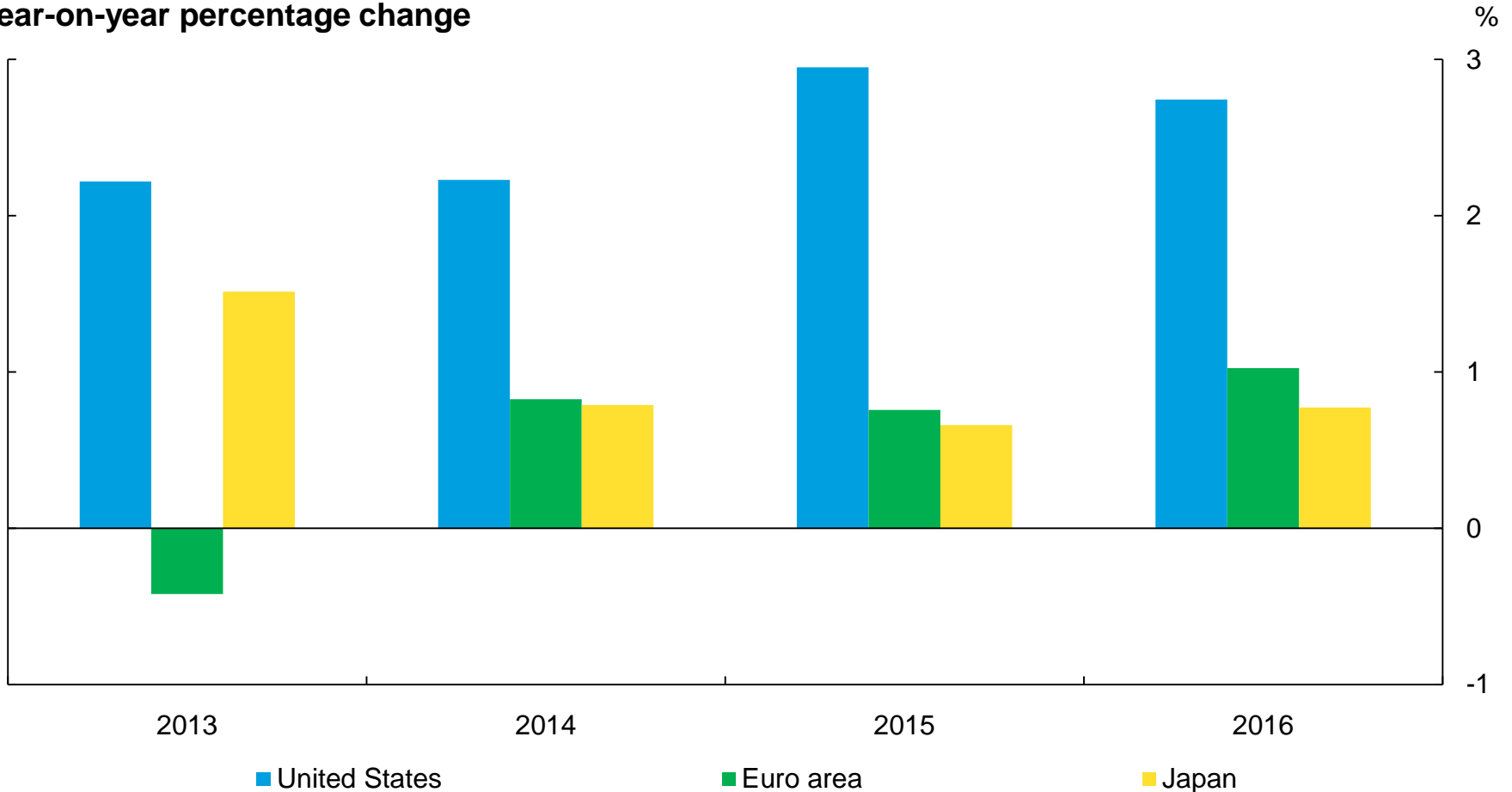


Sources: Bank of Canada, U.S. Federal Reserve, European Central Bank and Bank of Japan

