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Canadian economy rebuilding, though headwinds remain, says Governor Poloz

CHARLOTTETOWN, PRINCE EDWARD ISLAND — Following a setback caused by the drop in oil prices, the Canadian economy is once again on a course toward sustainable balanced growth, although it continues to face headwinds, Bank of Canada Governor Stephen S. Poloz said today. The Governor's speech to the Greater Charlottetown Area Chamber of Commerce outlined some key indicators the Bank is watching closely as the economy rebuilds following the Great Recession.

Overall, non-energy exports are performing well. According to the Bank's Spring *Business Outlook Survey*, companies that are benefiting from stronger U.S. demand are starting to feel capacity pressures, which indicate they may soon need to increase investment. "Outside of the energy sector, the outlook for investment is positive," Governor Poloz said.

The Bank is also watching trends in the creation of new companies in Canada. Many exporting companies were lost during the recession, but there are early signs of a recovery in firm creation, he noted.

The January interest rate cut has contributed to easier financial conditions in Canada. The Bank estimates that a household that has renewed a \$100,000 mortgage would save about \$250 in interest payments this year. A three-cent drop in the Canadian dollar would mean that companies with existing export contracts in U.S. dollars will receive an extra \$15–20 billion in 2015.

Currently, the oil price shock continues to have a net negative impact on the economy. "While there's still a risk that lower oil prices could have a greater impact, the signs we have seen to date lead us to believe that the impact of the shock is proving to be faster than we first expected, but not larger," he said.

The Bank's task of judging the underlying trend of inflation has been challenging over the past year because of the various shocks experienced by the economy. "Our current best judgment is that the underlying trend of inflation is somewhere around 1.6 per cent to 1.8 per cent," said the Governor.

While the environment remains uncertain, the Bank's latest projection shows the Canadian economy returning to full capacity around the end of 2016. "You can be sure that the Bank of Canada will continue to work toward bringing the economy home, at full capacity and with inflation sustainably on target, so we can fulfill our mandate to support the economic welfare of all Canadians," the Governor concluded.