

Promoting Canada's economic and financial well-being

Remarks to the Chambre de commerce francophone de Saint-Boniface

Winnipeg, Manitoba

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Deputy Governor
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Overview

What does the Bank of Canada do?

What is Canada's economic outlook?

Mandate



The Bank's mandate

The mandate of the Bank of Canada 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.

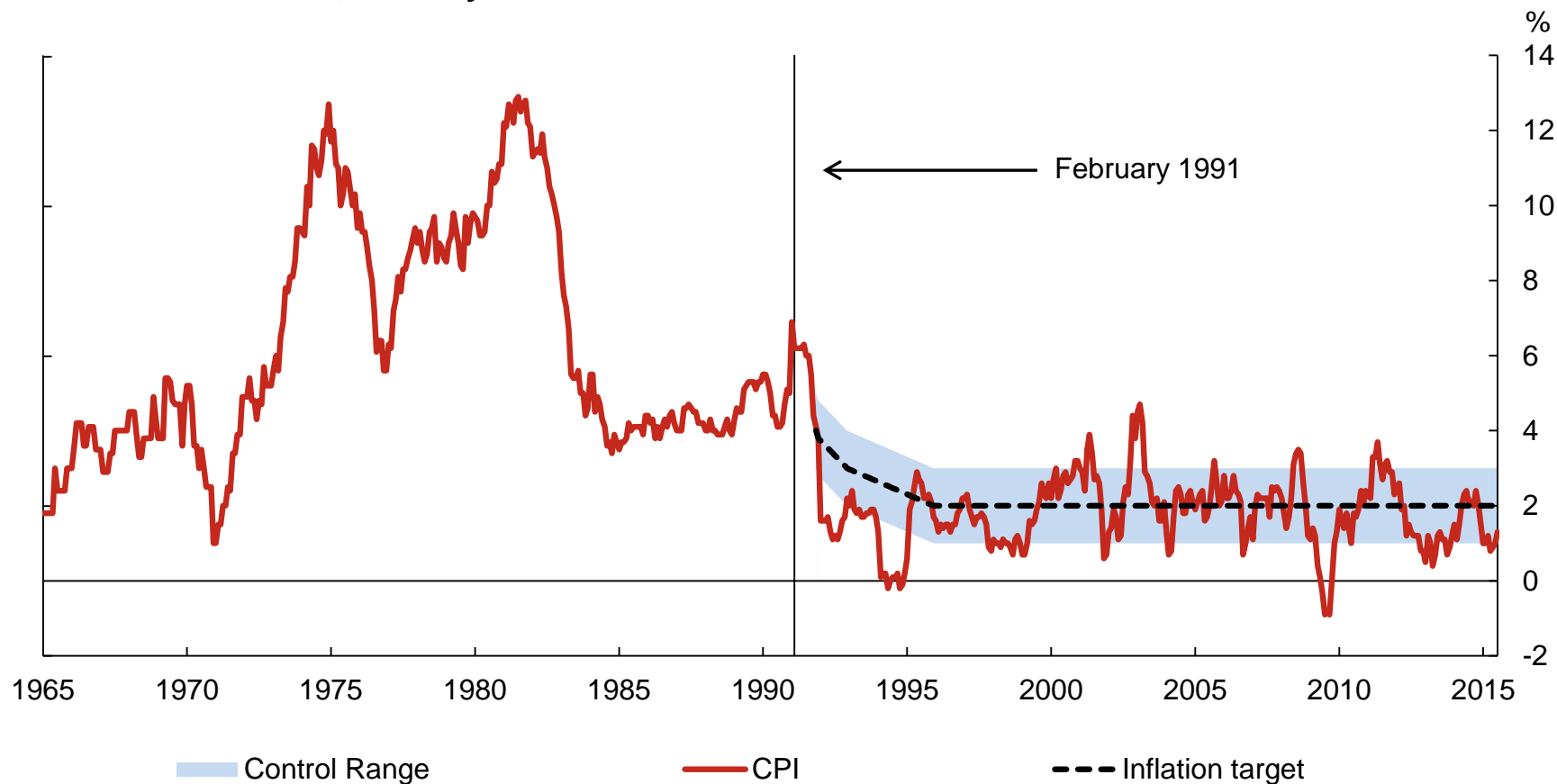
- target of 2 per cent established in agreement with the federal government

Benefits:

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

Monetary policy: mission accomplished

12-month rate of increase, monthly data



Sources: Statistics Canada and Bank of Canada calculations

Last observation: July 2015

Renewal of the inflation-targeting agreement in 2016

The inflation-targeting agreement between the federal government and the Bank is renewed every five years.

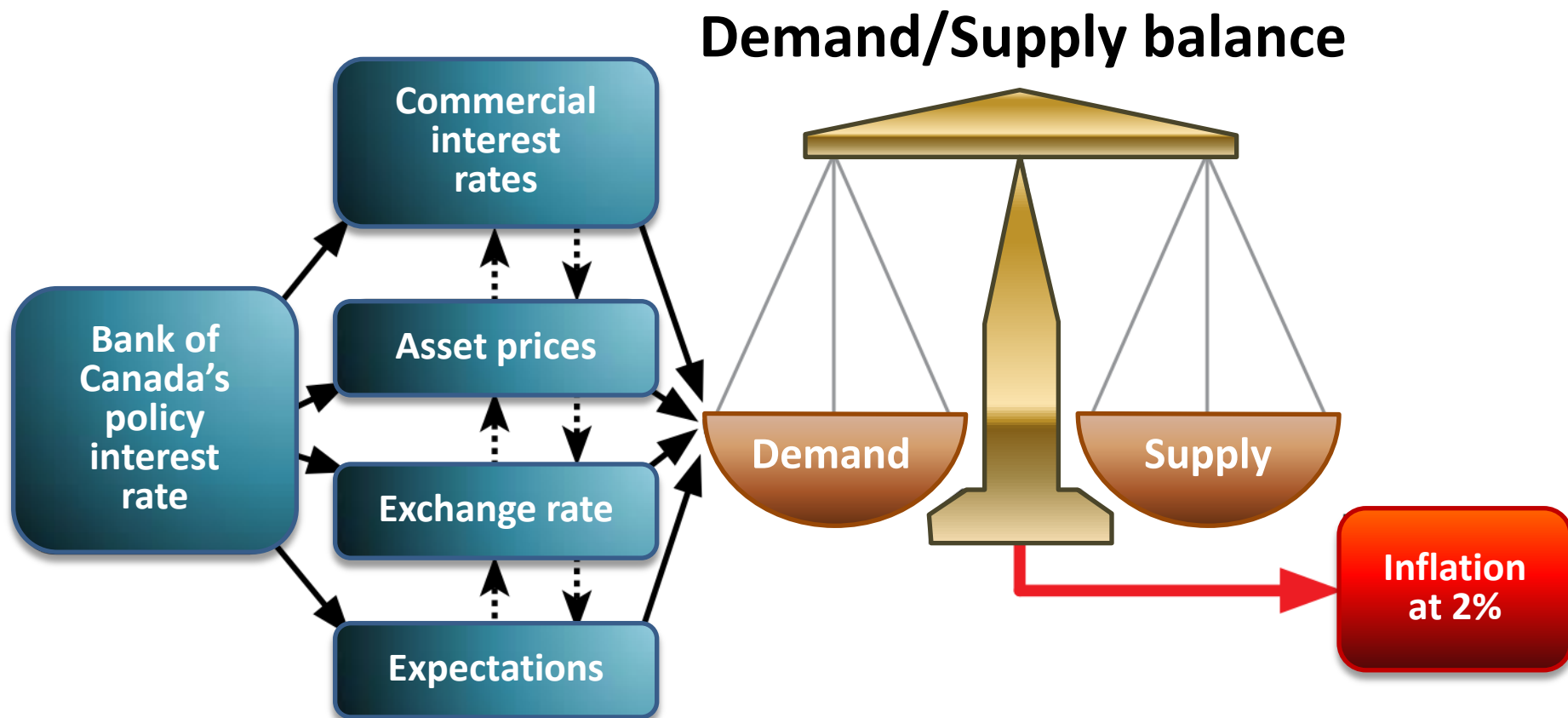
Three main questions for 2016 renewal:

- Is 2 per cent the optimal level of the inflation target?
- How should monetary policy integrate financial stability considerations?
- Should CPIX continue to be our main guide?