Last observation: 19 September 2014

The United States is expected to lead a strengthening in global economic growth

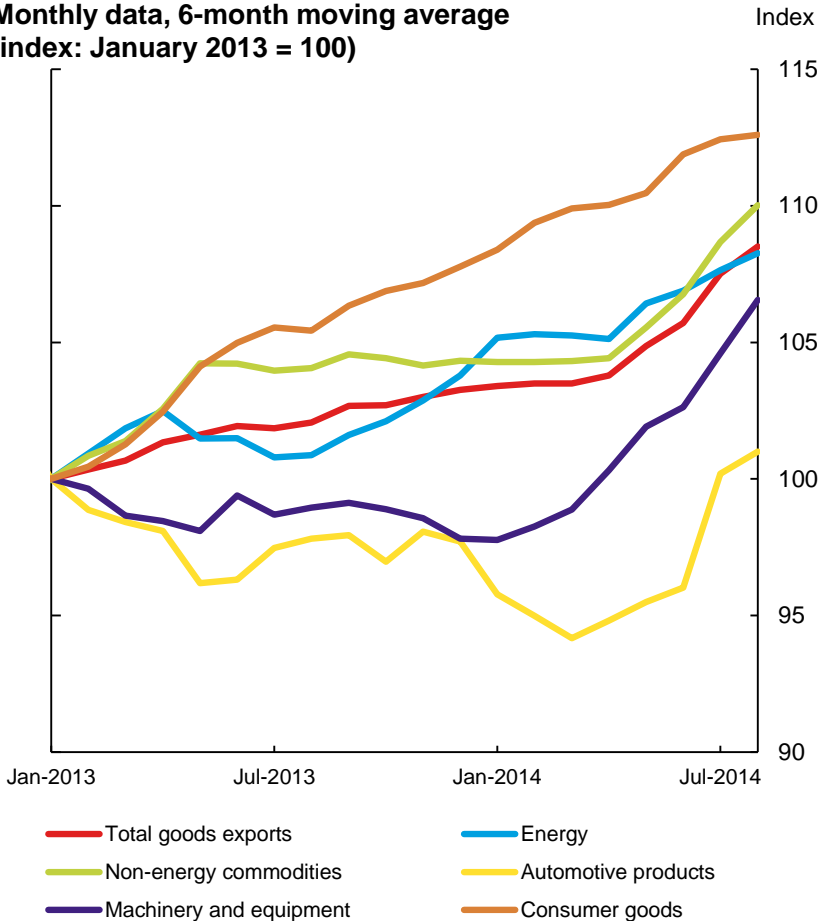
Year-on-year percentage change



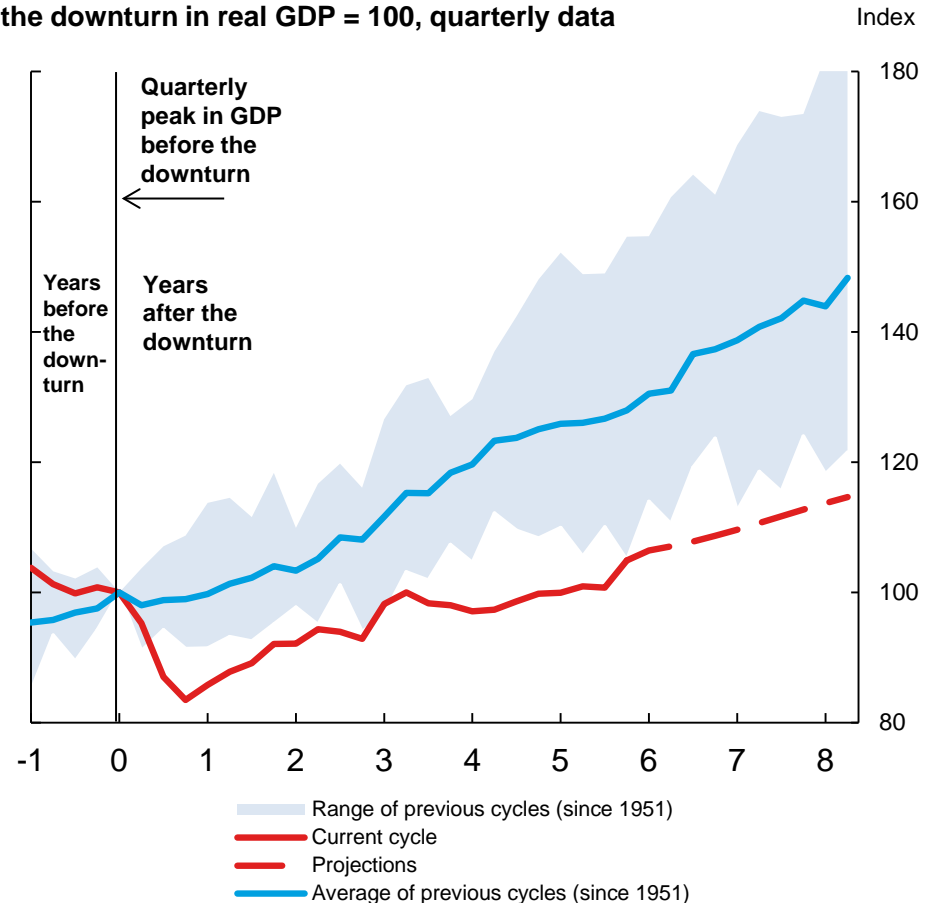
Source: Bank of Canada, Monetary Policy Report, October 2014

