

## David Dodge: Bank of Canada's views on the Canadian economy and its monetary policy objective

Opening statement by Mr David Dodge, Governor of the Bank of Canada, to the House of Commons Standing Committee on Finance, Ottawa, 1 May 2007.

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Good morning, Mr. Chairman and members of the Committee. We appreciate the opportunity to meet with your committee, which we usually do twice a year, following the release of our *Monetary Policy Report*. We believe that these meetings help us to keep Members of Parliament and, through you, all Canadians, informed of the Bank's views on the economy and about the objective of monetary policy and the actions we take to achieve it.

When Paul and I appeared before the Finance Committee last October, we noted then that the outlook for growth in the Canadian economy had been revised down slightly from earlier expectations. In our latest *Monetary Policy Report*, which we released last Thursday, we noted that Canada's economic growth did indeed slow, but recently, inflation has been higher than expected. After considering the full range of indicators, the Bank now judges that the Canadian economy was operating just above its production capacity in the first quarter of this year.

We expect that, over the projection horizon, domestic demand will continue to be the main driver of growth in Canada. With the U.S. slowdown now expected to be somewhat more prolonged than previously projected, net exports should exert a slightly greater drag on Canada's growth in 2007. The Canadian economy is now projected to grow by 2.2 per cent in 2007 and 2.7 per cent in both 2008 and 2009. This would return the economy to its production capacity in the second half of 2007 and keep it there through 2008 and 2009.

Core inflation should remain slightly above 2 per cent over the coming months, given pressures on capacity and the impact of higher core food prices. But with the economy projected to return to its production capacity in the second half of this year and with further easing of pressures from housing prices, upward pressure on core inflation is expected to moderate, bringing the core inflation rate back to 2 per cent by the end of 2007.

Total CPI inflation is projected to rise above the 2 per cent inflation target in the second half of this year, peaking below 3 per cent near the end of 2007 before returning to the target by mid-2008.

We at the Bank continue to judge that the risks to our inflation projection are roughly balanced, although there is now a slight tilt to the upside.

Last Tuesday, the Bank left its key policy rate unchanged at 4 1/4 per cent. The current level of the policy interest rate is judged, at this time, to be consistent with achieving the inflation target over the medium term.

Mr. Chairman, Paul and I will now be happy to answer your questions.