

Promoting Canada's economic and financial well-being

Remarks to the Kelowna Chamber of Commerce

Kelowna, British Columbia

25 March 2015



Overview

- What does the Bank of Canada do?
- What is Canada's economic outlook?

Mandate



The Bank's mandate

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

Four key responsibilities:

- Monetary policy
- Financial system
- Currency
- Funds management

Key Responsibilities: Monetary policy

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

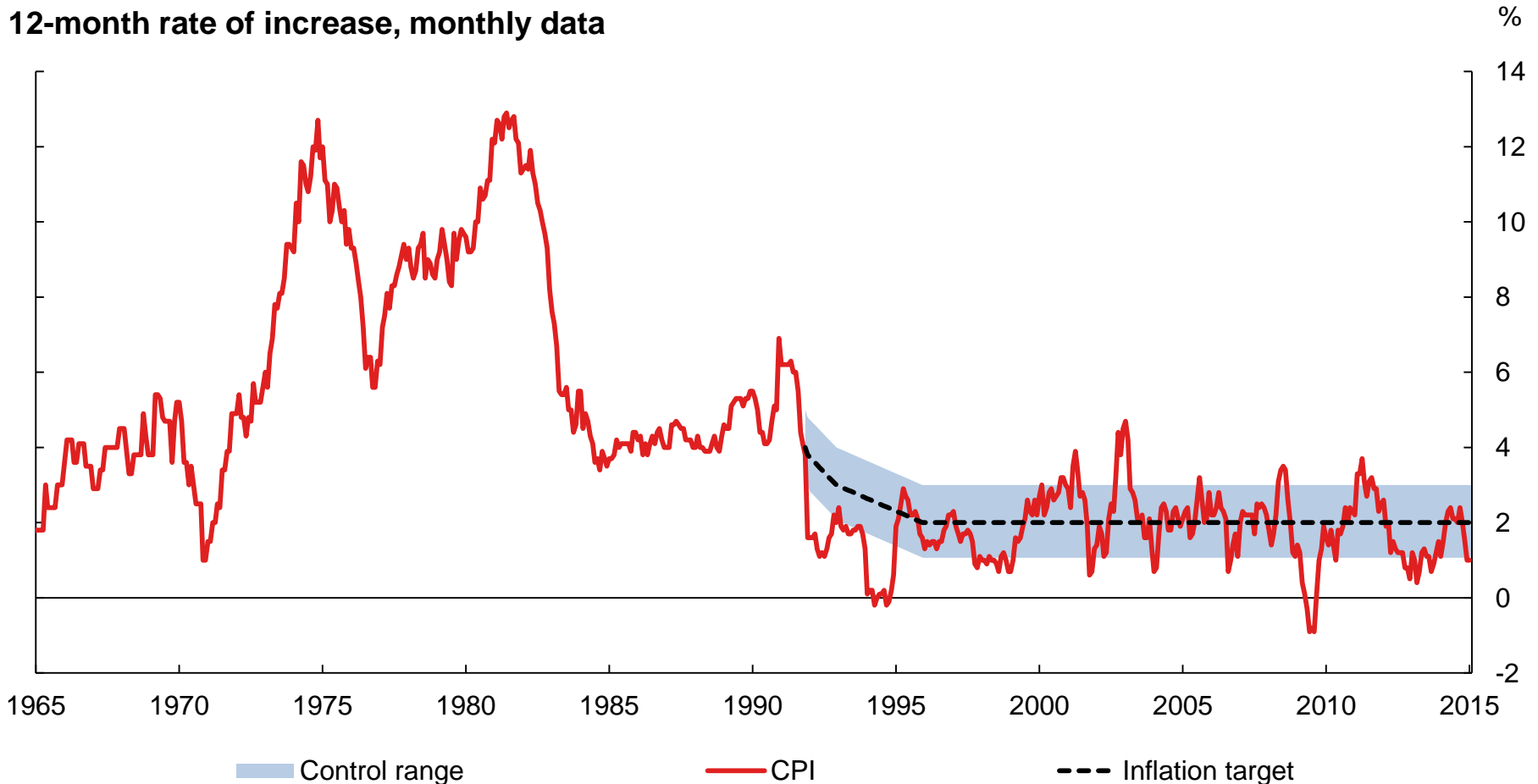
- target of 2 per cent established in agreement with the federal government

Benefits:

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

Monetary Policy: Low and stable inflation

12-month rate of increase, monthly data



Sources: Statistics Canada and Bank of Canada calculations

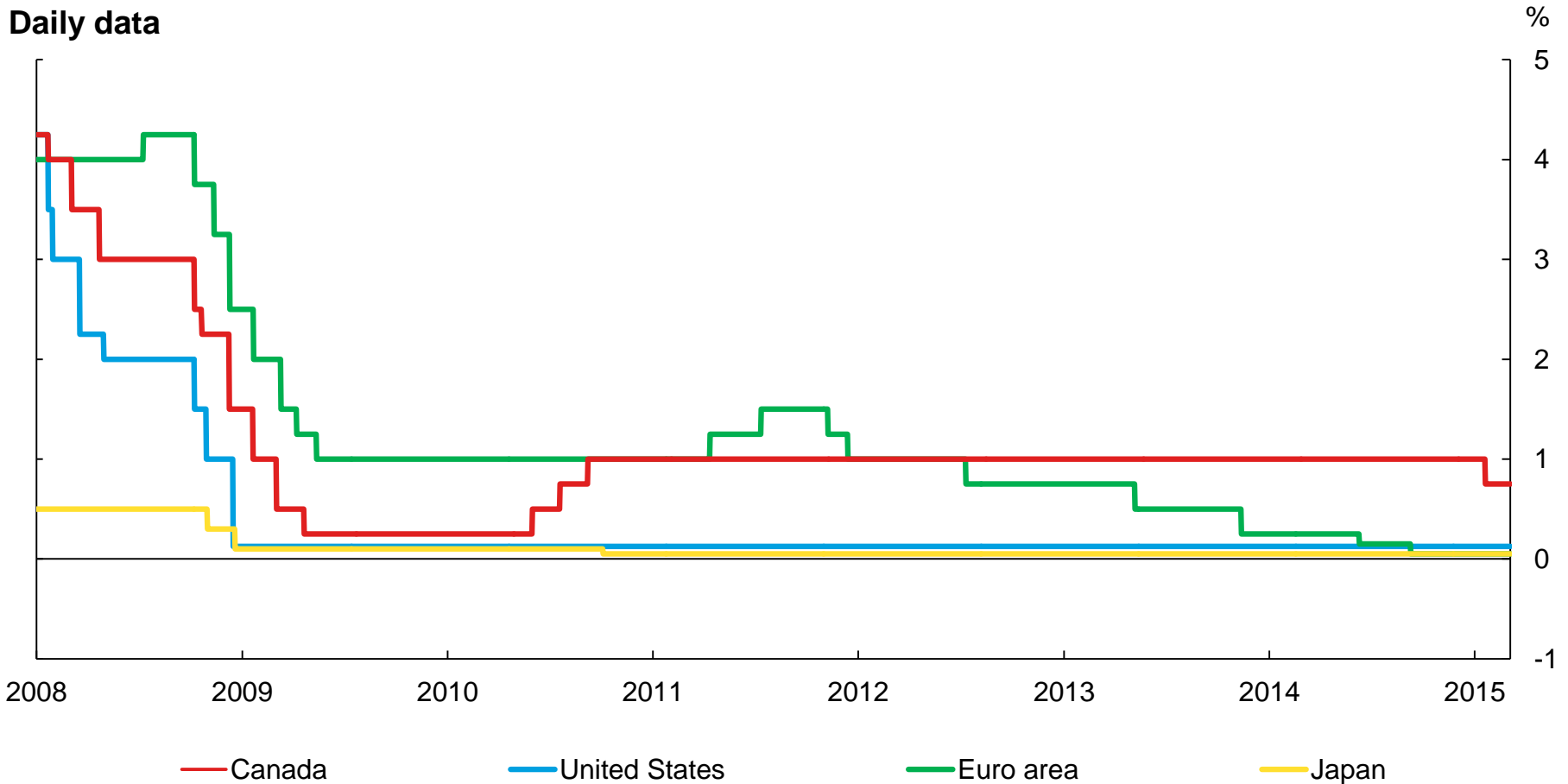
Last observation: February 2015

Inflation targeting

- Under normal circumstances, one instrument: the policy rate
- Policy rate decisions announced eight times a year on a fixed schedule
- Flexible exchange rate
- Transparency improves the effectiveness of policy
- Monetary policy must be forward looking and incorporate all relevant information
 - several economic models
 - consult extensively

Central bank policy rates are at historic lows

Daily data



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

Last observation: 6 March 2015

Key responsibilities: Financial system



Key responsibilities: 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 authorities.