A pickup in exports appears to be gaining traction

Monthly data, 6-month moving average
(index: January 2013 = 100)



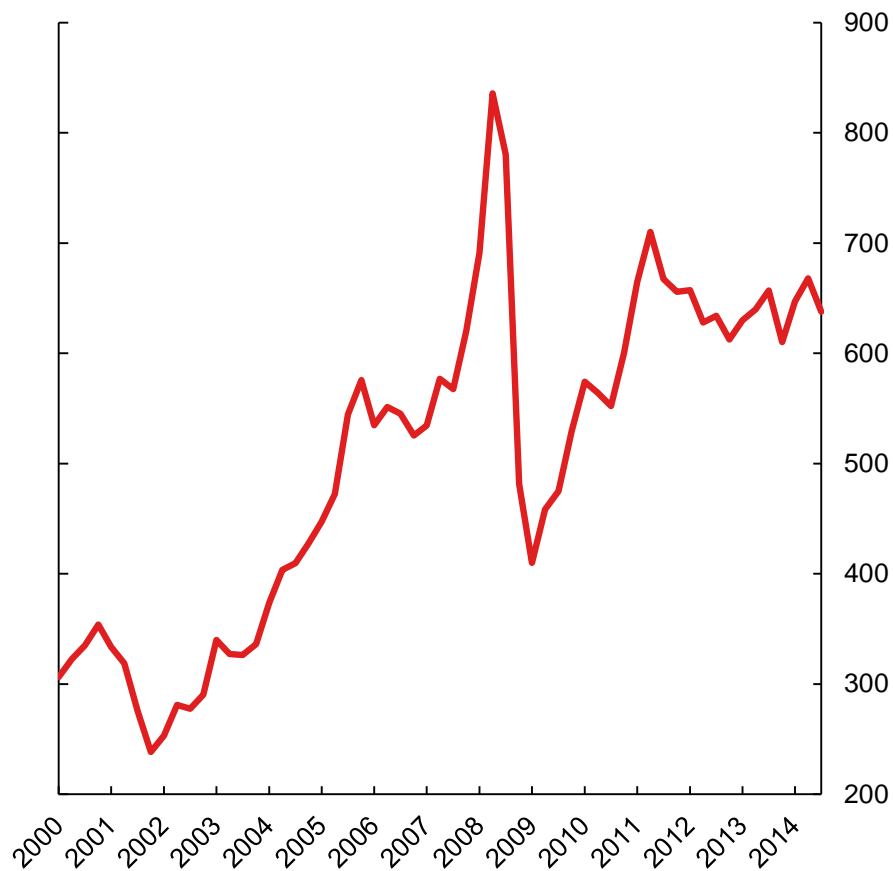
Comparison of real exports across economic cycles; quarter before the downturn in real GDP = 100, quarterly data