More information at <http://www.bankofcanada.ca/core-functions/monetary-policy/renewing-canadas-inflation-control-agreement/>

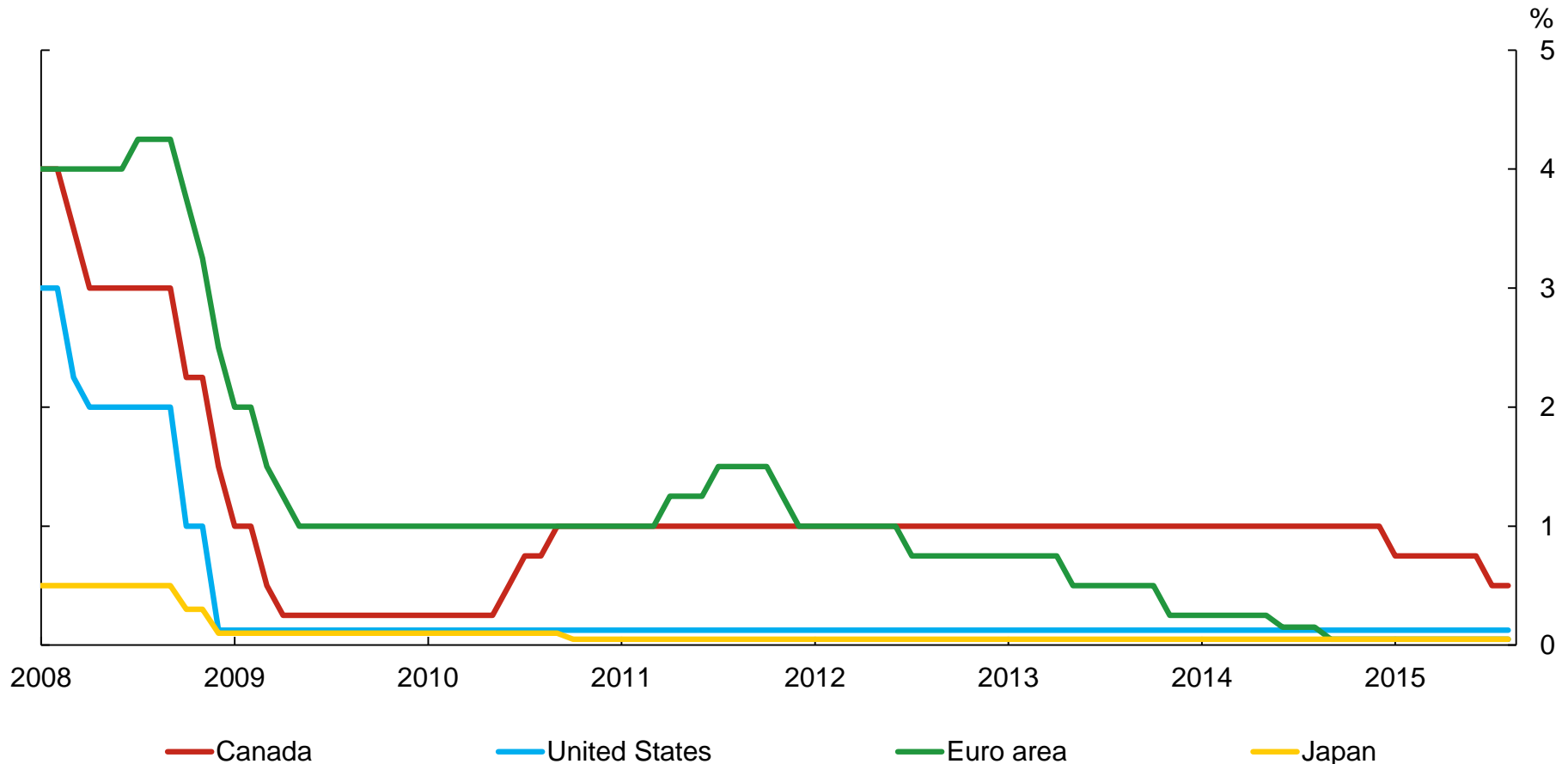


The transmission of monetary policy



Central bank policy rates 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: 9 September 2015

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 regulatory authorities.

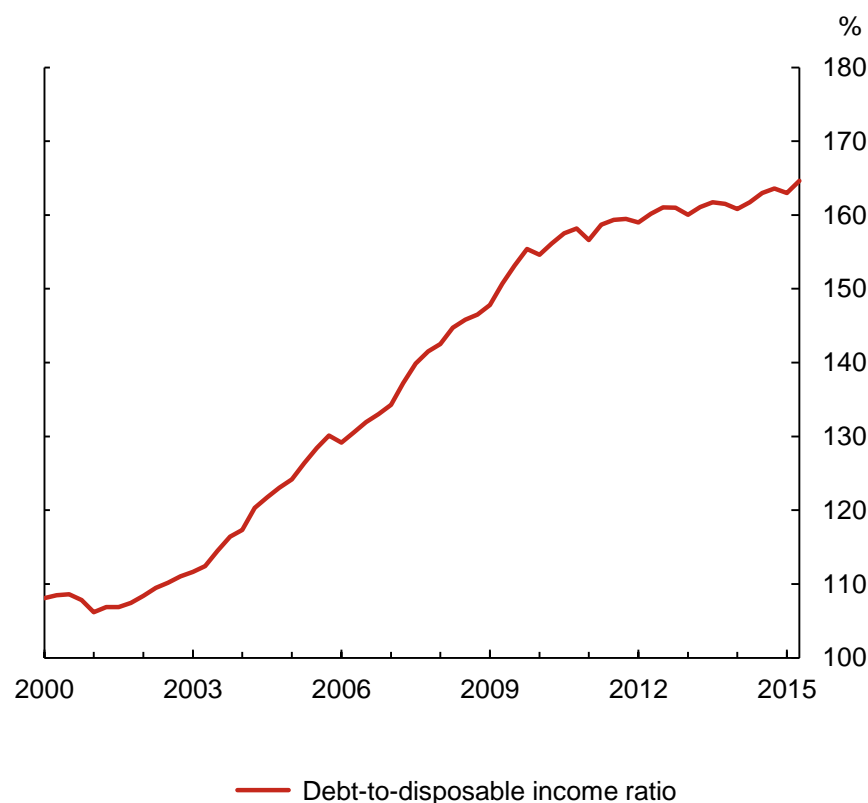
Principal activities to promote stability of financial system