Activities to promote the stability of the 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 the December *Financial System Review*

Risk 1: Household financial stress and a sharp correction in house prices



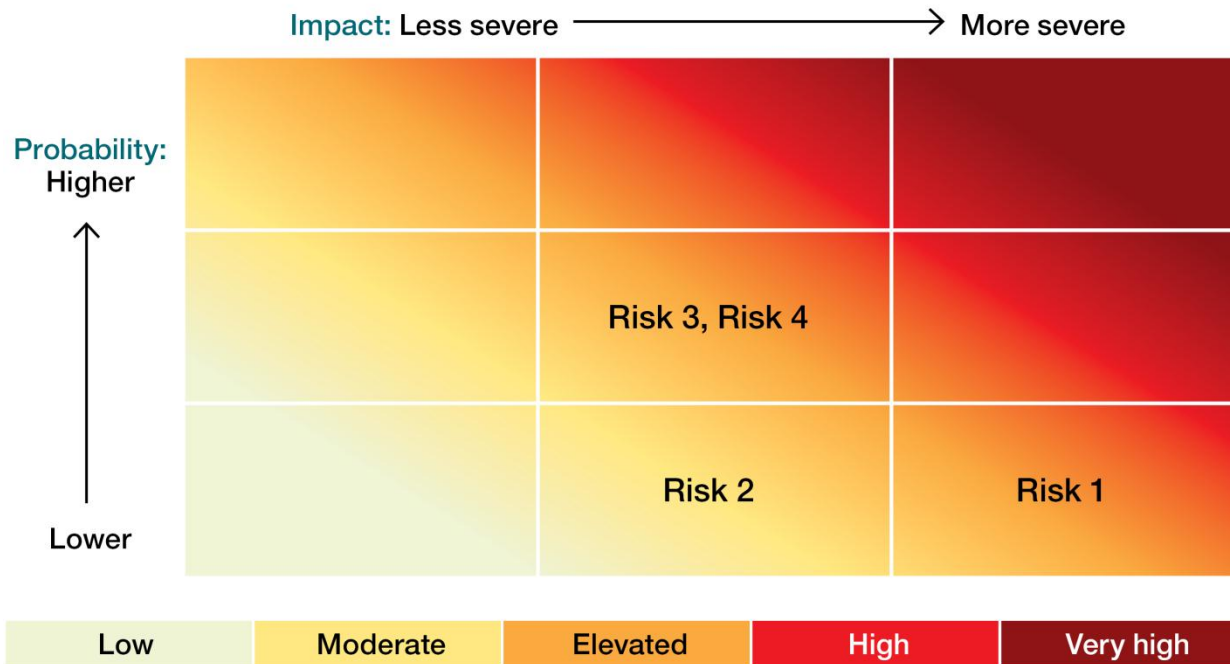
Risk 3: Financial stress from the euro area



Risk 2: A sharp increase in long-term interest rates

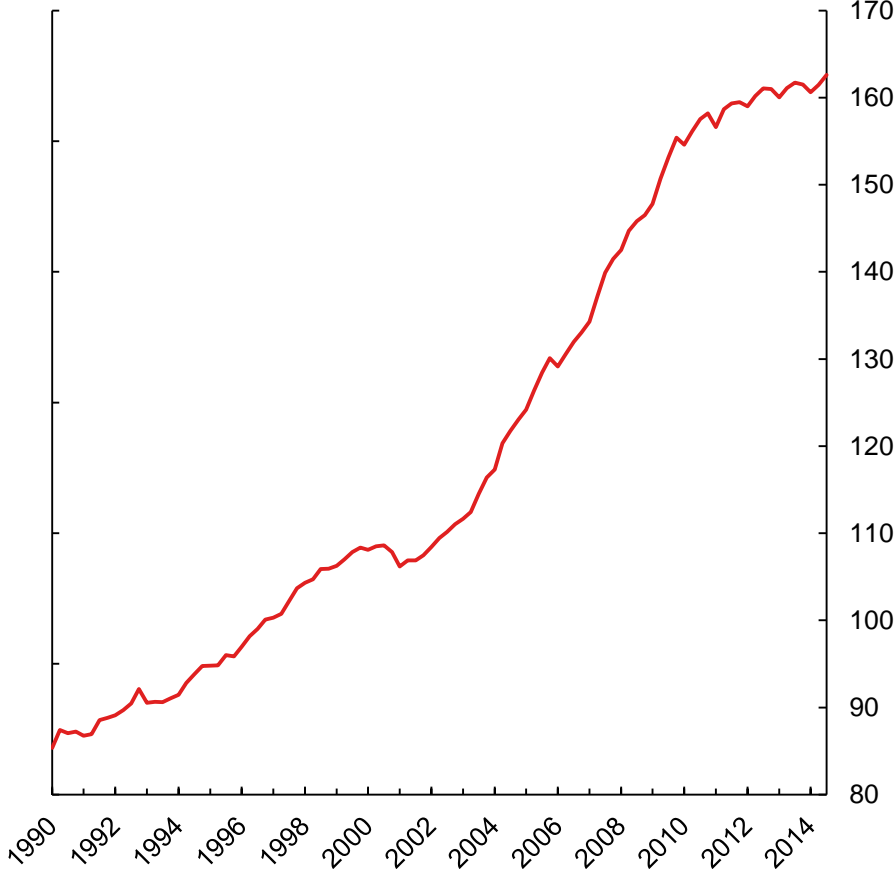


Risk 4: Stress emanating from China



Main vulnerabilities identified in the December *Financial System Review*

Vulnerability 1: High rates of household debt

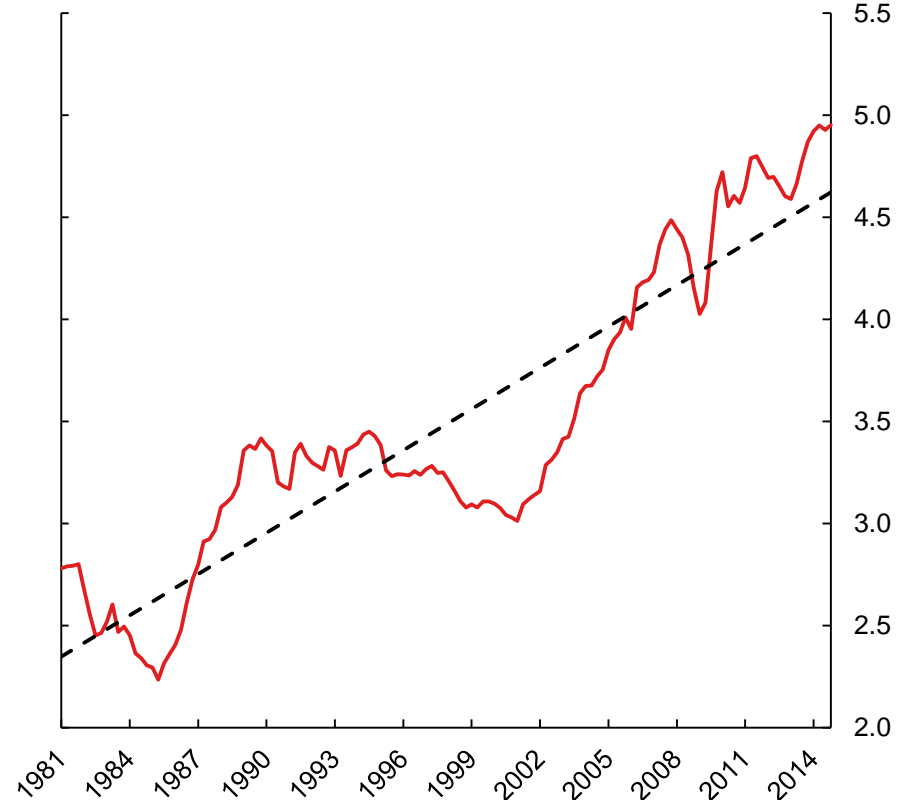


Source: Statistics Canada

Last observation: 2014Q3

% Vulnerability 2: 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: 2014Q4

Key responsibilities: Currency



Key responsibilities: Currency

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

- Fewer than 30 counterfeits detected annually per million notes in circulation
- Polymer notes are safer, cheaper and greener.
- Demand for bank notes continues to grow at the same rate as the economy.
- We have launched a research program on digital currency.