Shock 2: commodity prices

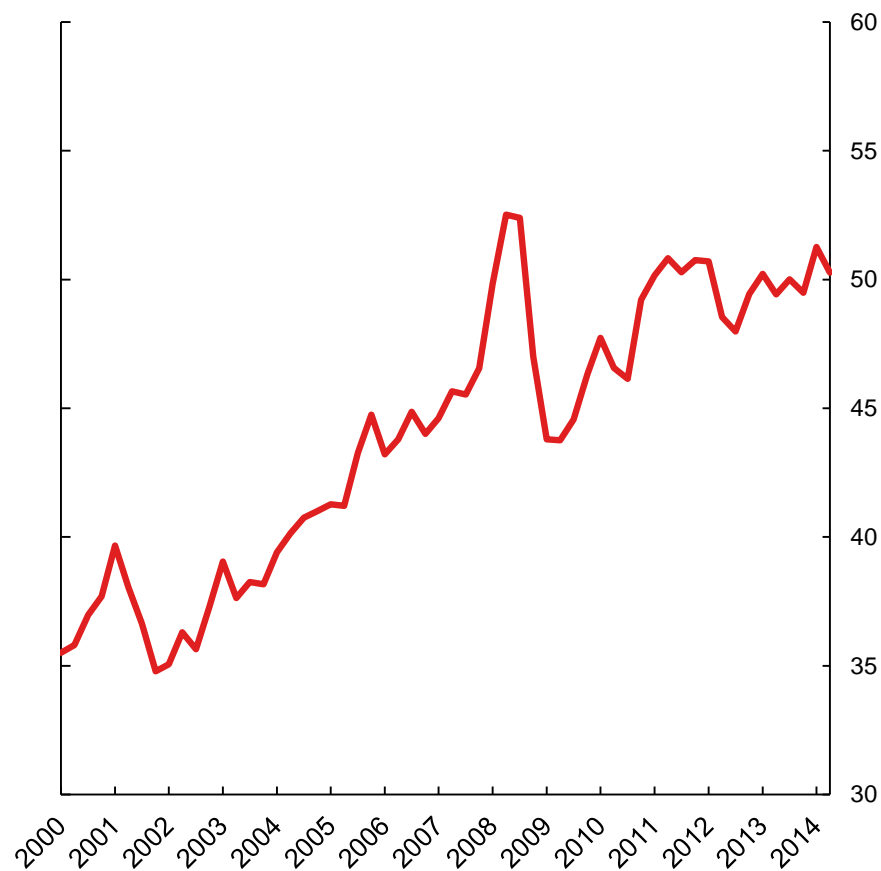
BCPI commodity prices index



Source: Bank of Canada

Last observation: 2014Q3

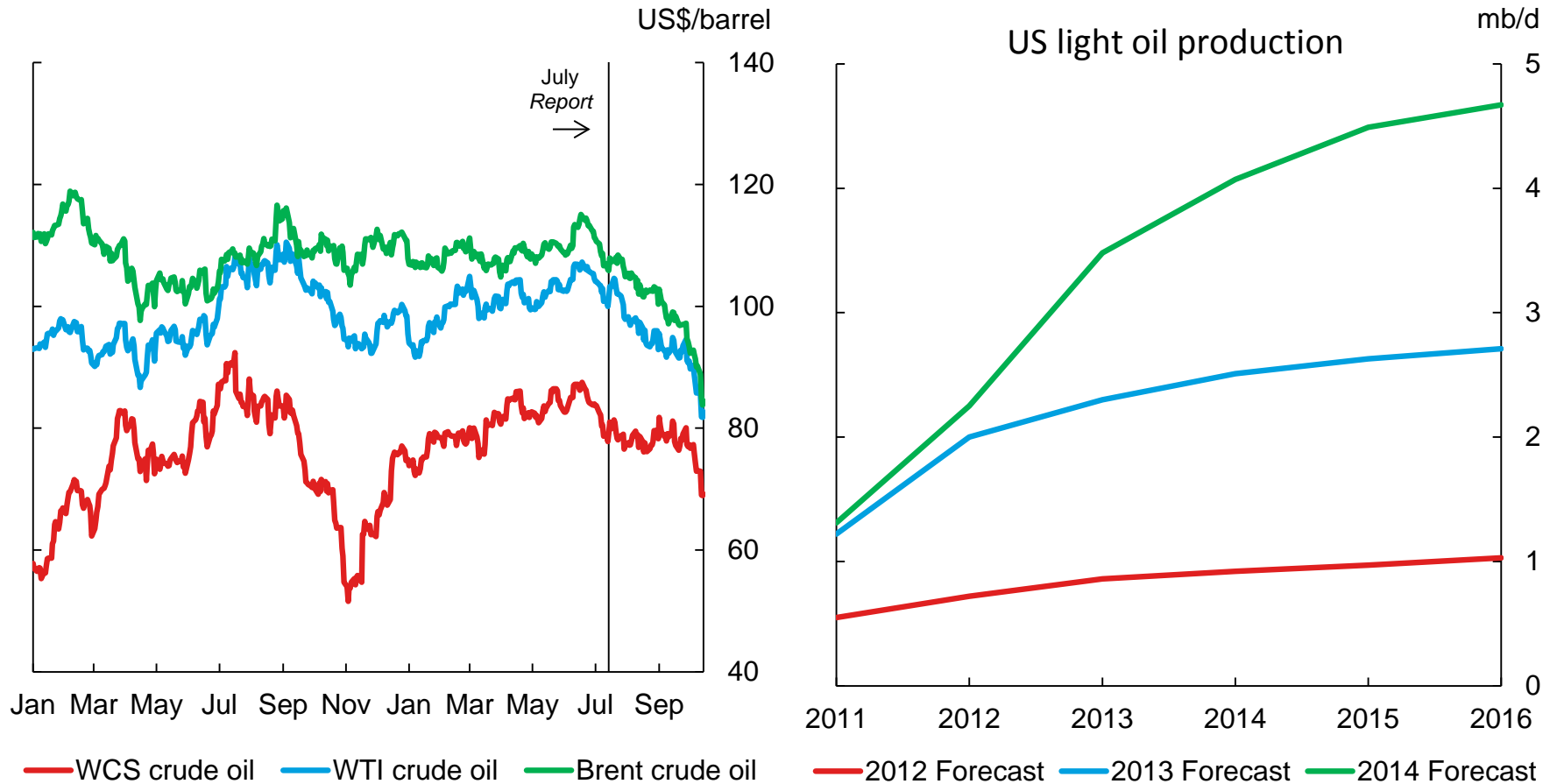
Commodities as share of total exports