The Bank

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

Main vulnerabilities identified in the June *Financial System Review*

Elevated Household Debt

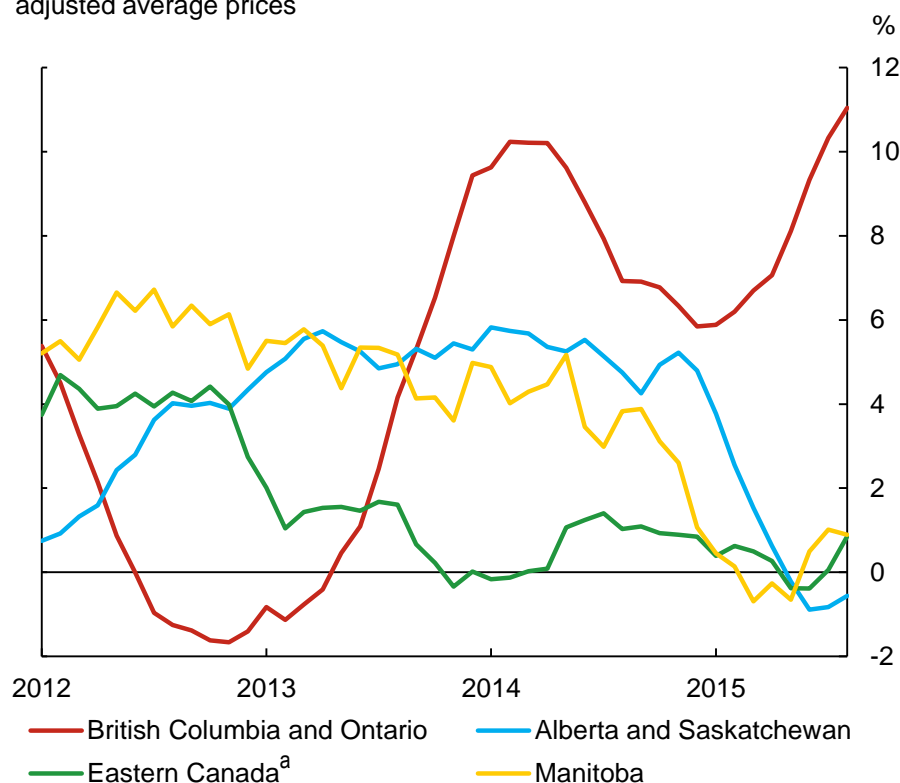


Sources: Statistics Canada and Bank of Canada calculations

Last observation: 2015Q2

Elevated House Prices

6-month moving average of year-over-year growth in seasonally adjusted average prices



a. Eastern Canada consists of all real estate markets in Quebec, Nova Scotia, New Brunswick, Prince Edward Island, and Newfoundland and Labrador.

Sources: Canadian Real Estate Association and Bank of Canada calculations

Last observation: August 2015

Key risks identified in the June *Financial System Review*

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

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

Key responsibilities: currency

Our objective:

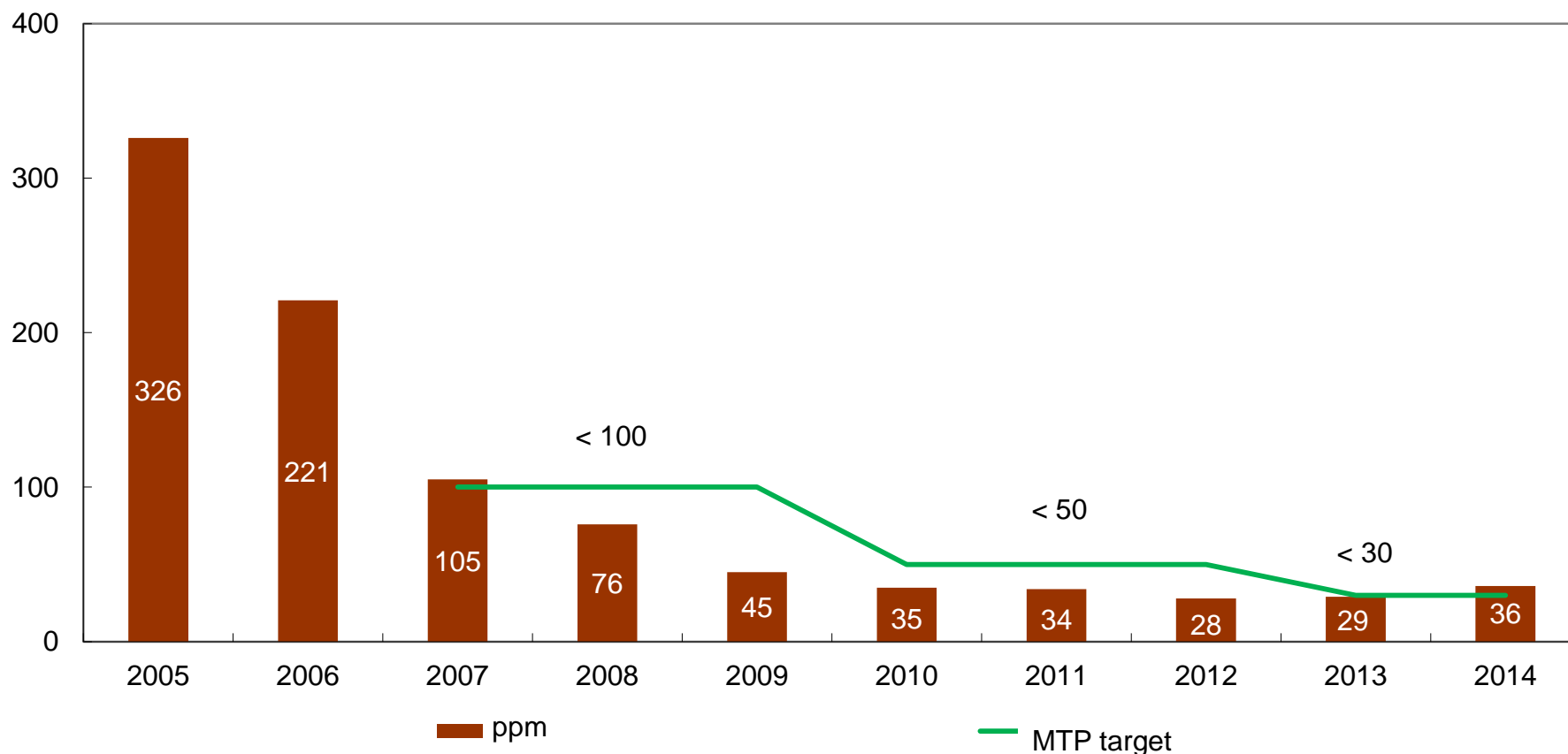
To provide Canadians with bank notes they can use with confidence.

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

Counterfeiting has fallen to very low levels

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.

Source: Bank of Canada

Key responsibilities: funds management



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



BANQUE DU CANADA
BANK OF CANADA

Our objective:

To act as fiscal agent and provide banking services to the federal government and other key players in the financial system