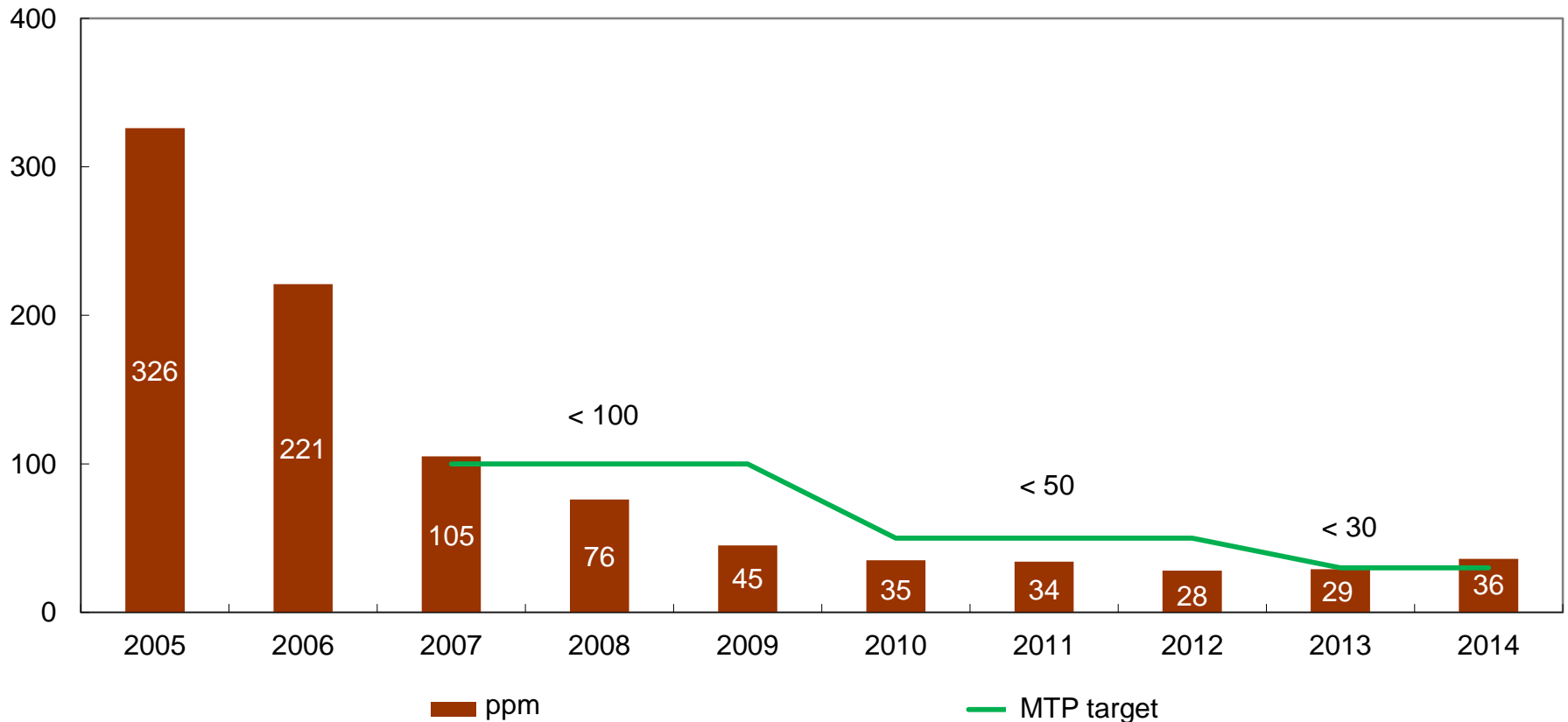
Transparent, holographic polymer bank notes



