



Monetary Policy Report Summary

April 2010

This text is a commentary of the Governing Council of the Bank of Canada. It presents the Bank's outlook based on information received up to 20 April 2010.

Global economic growth has been somewhat stronger than projected, with momentum in emerging-market economies increasing noticeably. Exceptional stimulus from monetary and fiscal policies continues to provide important support in many countries. The recovery in the major advanced economies is still expected to be relatively subdued, reflecting ongoing balance sheet adjustments and the gradual withdrawal of fiscal stimulus commencing later this year.

In Canada, the economic recovery is proceeding somewhat more rapidly than the Bank had projected in January, and the profile for growth is more front-loaded. The Bank now projects that the economy will grow by 3.7 per cent in 2010 before slowing to 3.1 per cent in 2011 and 1.9 per cent in 2012.

This profile reflects stronger near-term global growth, very strong housing activity in Canada, and the Bank's assessment that policy stimulus resulted in more expenditures being brought forward in late 2009 and early 2010 than expected. At the same time, the persistent strength of the Canadian dollar, Canada's poor relative productivity performance, and the low absolute level of U.S. demand will continue to act as significant drags on economic activity in Canada. The Bank expects the economy to return to full capacity in the second quarter of 2011.

The outlook for inflation reflects the combined influences of stronger domestic demand, slowing wage growth, and overall excess supply. Core inflation, which has been somewhat firmer than projected in January, is expected to ease slightly in the second quarter of 2010 as the effect of temporary factors dissipates, and to remain near 2 per cent throughout

Highlights

- The economic recovery in Canada is proceeding somewhat more rapidly than expected in January.
- The profile for growth is more front-loaded, with the economy projected to grow by 3.7 per cent in 2010 before slowing to 3.1 per cent in 2011 and 1.9 per cent in 2012.
- The Canadian economy is expected to return to full capacity in the second quarter of 2011 and inflation is expected to be close to the 2 per cent target throughout the projection horizon.
- On 20 April 2010, the Bank maintained its target for the overnight rate at 1/4 per cent and removed the conditional commitment.
- The Bank judges that the risks to the inflation outlook are roughly balanced over the projection horizon.

the rest of the projection period. Total CPI inflation is expected to be slightly higher than 2 per cent over the coming year, before returning to the target in the second half of 2011.

Despite the firming of the global and Canadian recoveries, there are considerable risks around the Bank's outlook.

The main upside risks to inflation are that domestic and international developments will generate more demand for Canadian goods and services than is currently anticipated. It is possible that the momentum in household expenditures and residential investment could be greater than currently expected. Internationally, a faster-than-expected global recovery could stimulate external demand for Canadian exports and improve the terms of trade.

There are two main downside risks to inflation. First, the global economic recovery could be more protracted than currently projected. Second, the combination of the persistent strength of the Canadian dollar and Canada's poor relative productivity performance could exert a larger-than-expected drag on growth and put additional downward pressure on inflation.

While risks to the inflation outlook remain elevated, the Bank judges that they are roughly balanced over the projection horizon. Over the medium term, global macroeconomic imbalances continue to pose significant risks to the outlook.

In response to the sharp, synchronous global recession, the Bank lowered its target rate rapidly over the course of 2008 and early 2009 to its lowest possible

Projection for global economic growth

	Share of real global GDP ^a (per cent)	Projected growth (per cent) ^b			
		2009	2010	2011	2012
United States	21	-2.4 (-2.5)	3.1 (2.5)	3.5 (3.9)	3.5
Euro area	16	-4.1 (-3.9)	1.2 (1.2)	1.6 (2.1)	2.5
Japan	6	-5.2 (-5.3)	2.1 (1.9)	1.7 (2.0)	2.6
China	11	8.7 (8.3)	10.2 (9.3)	9.3 (9.2)	8.7
Rest of the world	46	-1.4 (-2.0)	4.5 (4.0)	4.1 (4.0)	3.9
World	100	-1.1 (-1.5)	4.2 (3.7)	4.0 (4.1)	4.1

a. GDP shares are based on IMF estimates of the purchasing-power-parity (PPP) valuation of country GDPs for 2008.

Source: IMF, WEO, October 2009

b. Numbers in parentheses are projections from the January 2010 *Monetary Policy Report*.