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



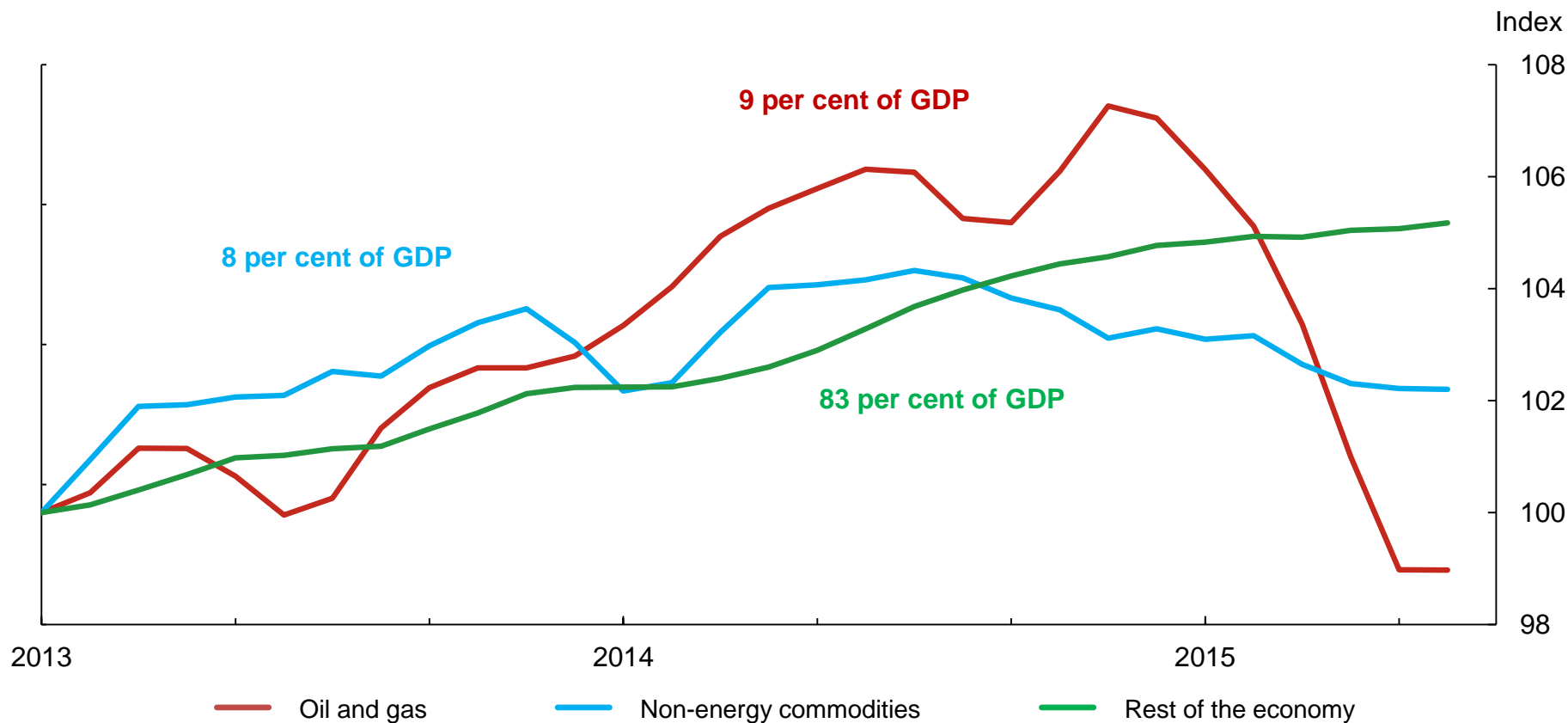
Canada Savings Bonds Program

Economic outlook



Output across industries is progressing along different tracks

3-month moving average; index: January 2013 = 100



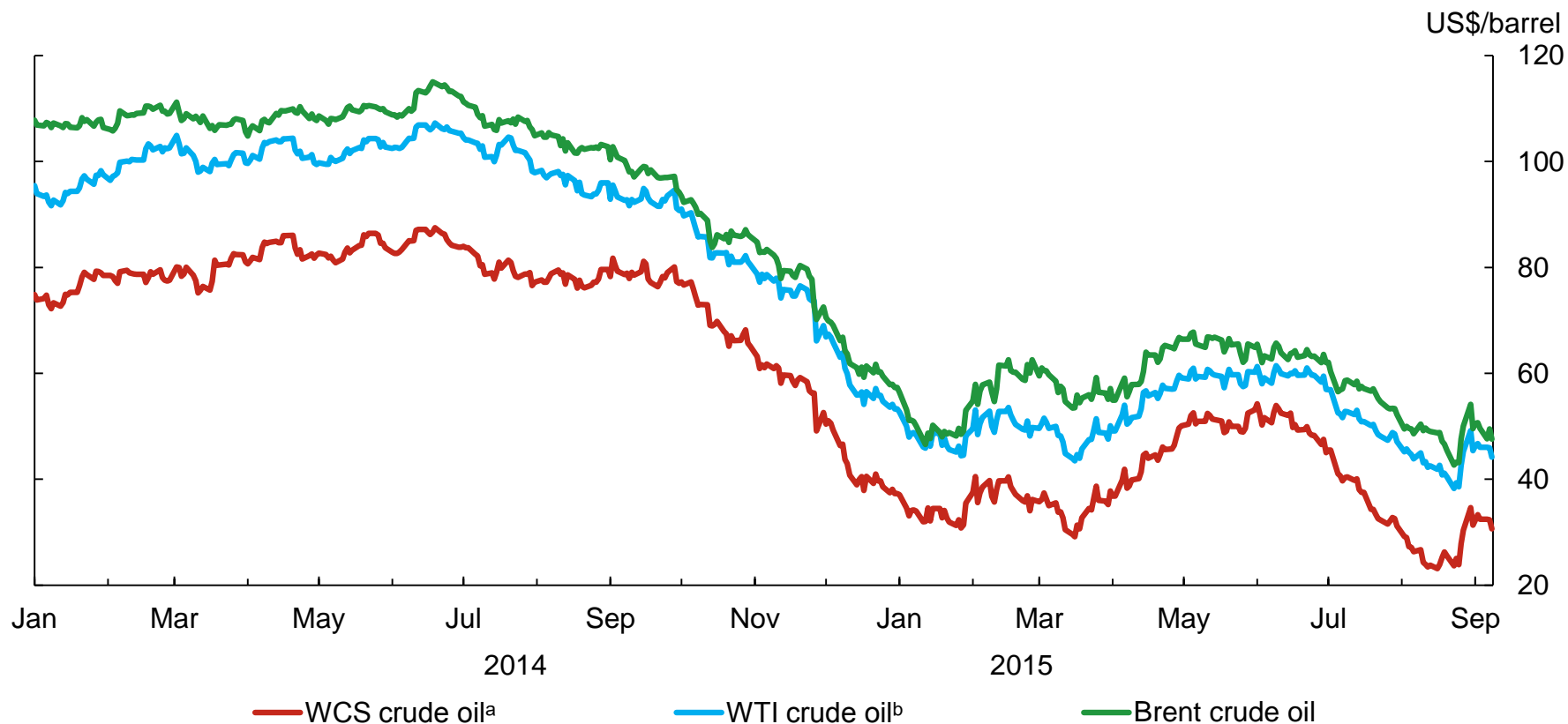
Note: The oil and gas industries include the extraction, support activities and engineering construction sectors. The non-energy commodities industries exclude printing and food manufacturing.

Sources: Statistics Canada and Bank of Canada calculations

Last observation: June 2015

Oil prices remain low

Daily data



a. WCS refers to Western Canada Select.