Sources: Statistics Canada and Bank of Canada Calculations

Last observation: 2014Q2

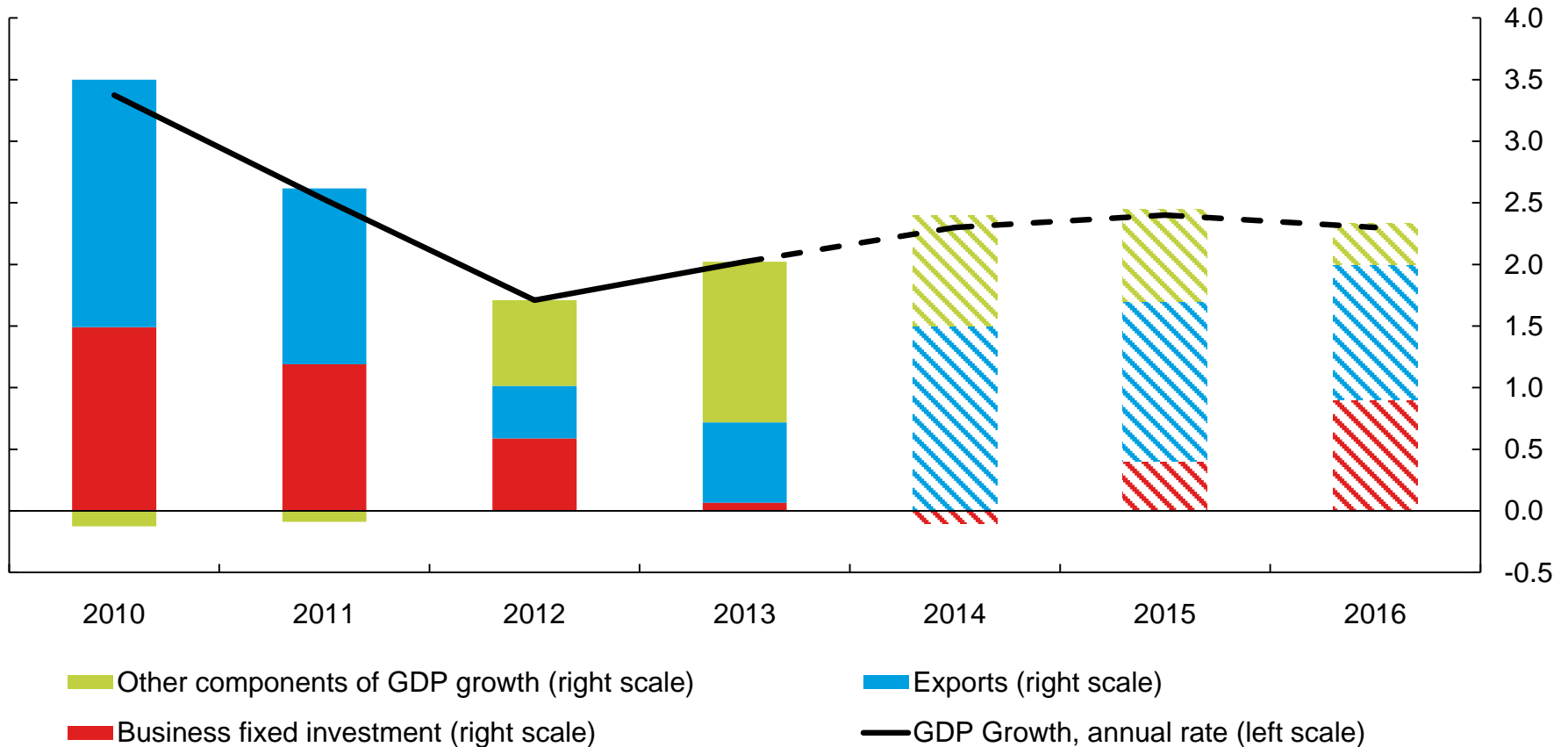
Oil prices have declined owing to increased supply and weaker demand



After a period of sustained export growth, business investment is projected to pick up