Counterfeiting is much lower than it was 10 years ago

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

Key responsibilities: 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



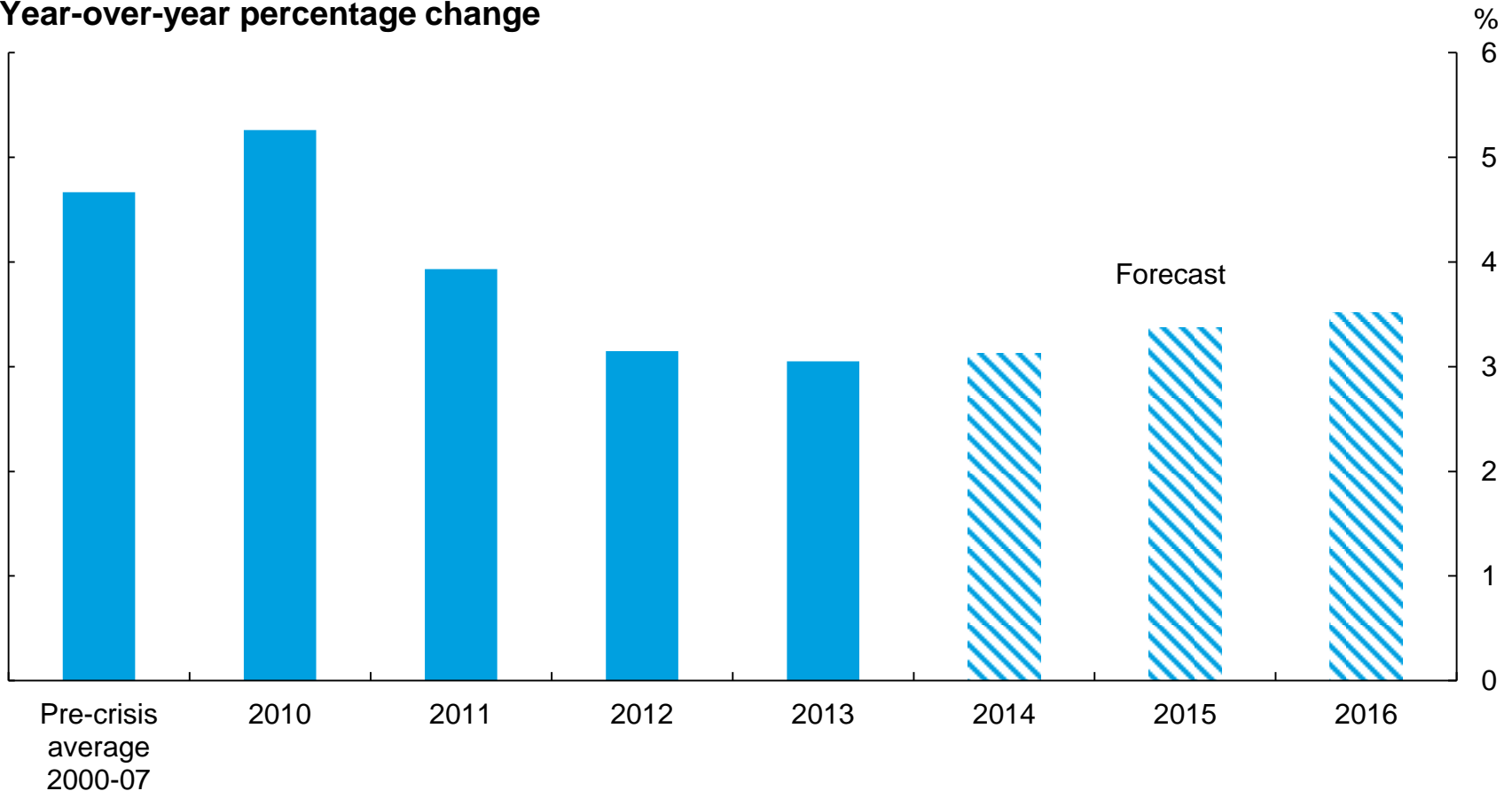
Canada Savings Bonds Program

Economic outlook



Global growth has disappointed but is picking up

Year-over-year percentage change

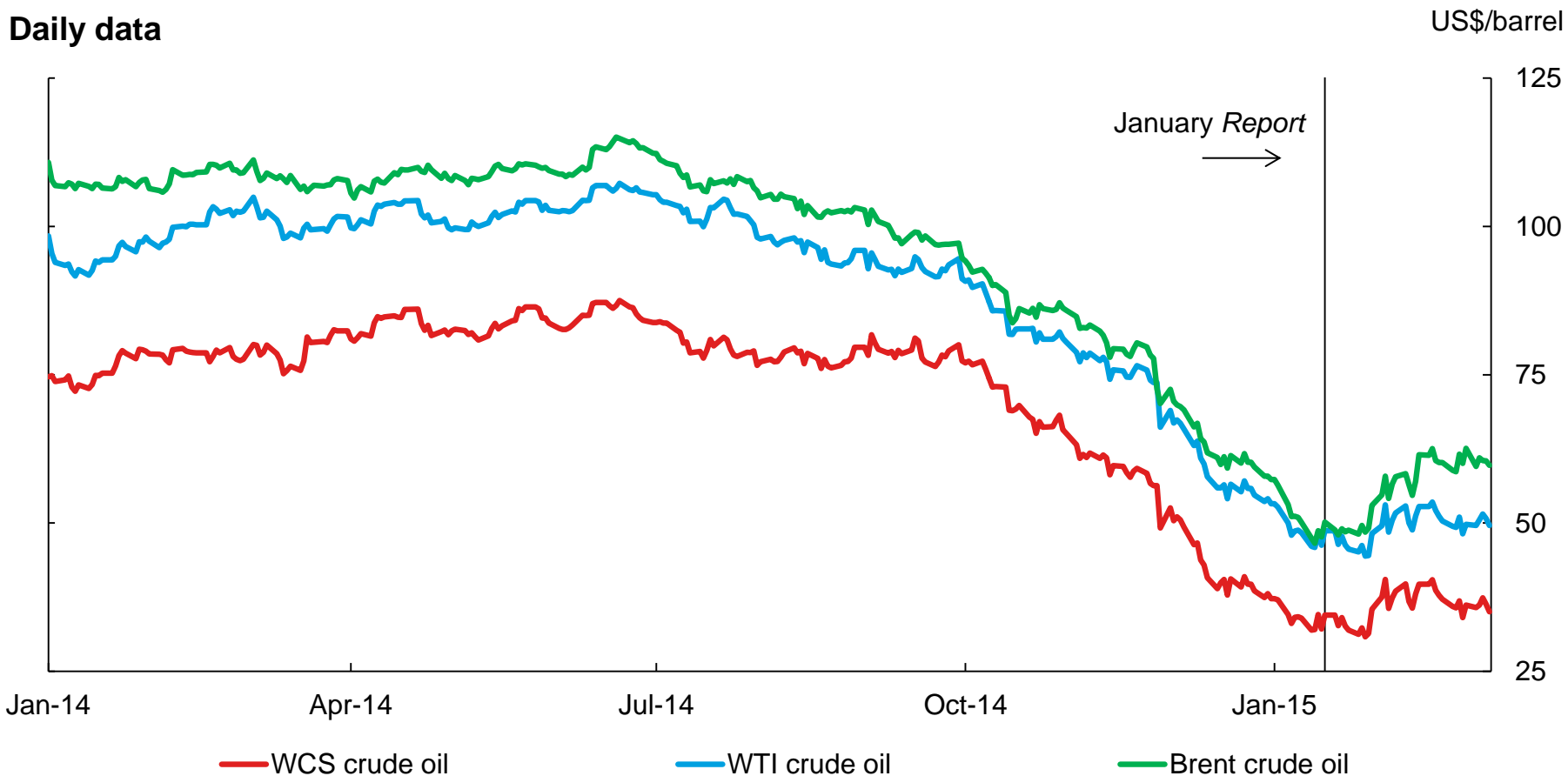


Source: Bank of Canada projections, January 2015

Last data plotted: 2016

Oil prices have fallen dramatically since mid-2014

Daily data



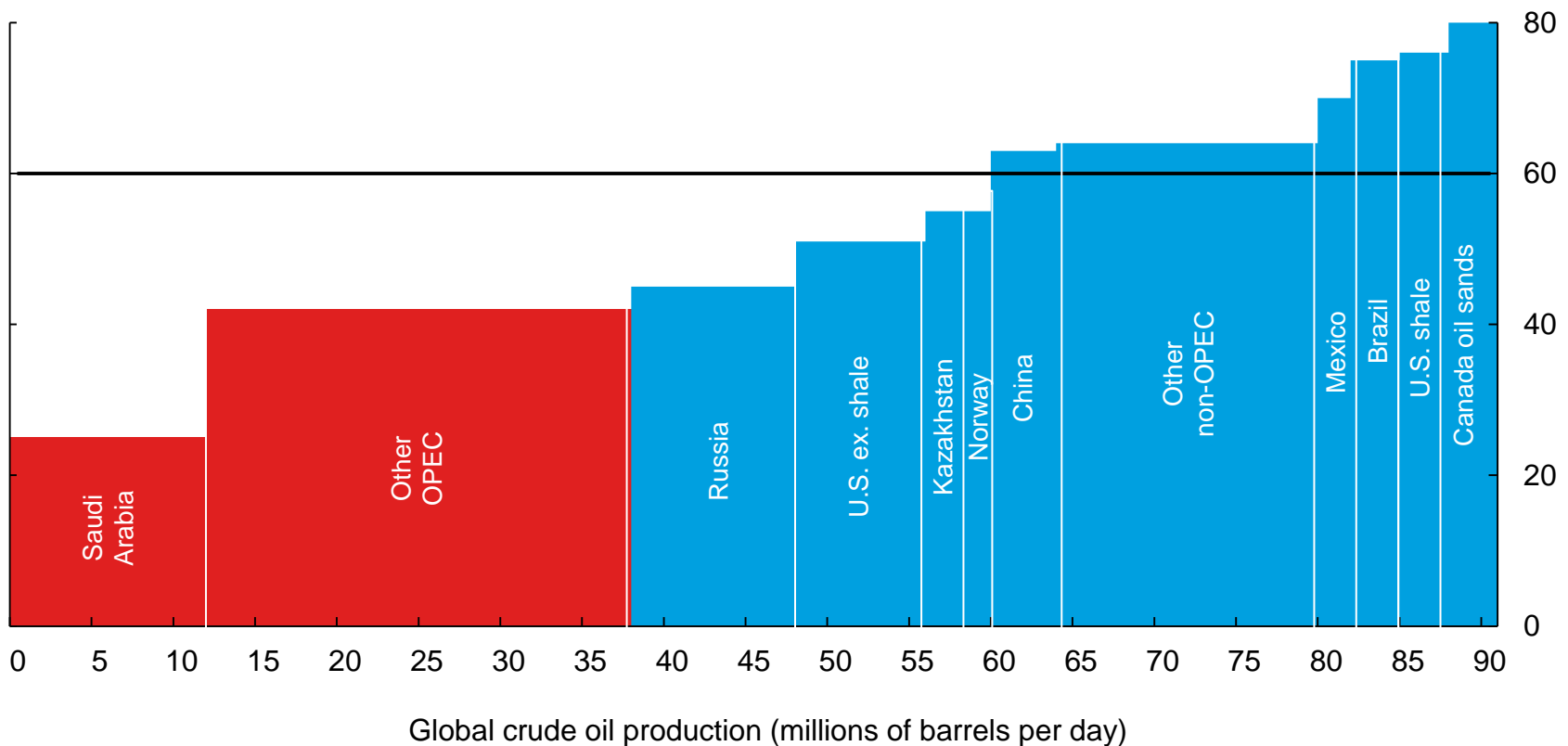
Note: WCS refers to Western Canada Select and WTI refers to West Texas Intermediate.
Source: Bank of Canada

Last observation: 6 March 2015

Persistently low oil prices could make some Canadian production uneconomical

Average of full-cycle costs less dividends and interest payments

US\$/barrel

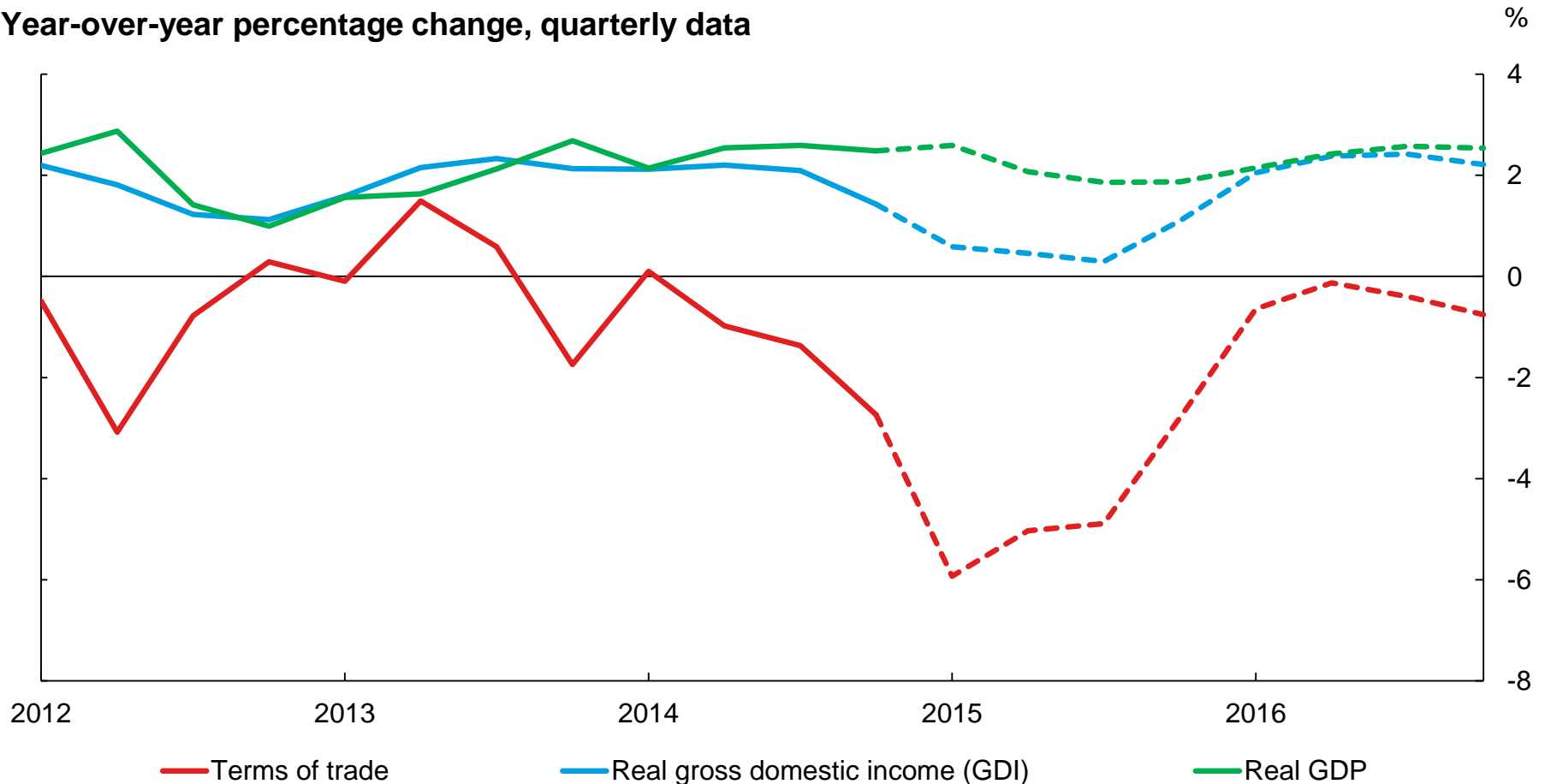


Note: Production for which the full-cycle costs are above the line could become uneconomical if oil prices stay around US\$60 per barrel. Red bars indicate members of OPEC; blue bars are other oil-producing countries.