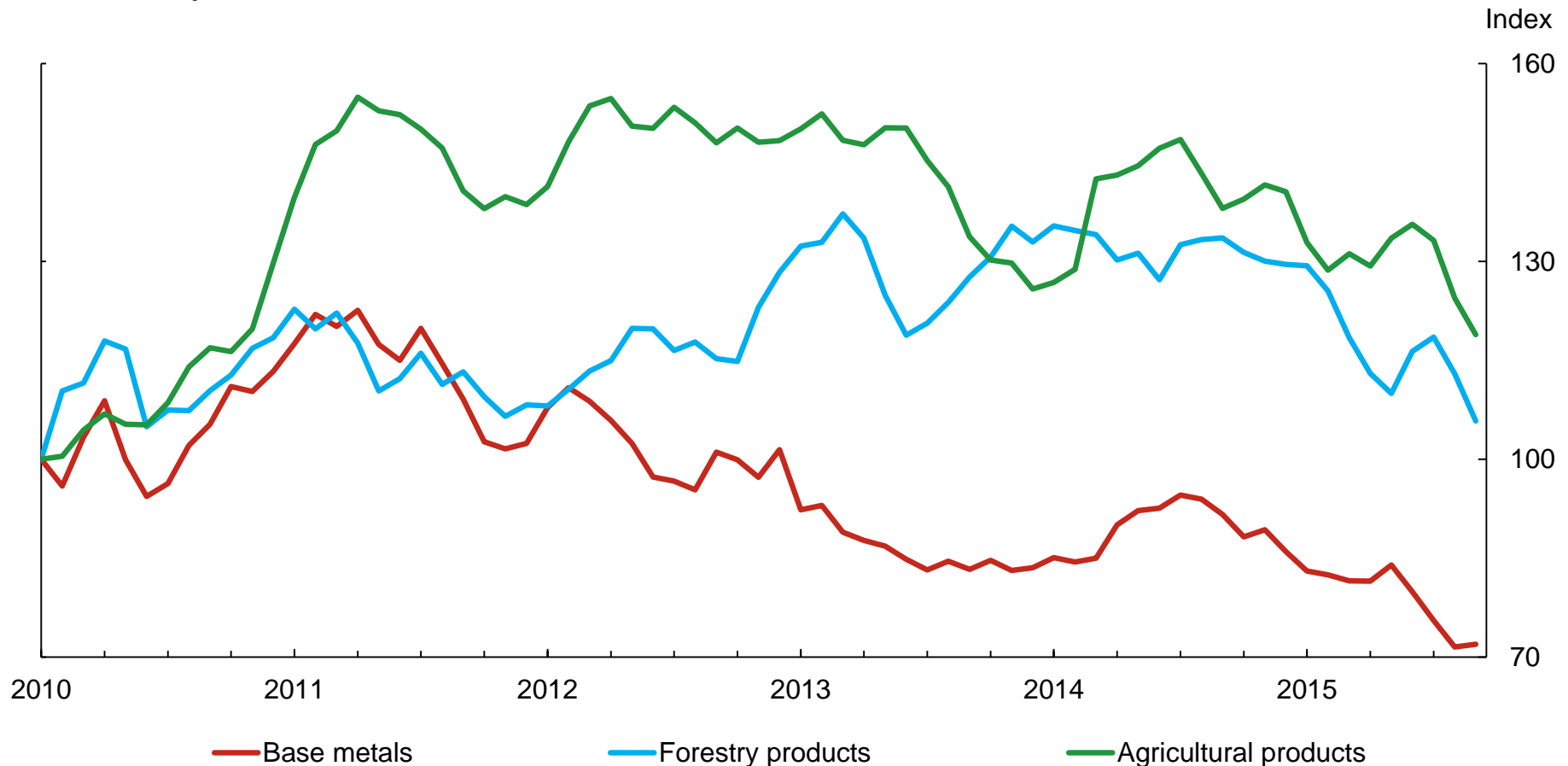
b. WTI refers to West Texas Intermediate.

Source: Bank of Canada

Last observation: 9 September 2015

Prices of base metals have continued to weaken

Index: January 2010 = 100



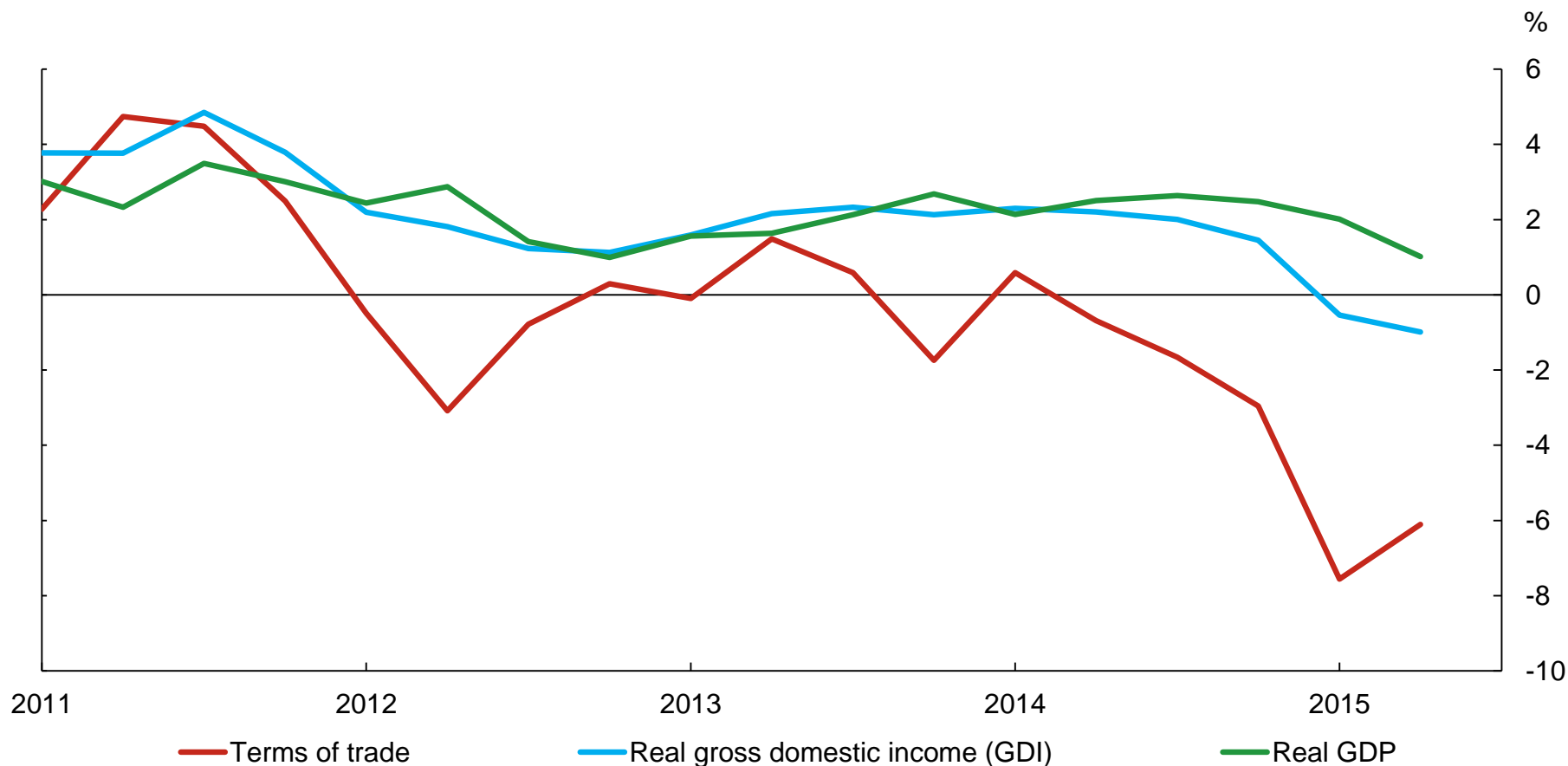
Source: Bank of Canada

Note: The value for September 2015 is the average of daily data up to 7 September.