Contributions to real GDP growth

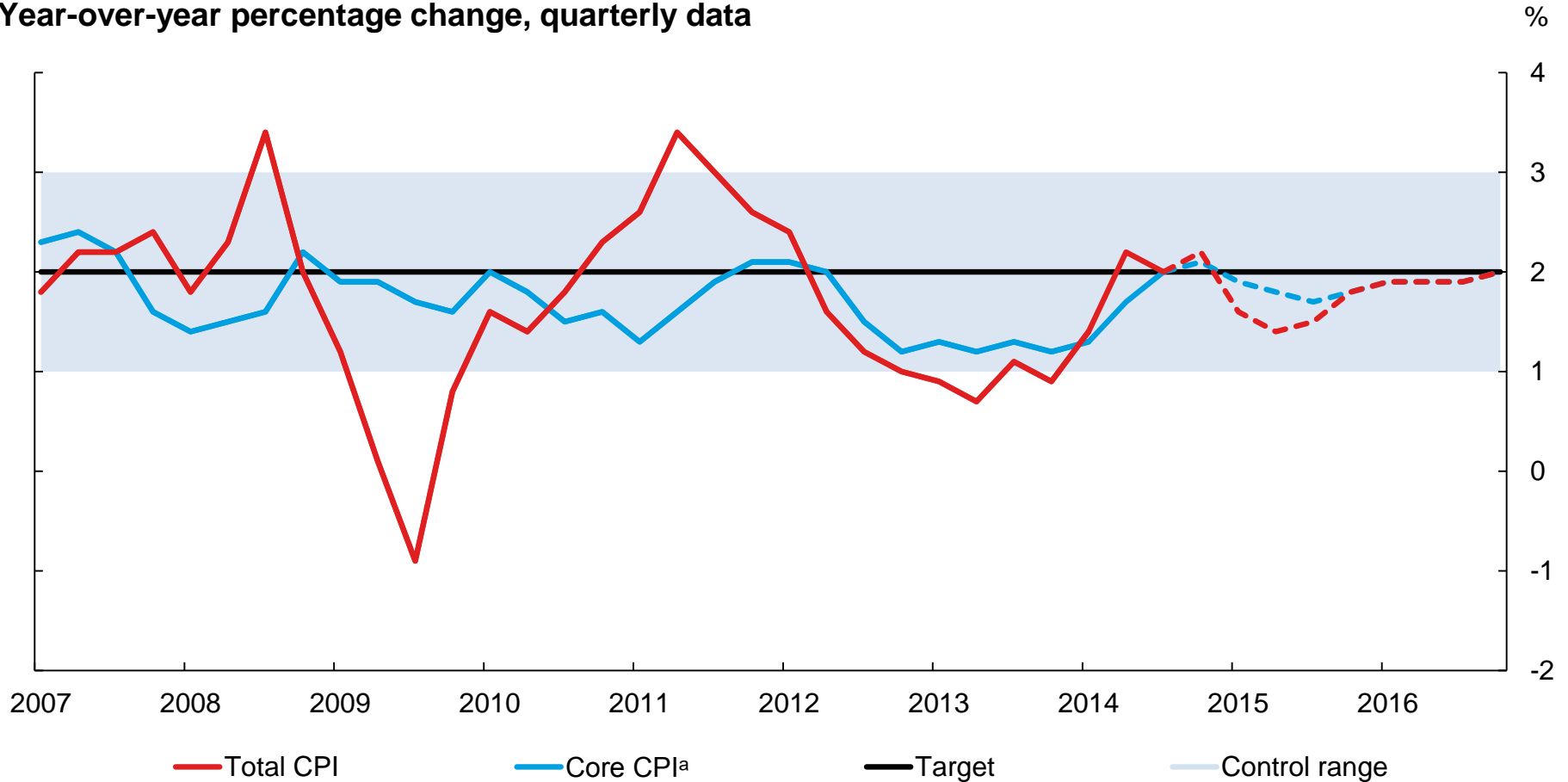
Percentage points



Sources: Statistics Canada and Bank of Canada calculations and projections

Inflation is expected to return sustainably to 2 per cent in the second half of 2016