Source: Energy Aspects

The sharp drop in oil prices will weigh on the economy...

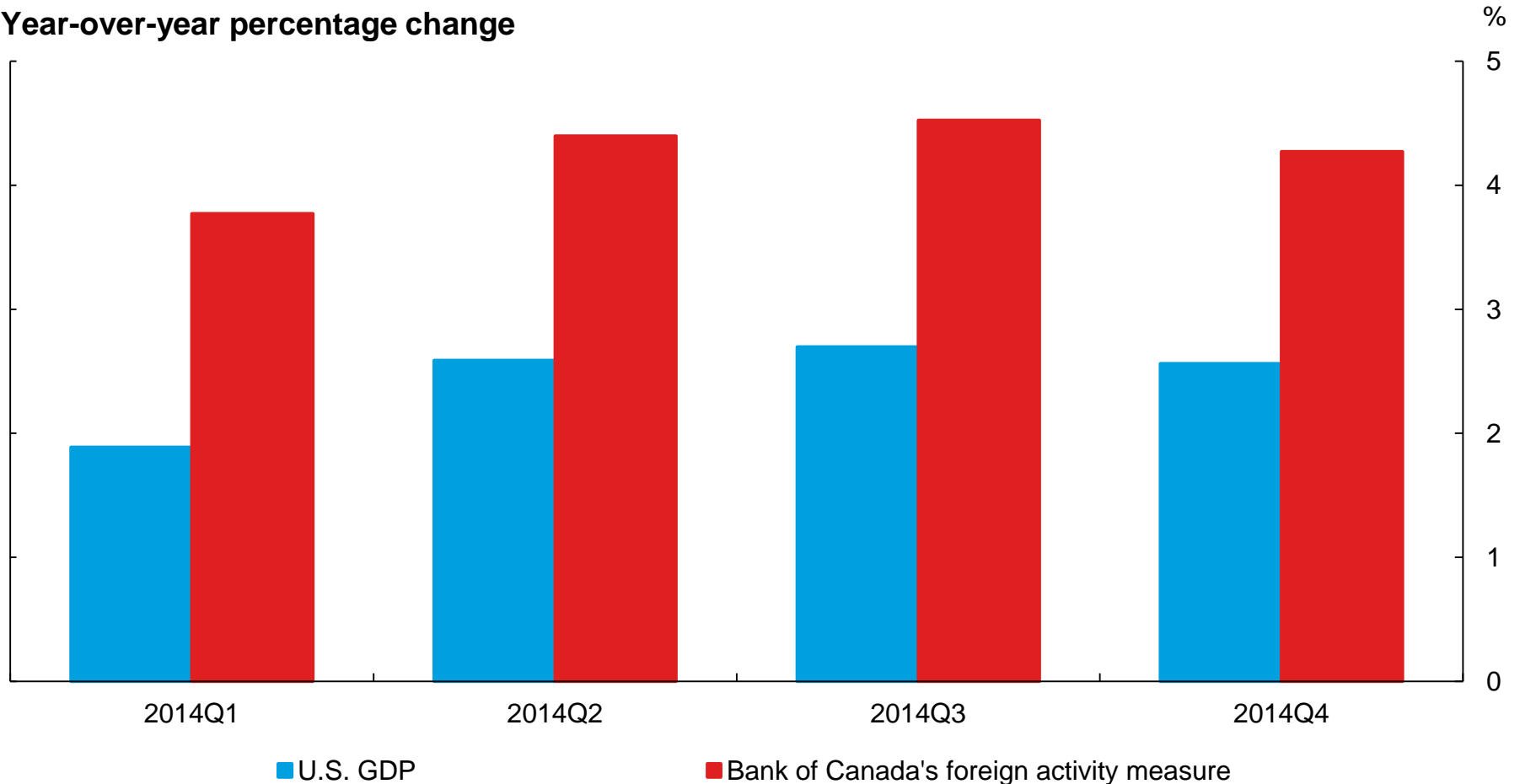
Year-over-year percentage change, quarterly data