Last observation: September 2015

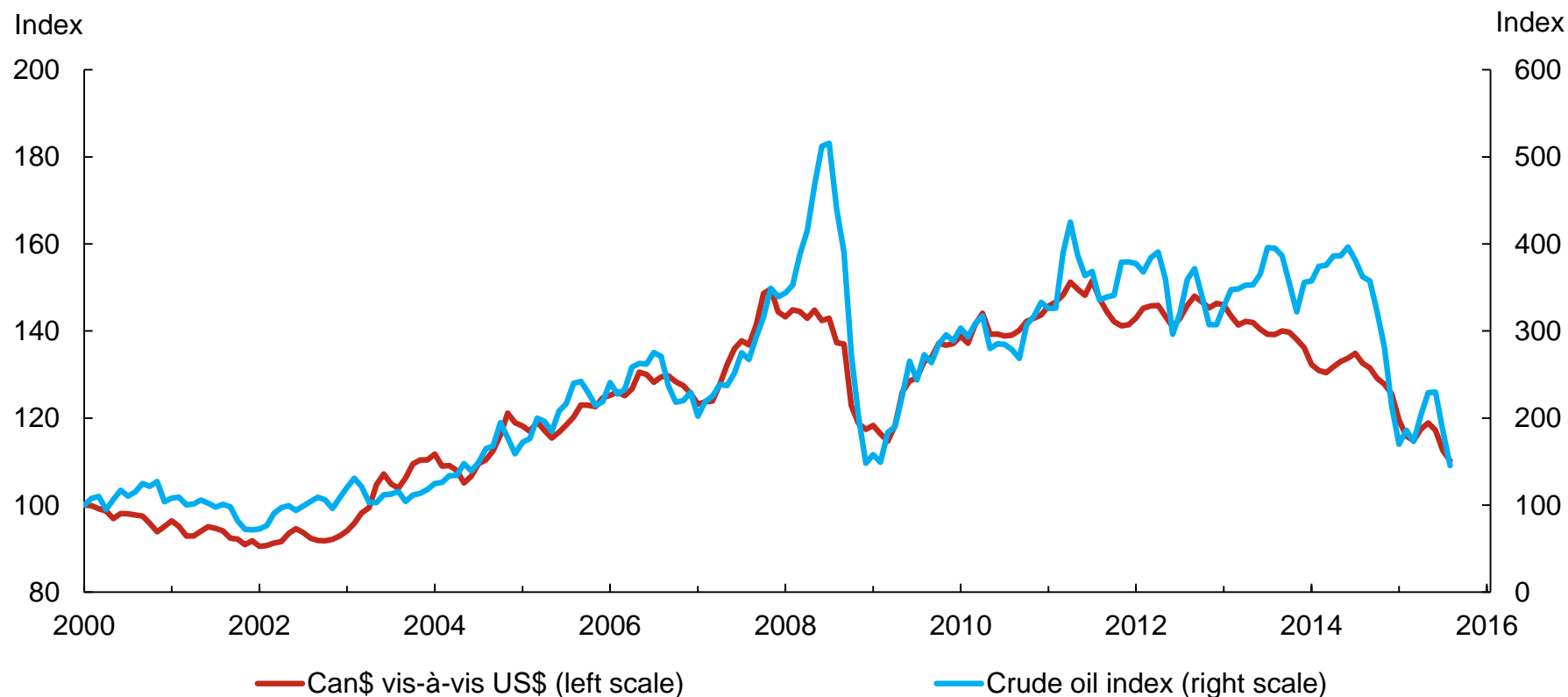
The sharp drop in oil prices has reduced real gross domestic income

Year-over-year percentage change at an annual rate, quarterly data



The current level of the Canadian dollar is consistent with its historical relationship with oil prices

Index: January 2000 = 100



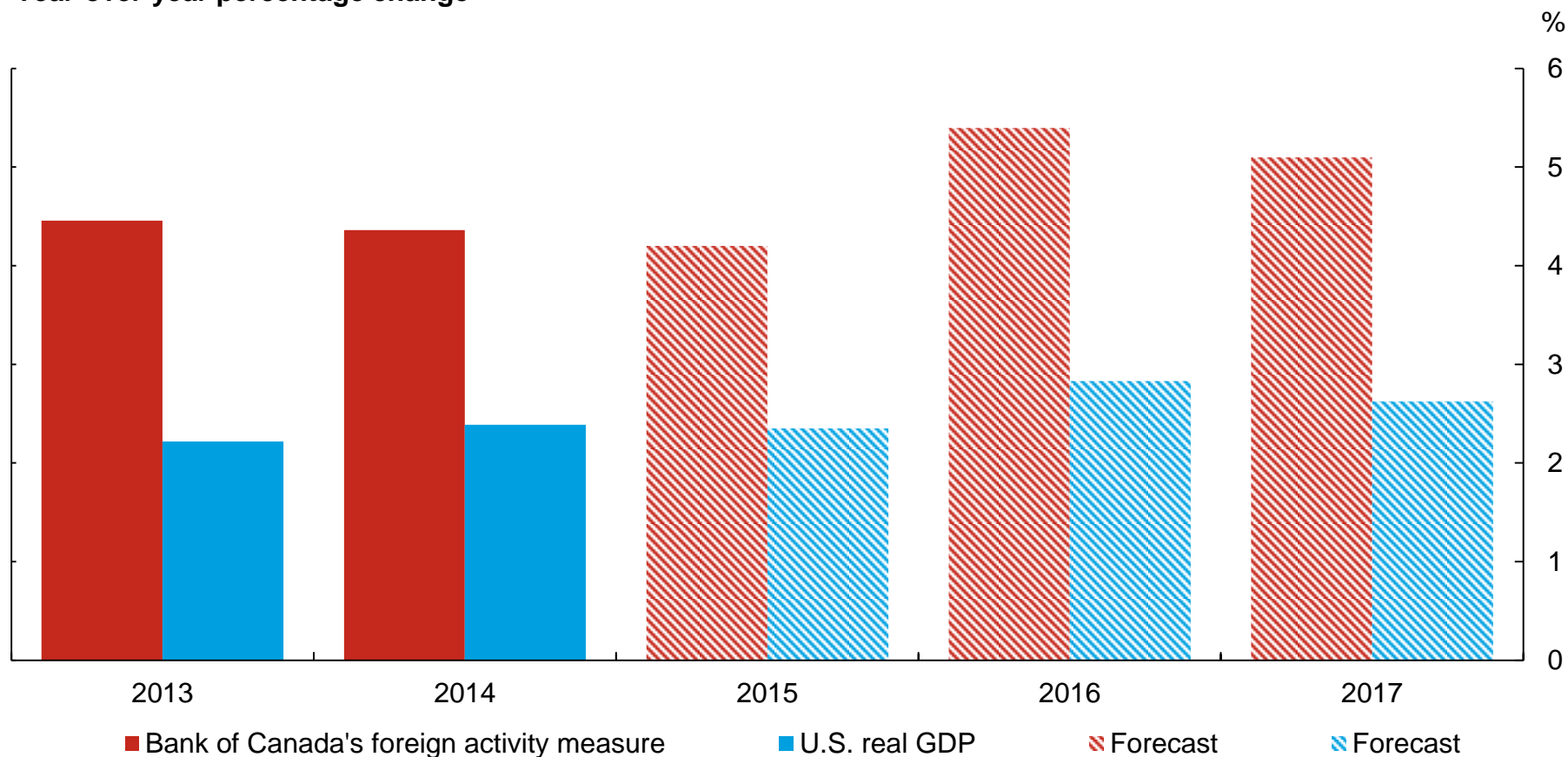
Note: The crude oil index is a subindex of the Bank of Canada Commodity Price Index (BCPI) that is composed of prices for West Texas Intermediate, Western Canada Select and Brent crude oil.