Year-over-year percentage change, quarterly data

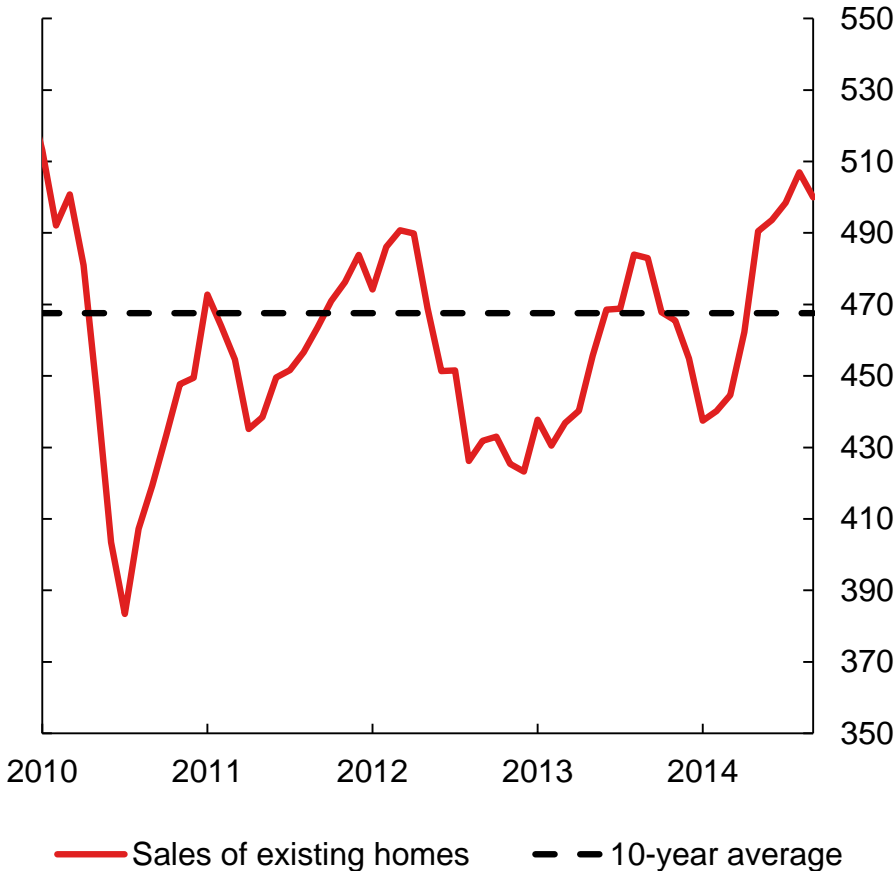


a. CPI excluding eight of the most volatile components and the effect of changes in indirect taxes on the remaining components

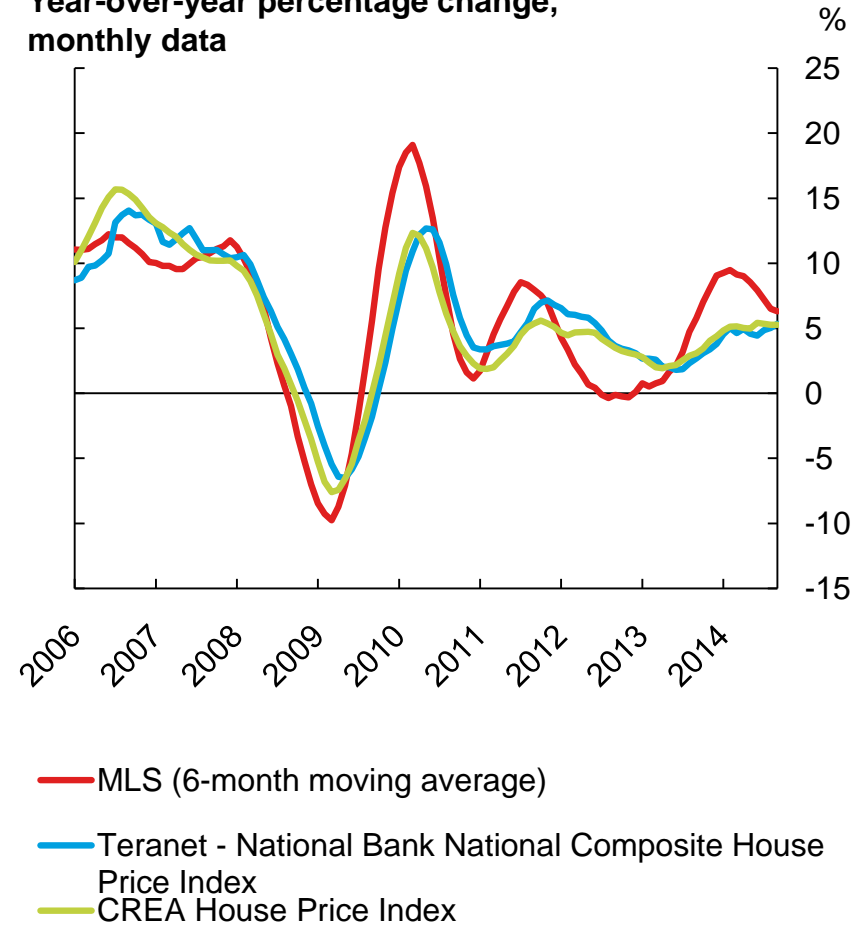
Sources: Statistics Canada and Bank of Canada calculations and projections