Sources: Statistics Canada and Bank of Canada projections, January 2015

... but the improving U.S. economy helps boost exports

Year-over-year percentage change

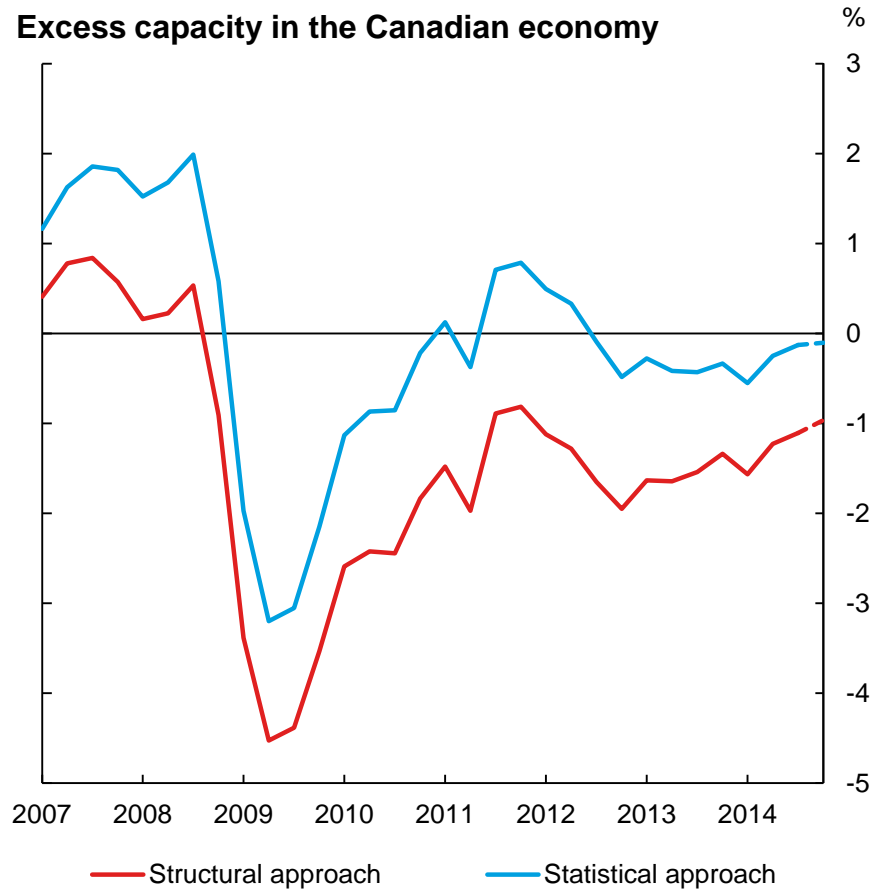


Sources: U.S. Bureau of Economic Analysis and Bank of Canada

Last observation: 2014Q4

The economy is still operating below potential

Excess capacity in the Canadian economy



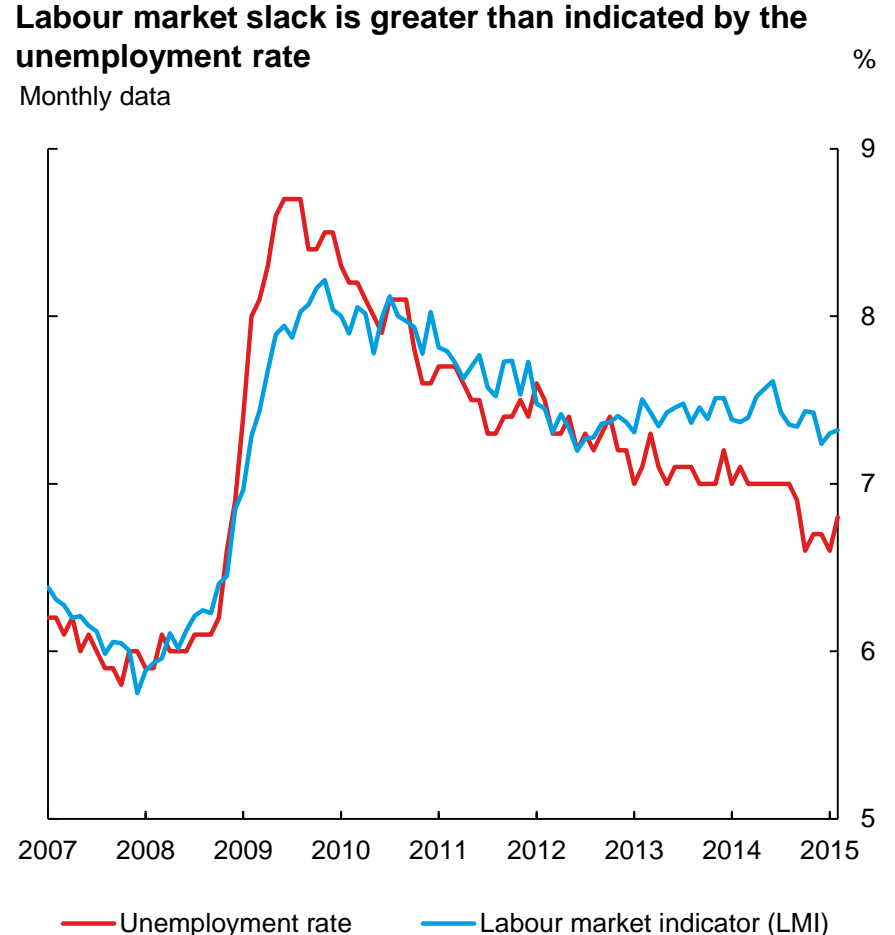
Note: From the January 2015 Monetary Policy Report. Estimates for the fourth quarter of 2014 are based on an increase in output of 2.5 per cent (at annual rates) for the quarter.

Source: Bank of Canada

Last data plotted: 2014Q4

Labour market slack is greater than indicated by the unemployment rate

Monthly data

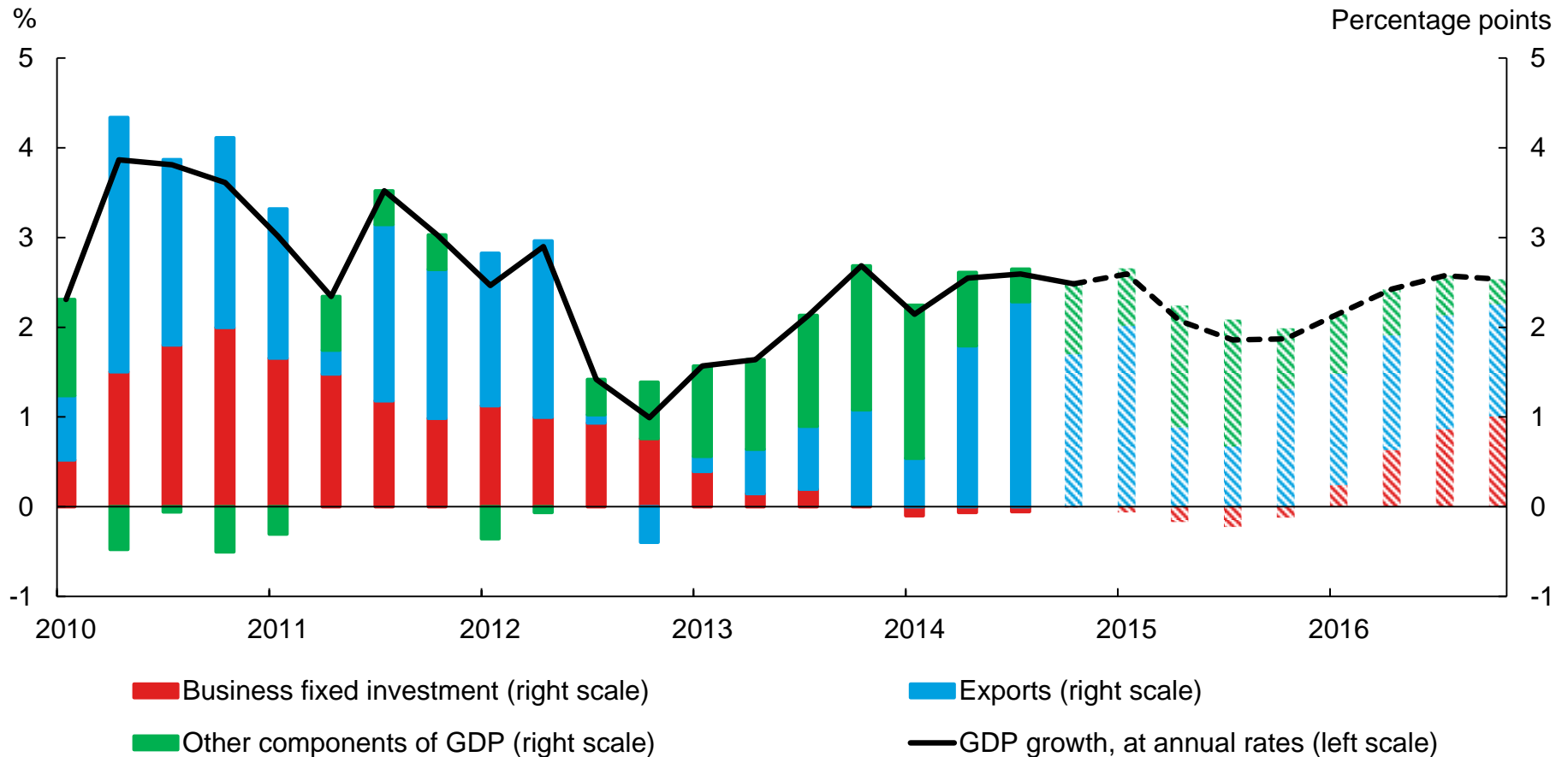


Sources: Statistics Canada and Bank of Canada

Last observation: February 2015

Growth will slow in 2015 before returning to potential

Contributions to real GDP growth; 4-quarter moving average

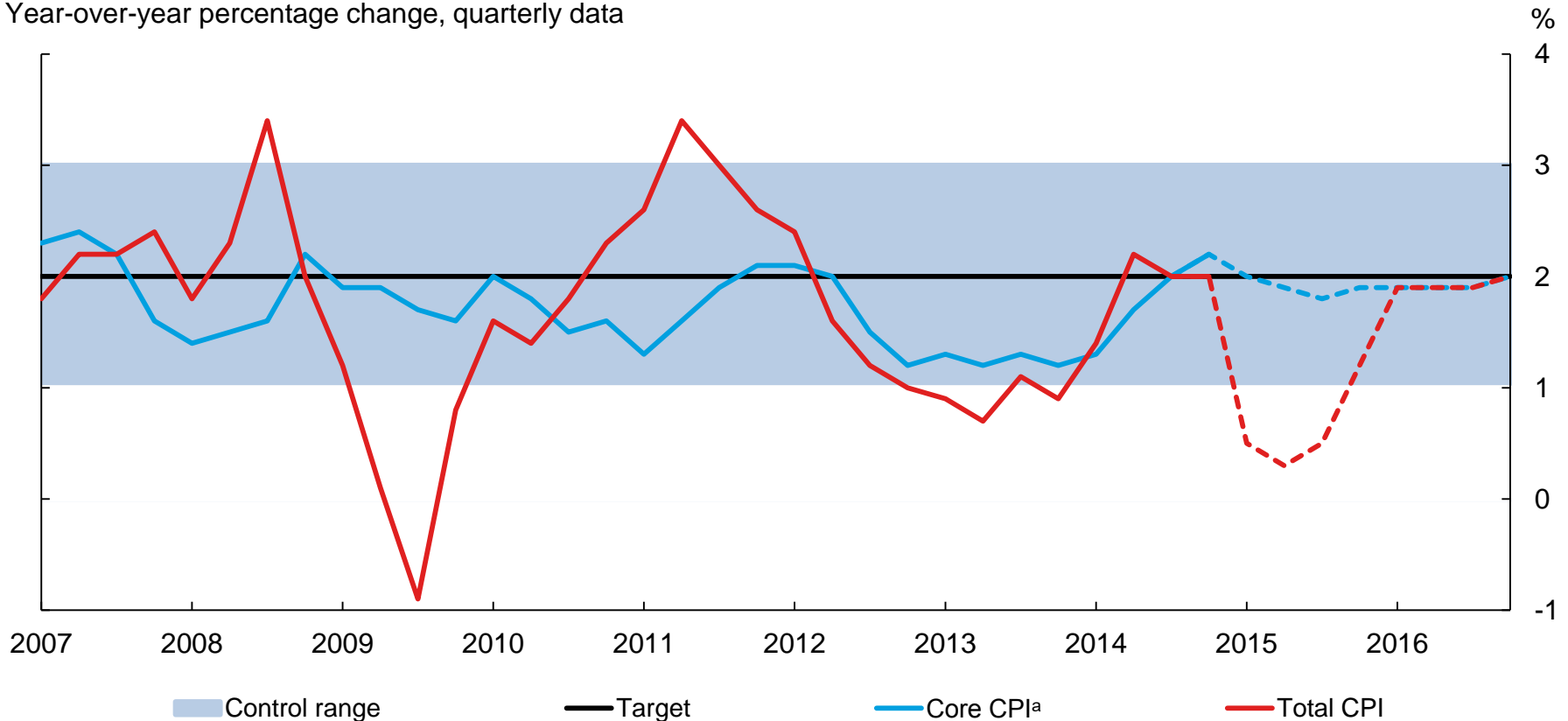


Sources: Statistics Canada and Bank of Canada projections, January 2015

Total inflation is falling owing to lower oil prices, but core inflation remains close to 2 per cent