Source: Bank of Canada

Summary of the base-case projection for Canada^a

	2009	2010				2011				2012			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP (quarter-over-quarter percentage change)	5.0 (3.3)	5.8 (3.5)	3.8 (4.3)	3.5 (4.0)	3.5 (3.8)	3.3 (3.8)	2.8 (3.3)	1.9 (2.8)	1.9 (2.2)	1.9	1.9	1.9	1.9
Real GDP (year-over-year percentage change)	-1.2 (-1.5)	2.0 (1.0)	3.9 (2.9)	4.5 (3.8)	4.2 (3.9)	3.6 (4.0)	3.3 (3.7)	2.9 (3.4)	2.5 (3.0)	2.1	1.9	1.9	1.9
Core inflation (year-over-year percentage change)	1.6 (1.6)	2.0 (1.6)	1.9 (1.7)	1.8 (1.7)	1.8 (1.8)	1.7 (1.8)	1.7 (1.9)	1.9 (2.0)	2.0 (2.0)	2.0	2.0	2.0	2.0
Total CPI ^b (year-over-year percentage change)	0.8	1.7	1.7	2.4	2.4	2.4	2.3	1.9	2.0	2.0	2.0	2.0	2.0
Total CPI excluding the effect of the HST (year-over-year percentage change)	0.8 (0.9)	1.7 (1.6)	1.7 (1.8)	2.0 (1.8)	2.1 (1.9)	2.1 (1.9)	2.0 (1.9)	2.0 (2.0)	2.0 (2.0)	2.0	2.0	2.0	2.0
WTI ^c (level)	76 (76)	79 (81)	86 (83)	88 (84)	89 (86)	89 (87)	90 (88)	90 (88)	90 (89)	91	91	91	91

a. Figures in parentheses are from the base-case projection in the January *Monetary Policy Report*.

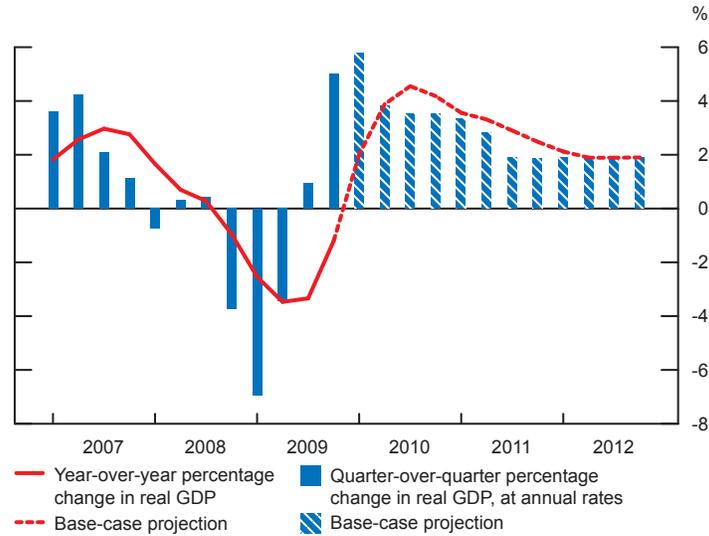
b. The total CPI projection presented here includes the effect of the HST, while the projection presented in the January *Report* did not.

c. Assumptions for the price of West Texas Intermediate crude oil (US\$ per barrel), based on an average of futures contracts over the two weeks ending 16 April 2010.

level. With its conditional commitment introduced in April 2009, the Bank also provided exceptional guidance on the likely path of its target rate. This unconventional policy provided considerable additional stimulus during a period of very weak economic conditions and major downside risks to the global and Canadian economies. With recent improvements in the economic outlook, the need for such extraordinary policy is now passing, and it is appropriate to begin to lessen the degree of monetary stimulus.

On 20 April 2010, the Bank maintained its target for the overnight rate at 1/4 per cent and removed the conditional commitment. The extent and timing of any additional withdrawal of monetary stimulus will depend on the outlook for economic activity and inflation, and will be consistent with achieving the 2 per cent inflation target.

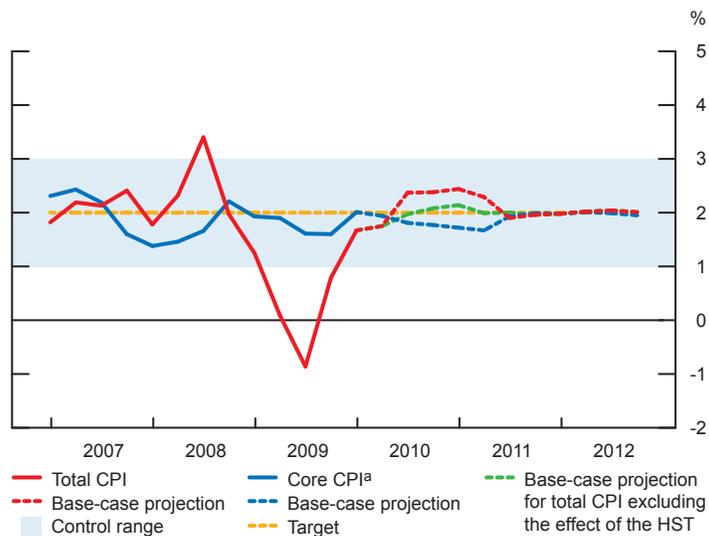
Real GDP growth is expected to moderate from its rapid pace in 2009Q4 and 2010Q1



Sources: Statistics Canada and Bank of Canada projections

Total CPI and core inflation in Canada are projected to remain close to the 2 per cent target over the projection horizon

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

Bank of Canada Publications

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* Available only on the Bank's website

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