Sales of existing homes and housing prices have shown renewed momentum in recent months

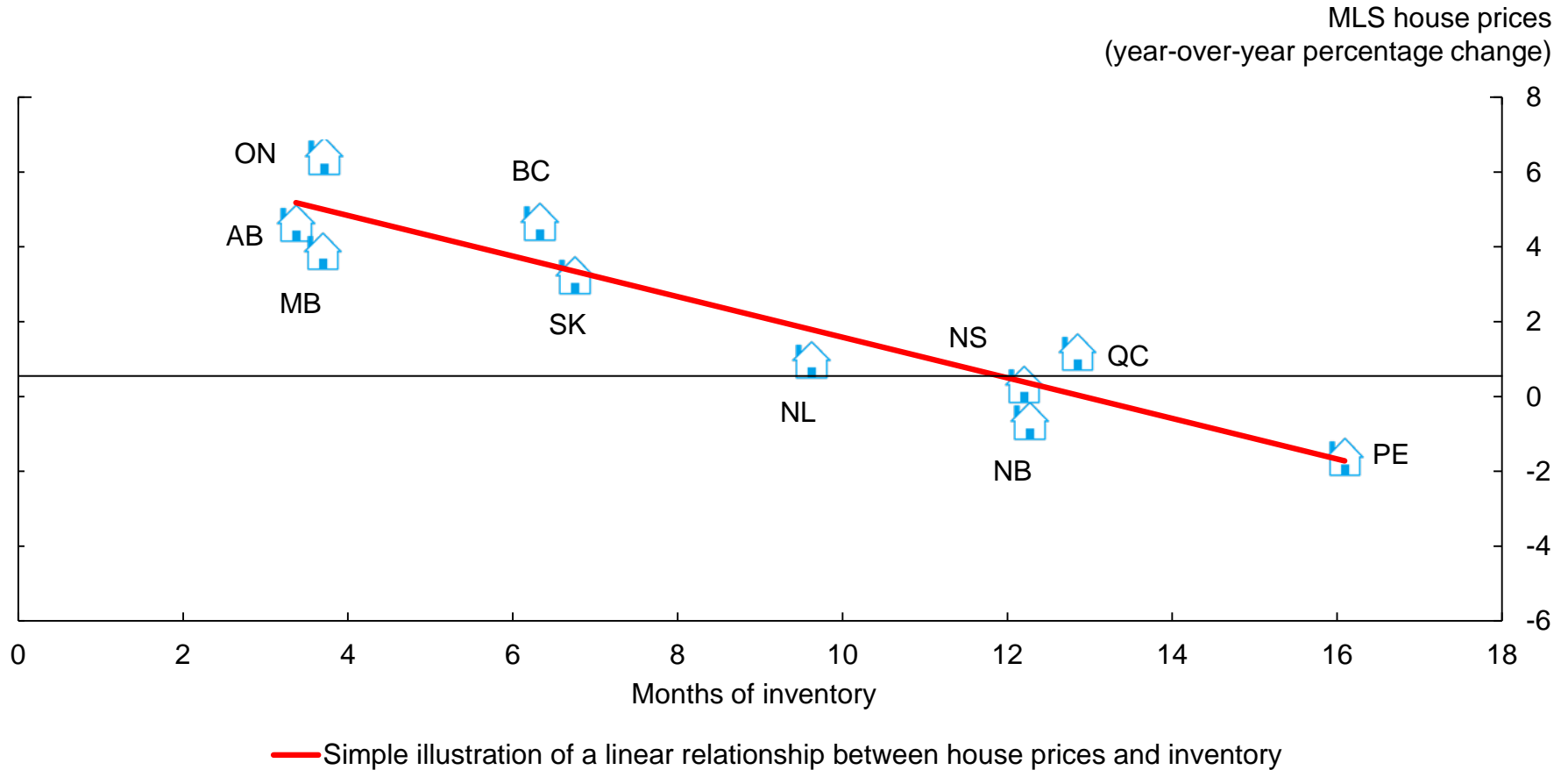
Thousands of units, seasonally adjusted at annual rates, monthly data



Year-over-year percentage change, monthly data



Tight housing markets in ON and West: soft landing in East



Note: 3-month moving average of the seasonally adjusted year-over-year price change is shown. Months of inventory uses adjusted values.

Sources: Canadian Real Estate Association and Bank of Canada calculations

Last observation: September 2014

Thank you