Total CPI inflation is expected to drop below 1 per cent in 2015

Year-over-year percentage change, quarterly data

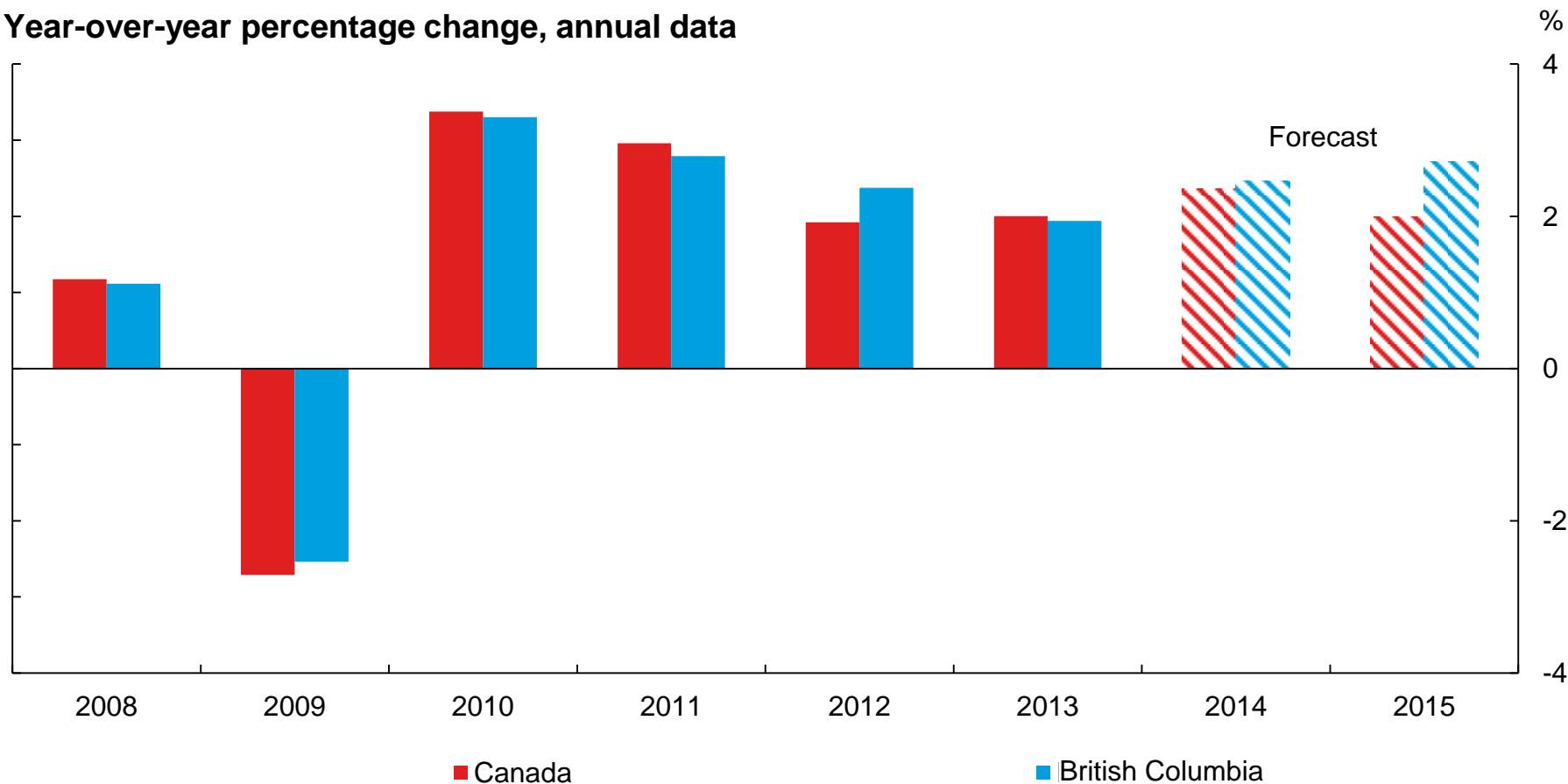


a.CPI excluding eight of the most volatile components and the effect of changes in indirect taxes on the remaining components

Sources: Statistics Canada and Bank of Canada projections, January 2015

British Columbia's economic growth has been similar to Canada's in recent years

Year-over-year percentage change, annual data

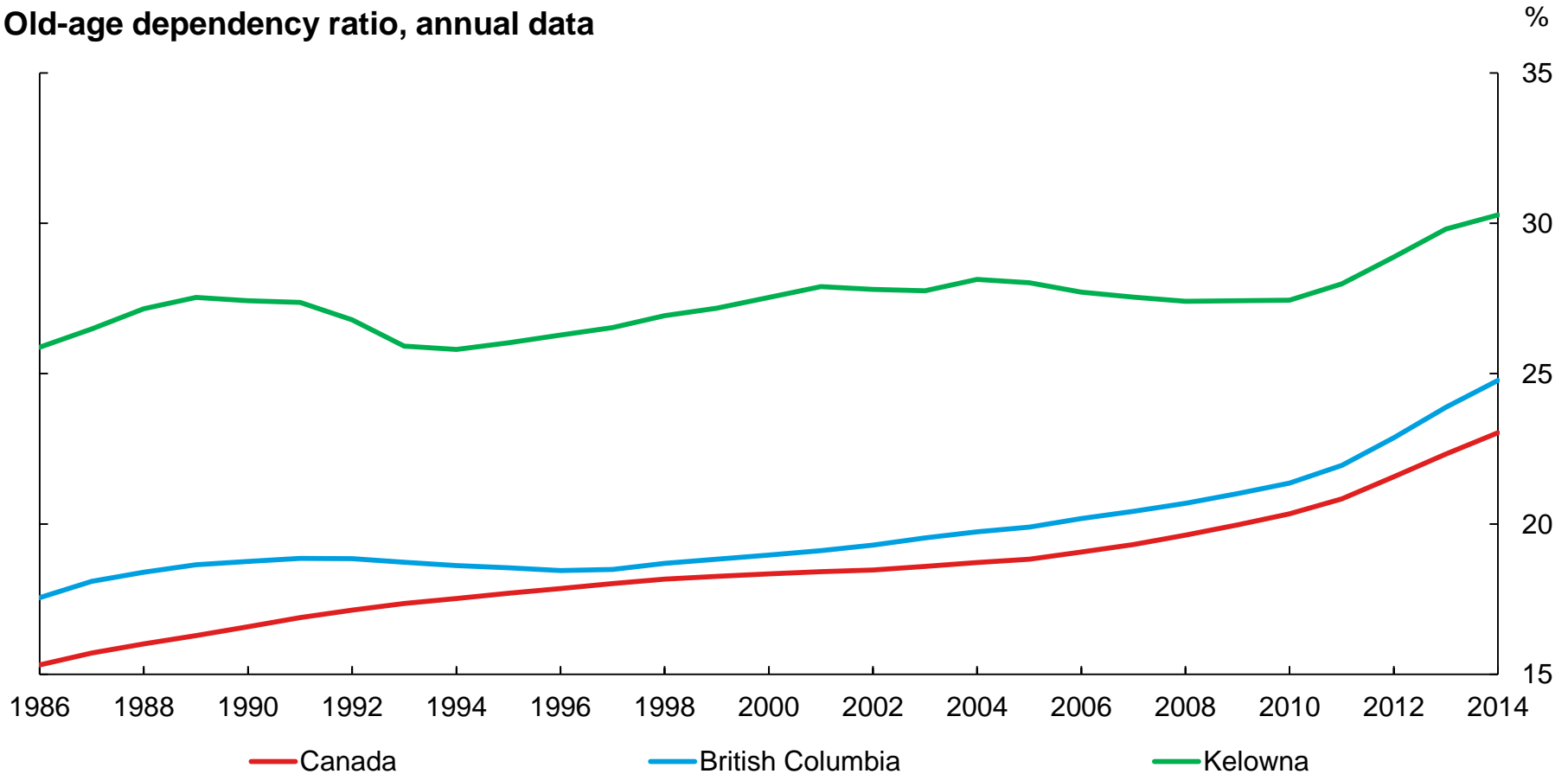


Note: Projections are an average of private sector estimates.