Last observation: August 2015

Source: Bank of Canada

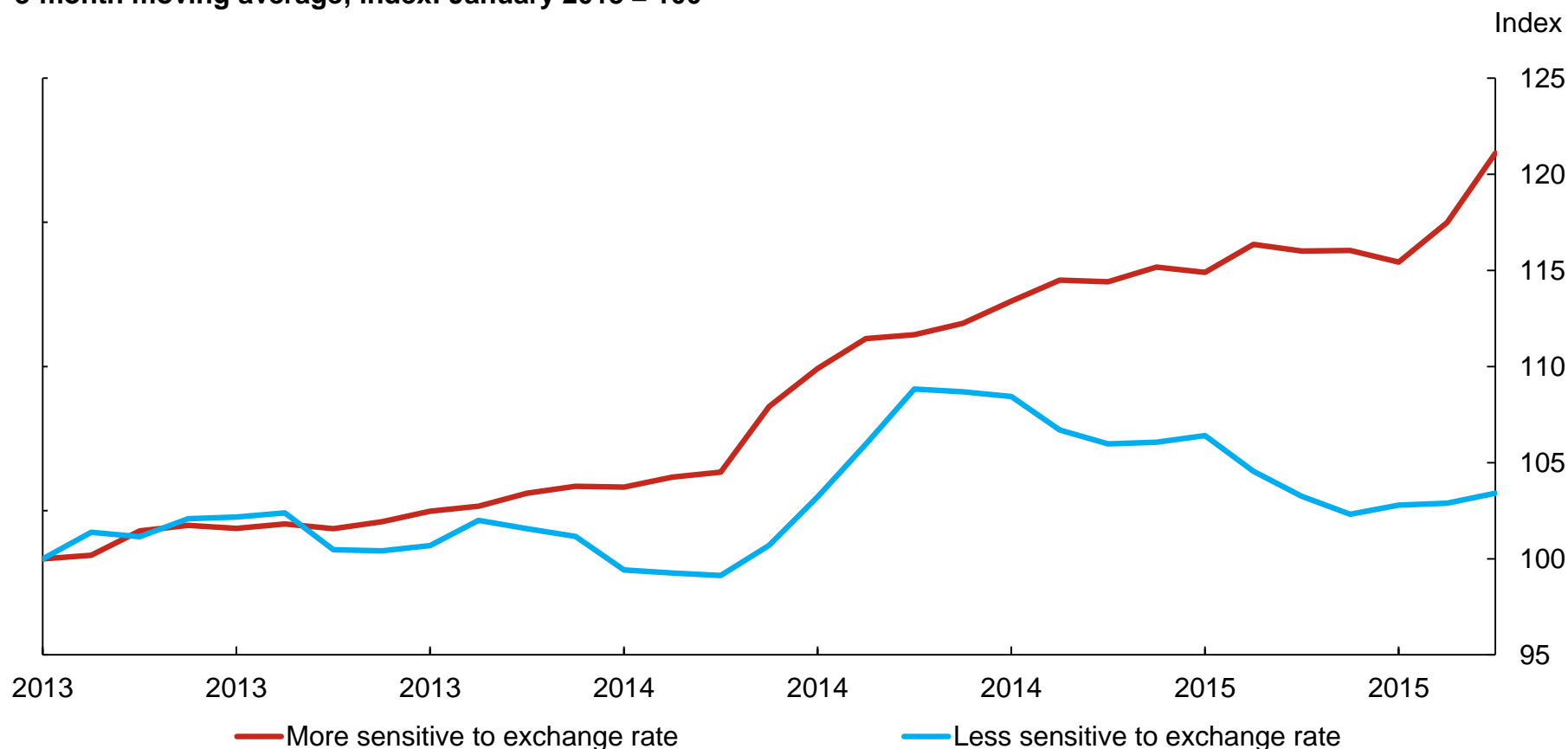
U.S. economic activity is expected to accelerate

Year-over-year percentage change



Export sectors more sensitive to the exchange rate have regained momentum

3-month moving average; index: January 2013 = 100

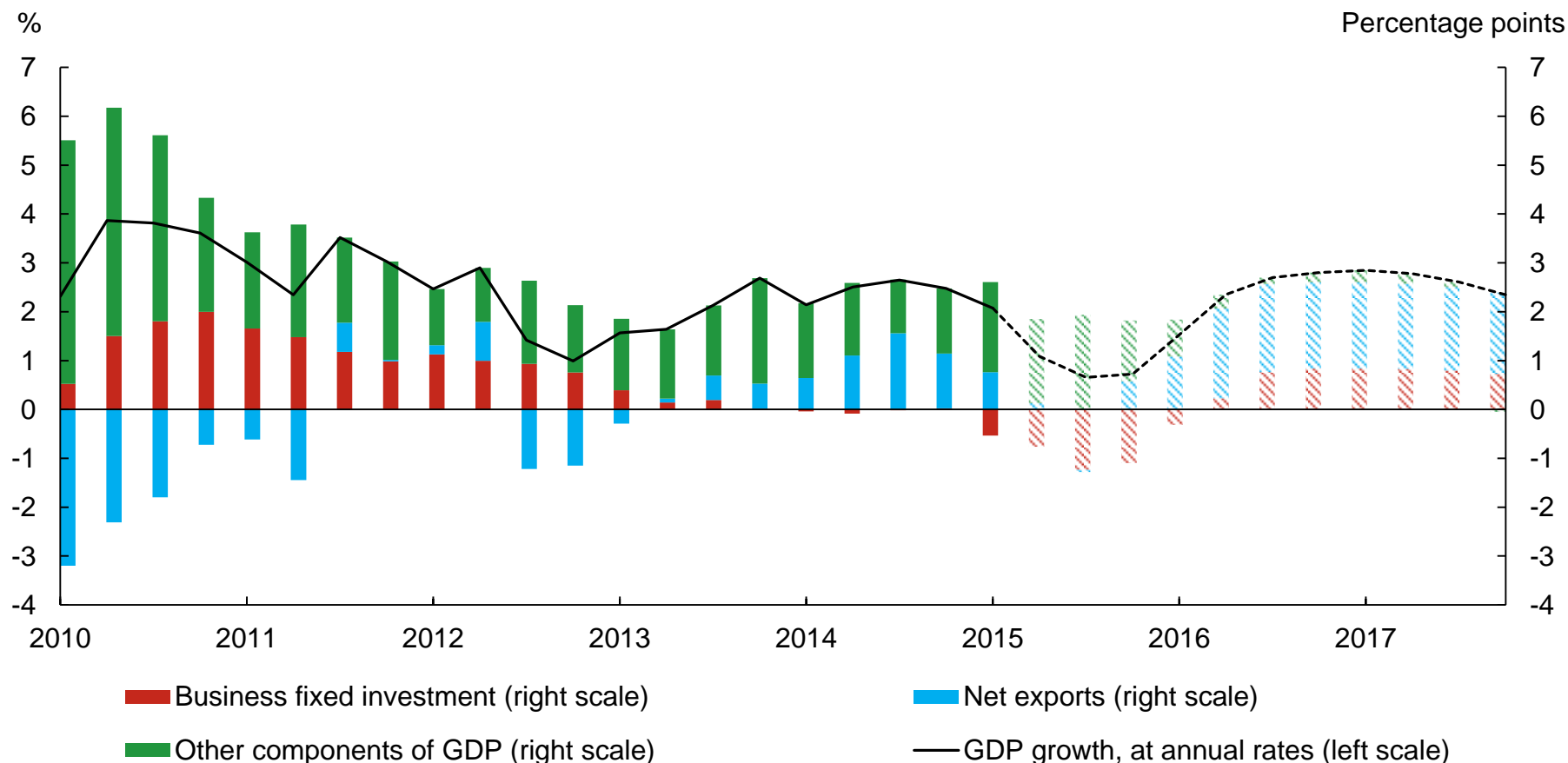


Sources: Statistics Canada and Bank of Canada calculations

Last observation: July 2015

After contracting in the first half of 2015, economic activity is expected to recover

