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Monetary Policy Report - Press Conference Opening Statement

Transcript

Good morning. I'm pleased to be here with Senior Deputy Governor Carolyn Rogers to discuss today's monetary policy decision.

Since our last decision in July, the conflict in the Middle East has persisted without a clear path to resolution. Closer to home, the United States has imposed new tariffs on Canadian exports, and the Canadian government has responded with proportionate counter-tariffs and new supports for hard-hit businesses and workers.

Against this background, the Governing Council assessed the economic data since our last decision, the evolving risks to the outlook, and the implications for monetary policy.

With recent data coming out largely in line with our July forecast, we decided to maintain the policy interest rate at 2.25%.

We have three main messages.

First, economic growth in Canada has picked up after stalling over the past year. That puts us on a stronger footing as we face new challenges. But uncertainty about the sustainability of the rebound has increased with new US trade actions.

Second, the ongoing conflict in the Middle East is keeping energy prices higher for longer, and this has increased the upside risks to the outlook for inflation.

Third, the Bank of Canada is committed to keeping inflation close to the 2% target over time. We will be a source of stability as Canadians navigate shifting global developments.

Let me expand.

As expected, the economy strengthened in the second quarter, with GDP up by 3.3% following very weak growth in the first quarter. Some of the strength was due to temporary factors, but the pick-up in activity was broad based. Consumer spending remained resilient. And following several weak quarters, there was some rebound in housing activity. Exports and business investment were up sharply. The labour market has also improved in recent months, with increased hiring by the private sector and the unemployment rate edging down to 6.4% in July. Still, recent indicators point to continued excess supply in the economy.

The increases in exports, investment and hiring are broadly consistent with what businesses have told us—they are adapting to tariffs, new technology and increased uncertainty. Overall, the data reaffirm our view of a broadening recovery.

However, new US tariffs and increased trade uncertainty pose risks to the sustainability of the rebound in economic activity. If the tariffs remain in place, they will hit targeted sectors hard. But we don't expect them to have a large direct impact on the overall level of economic activity. Affected products represent about 5% of exports to the United States. And the federal government's support programs will likely mitigate some of the harm. However, the situation remains fluid. The added uncertainty about the future of Canada-US trade relations may lead businesses more broadly to delay investment and hiring decisions.

CPI inflation has remained at around 3% in recent months, mainly because of persistently high gasoline prices. This is a direct result of the conflict in Iran, which has kept global oil prices high and has led to elevated margins for refined products like gasoline and diesel. Excluding gasoline, inflation in Canada was 2.2% in July and measures of core inflation have remained close to 2%.

Market expectations for oil prices have shifted up since July. The Bank has been looking through the direct impact of higher oil prices on inflation, but we're monitoring closely for any signs that they are spreading to the prices of other goods and services. We haven't seen much evidence of that yet. But with the conflict ongoing and shipments through the Strait of Hormuz still curtailed, upside risks to our inflation forecast have increased. The longer oil prices and refinery margins stay high, the greater the risk that higher energy prices spill over and turn into persistent inflation. In addition, the new US tariffs and the Canadian counter-tariffs could add costs for some businesses and feed into consumer prices over time.

Monetary policy cannot offset the effects of tariffs or influence global energy prices. What we can do is ensure global developments don't jeopardize price stability in Canada.

Since our last decision, inflation and growth in Canada have evolved broadly as forecast. Against that background we decided to leave the policy rate unchanged. However, the upside risks to inflation have increased, while new tariffs make growth prospects more uncertain. Governing Council will assess the sustainability of the economic rebound and the outlook for inflation, and is prepared to adjust monetary policy as needed. The Bank remains committed to maintaining Canadians' confidence in price stability through this period of global upheaval.