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Canada's export sector shows promise in a challenging environment, Governor Poloz says

IQALUIT, NUNAVUT — Canada's economy can build on its traditional strengths by taking advantage of export opportunities in rapidly growing service sectors to overcome the current challenging environment, Bank of Canada Governor Stephen S. Poloz said today.

Trade and business investment slowed late last year across the global economy amid the U.S.-led trade war, Governor Poloz said in a speech to the Baffin Regional Chamber of Commerce. This contributed to weaker-than-expected economic growth late last year. At the same time, the Canadian economy showed signs of continued momentum, the Governor noted, with a solid increase in jobs and income among fast-growing service industries.

"These data suggest that the mixed picture offered up by the Canadian economy today reflects some important structural changes beneath the surface," Governor Poloz said. "Judging what all this means for the outlook for inflation is of course a challenge for us."

While protectionist trade policies remain a major risk for Canada, the Bank's monetary policy framework, with its floating exchange rate, can help the economy adjust to shocks, he said. A well-educated, diverse and growing workforce—as well as a commitment to international free trade—will also help Canada deal with the current environment.

"In today's trade-uncertain world, it is even more important that we continue to make progress in promoting trade among our own provinces and territories," Governor Poloz added. Lowering interprovincial trade barriers could add \$4.5 billion every year to Canada's potential growth, he said. "In a time of slow economic growth, that is too good an opportunity to pass up."

In addition to slowing trade and investment, Canada's oil sector is adjusting to lower prices and its housing market is still adjusting to the combined impact of stricter mortgage guidelines and higher interest rates. "That is why we said at our last interest rate announcement in March that the economic outlook continues to warrant a policy interest rate that is below the neutral range, to help the economy work through this downshift in growth and keep inflation close to target," Governor Poloz concluded. "Recent economic data have been generally consistent with our expectation that the period of below-potential growth will prove to be temporary."