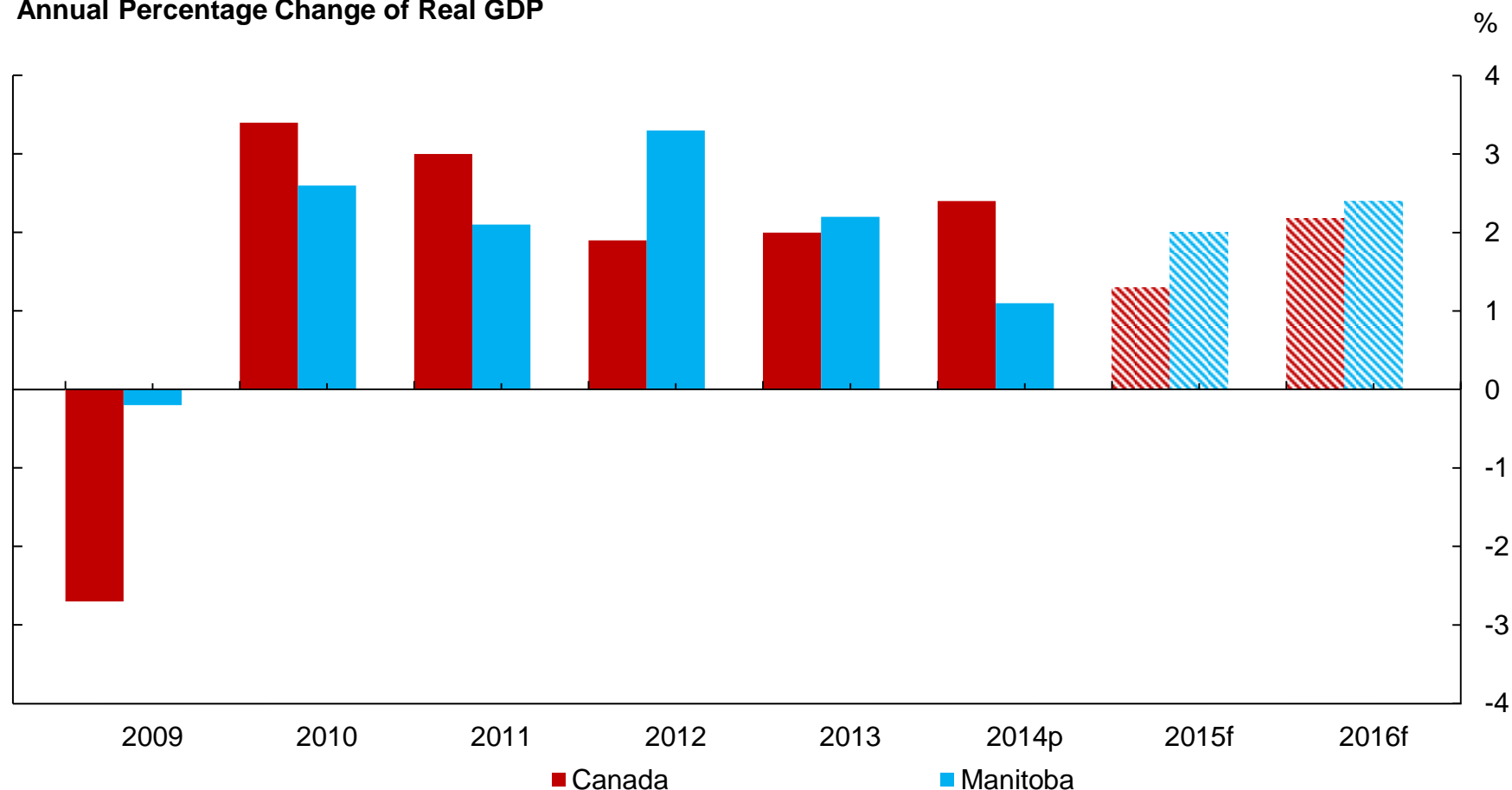
Contributions to real GDP growth; 4-quarter moving average



Sources: Statistics Canada and Bank of Canada projections, *Monetary Policy Report*, July 2015

Private forecasters expect Manitoba's economic growth to exceed Canada's in 2015 and 2016

Annual Percentage Change of Real GDP



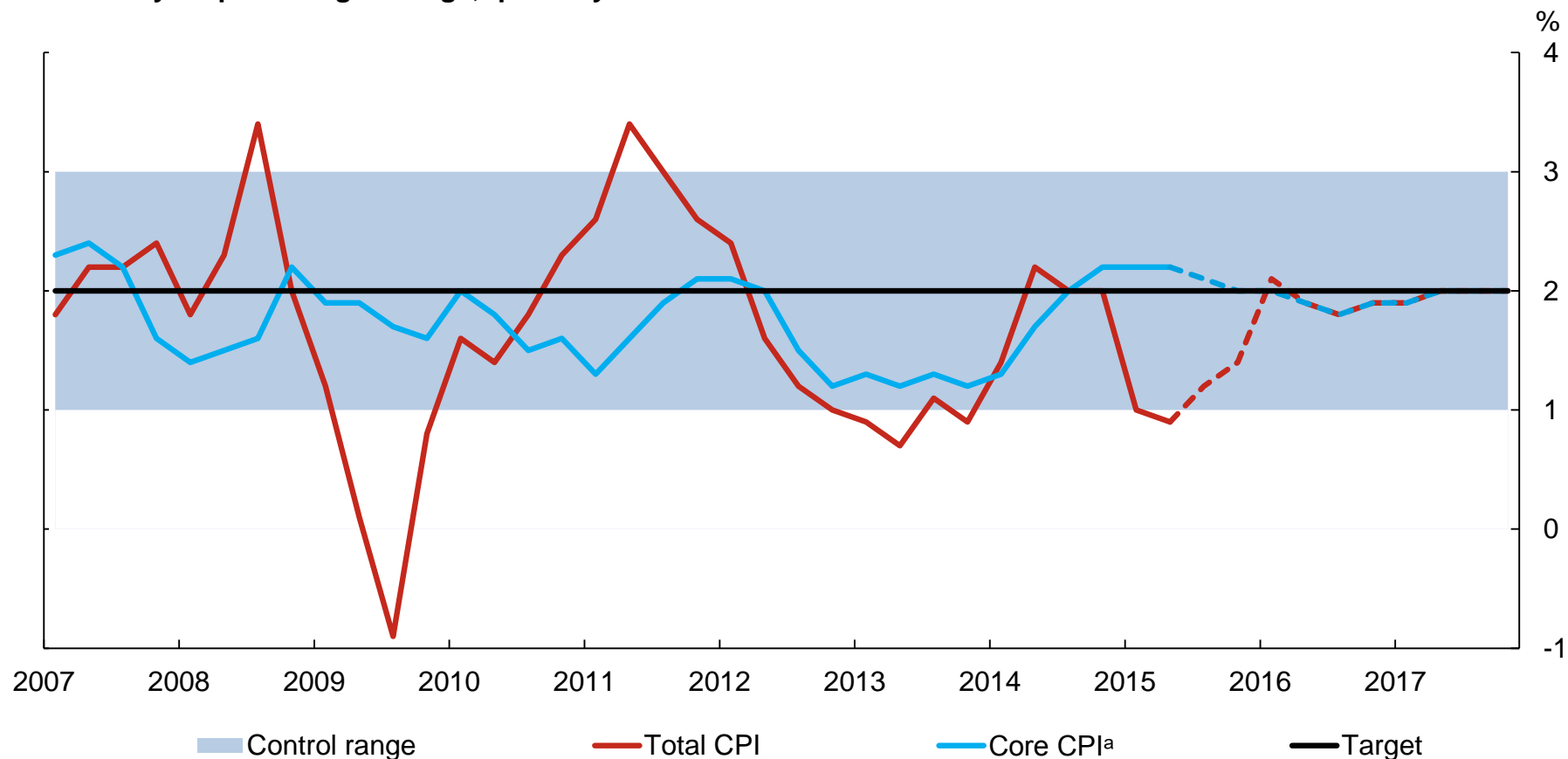
Sources: Statistics Canada, Conference Board of Canada, Bank of Nova Scotia, Toronto-Dominion Bank, Canadian Imperial Bank of Commerce, Bank of Montreal, Royal Bank of Canada and Bank of Canada calculations

Note: Projections are an average of private sector estimates. p = preliminary, f = forecast

Last data plotted: 2016

Inflation is expected to return sustainably to 2 per cent in the first half of 2017

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 *Monetary Policy Report*, July 2015