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Economy Has Room to Grow, Says Senior Deputy Governor Carolyn Wilkins

OTTAWA, ONTARIO — The Canadian economy still has room to grow, and the sharp drop in oil prices is a setback, Bank of Canada Senior Deputy Governor Carolyn Wilkins said in Ottawa today, adding that monetary policy will support the needed adjustments.

As the Bank assesses the underlying inflation pressures in the Canadian economy, it is critical that it consider a broad range of indicators, including those that go beyond the headline unemployment rate, Ms. Wilkins said. Given the destructive recession Canada experienced, measures of economic slack that focus on the labour market show greater unused capacity than broader measures do.

"Understanding the degree of slack in the economy helps us avoid making policy decisions that could trigger inflationary or disinflationary pressures," Ms. Wilkins told members of the Ottawa Economics Association. "We don't want to inadvertently stifle the rebuilding phase of an economy that will need to adjust to a lower price of oil."

As a net exporter of energy, Canada is now feeling the negative effects of the oil-price shock, which increased the downside risks to inflation. There will be some offsets from a stronger U.S. economy and a weaker Canadian dollar, although these are uncertain and will take longer to materialize.

If low oil prices persist, they will spur a significant reallocation of workers across sectors and regions, as the energy sector cools and non-energy exports take on the mantle of growth.

The labour market and the output gaps will close over time as the economy grows, firm creation and business investment pick up, and as capacity is rebuilt. It is possible that the two gaps will not close simultaneously, as would likely be the case in a more typical business cycle. "An economy pushing up against the limits of its capacity may be just what is required to signal the need for additional investments and to draw workers back into the labour force," Ms. Wilkins said.

By providing an environment of low and stable inflation, monetary policy is supporting the adjustments needed to return the economy to sustained and balanced growth, Ms. Wilkins concluded. "We'll get there and it will be a very good thing for Canada."