Sources: Statistics Canada, Bank of Montreal, Bank of Nova Scotia, Toronto-Dominion Bank, Canadian Imperial Bank of Commerce, Royal Bank of Canada, and Bank of Canada calculations

Population aging is more pronounced in British Columbia, especially in Kelowna

Old-age dependency ratio, annual data



Note: The old-age dependency ratio is defined as the ratio of the population that is above the age of 64 to the population between the ages of 15 and 64.

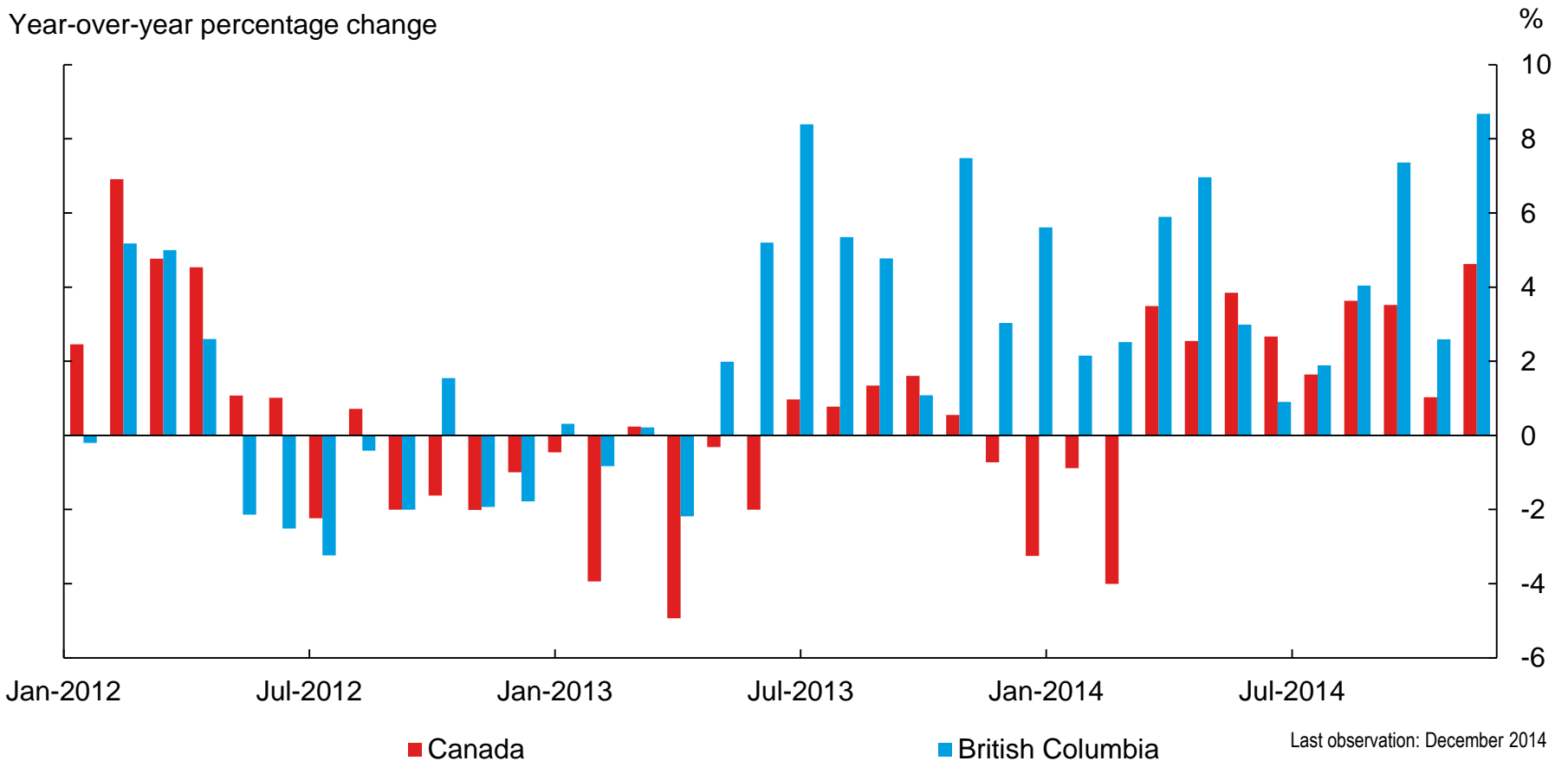
Sources: Statistics Canada and Bank of Canada calculations

Last observation: December 2014

Tourism in British Columbia is outpacing tourism in Canada

Growth in international visitors

Year-over-year percentage change

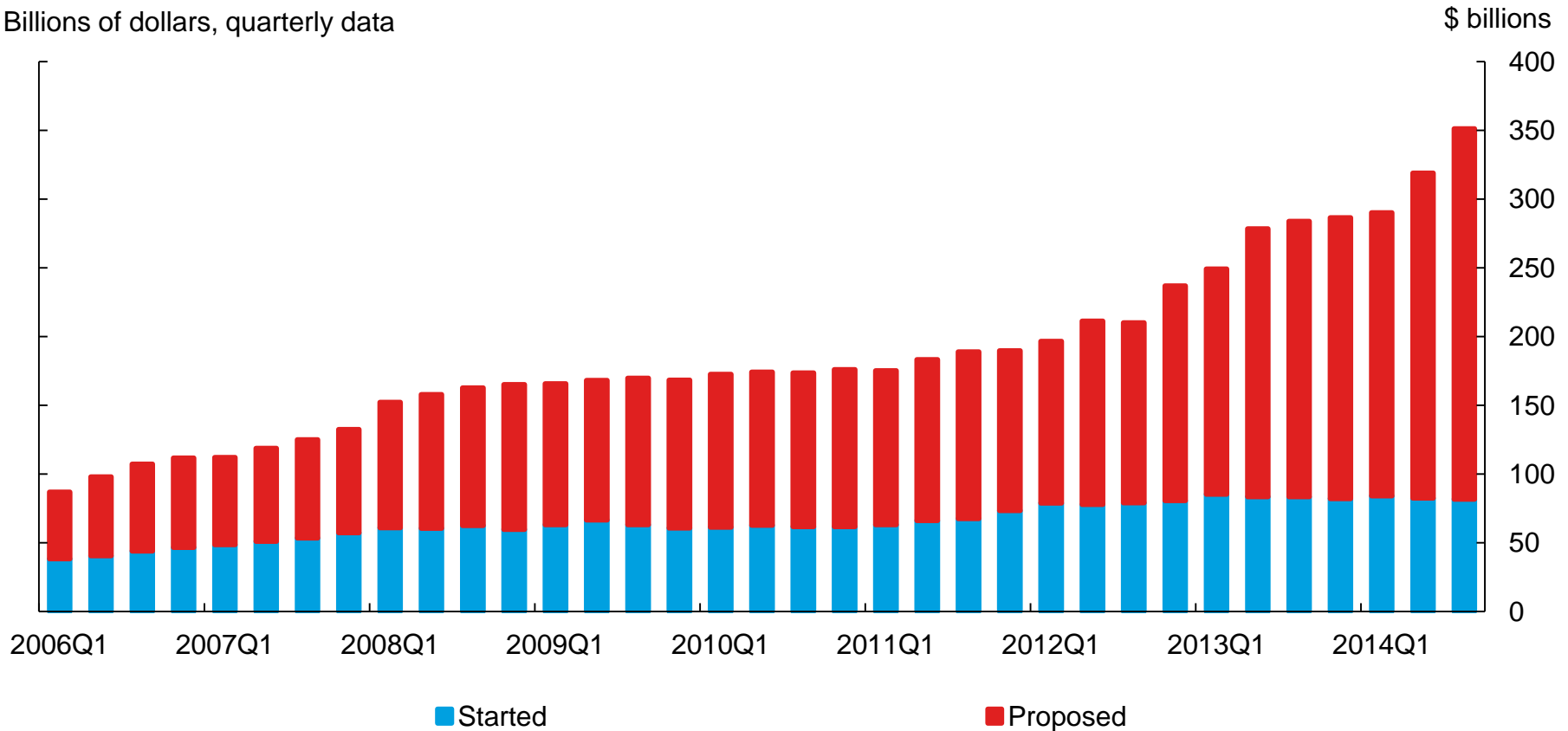


Source: Statistics Canada

Proposed investment projects in British Columbia have been rising

Major investment projects in British Columbia

Billions of dollars, quarterly data



Source: BC Major Projects Inventory, Business Council of British Columbia

Last observation: 2014Q3

Questions?

