



BANK OF CANADA
BANQUE DU CANADA

Canada & Ontario in the Global Economy: Challenges in a Changing World

**Presentation to the
Ontario Economic Summit
14 November 2007**

**Paul Jenkins
Senior Deputy Governor
Bank of Canada**

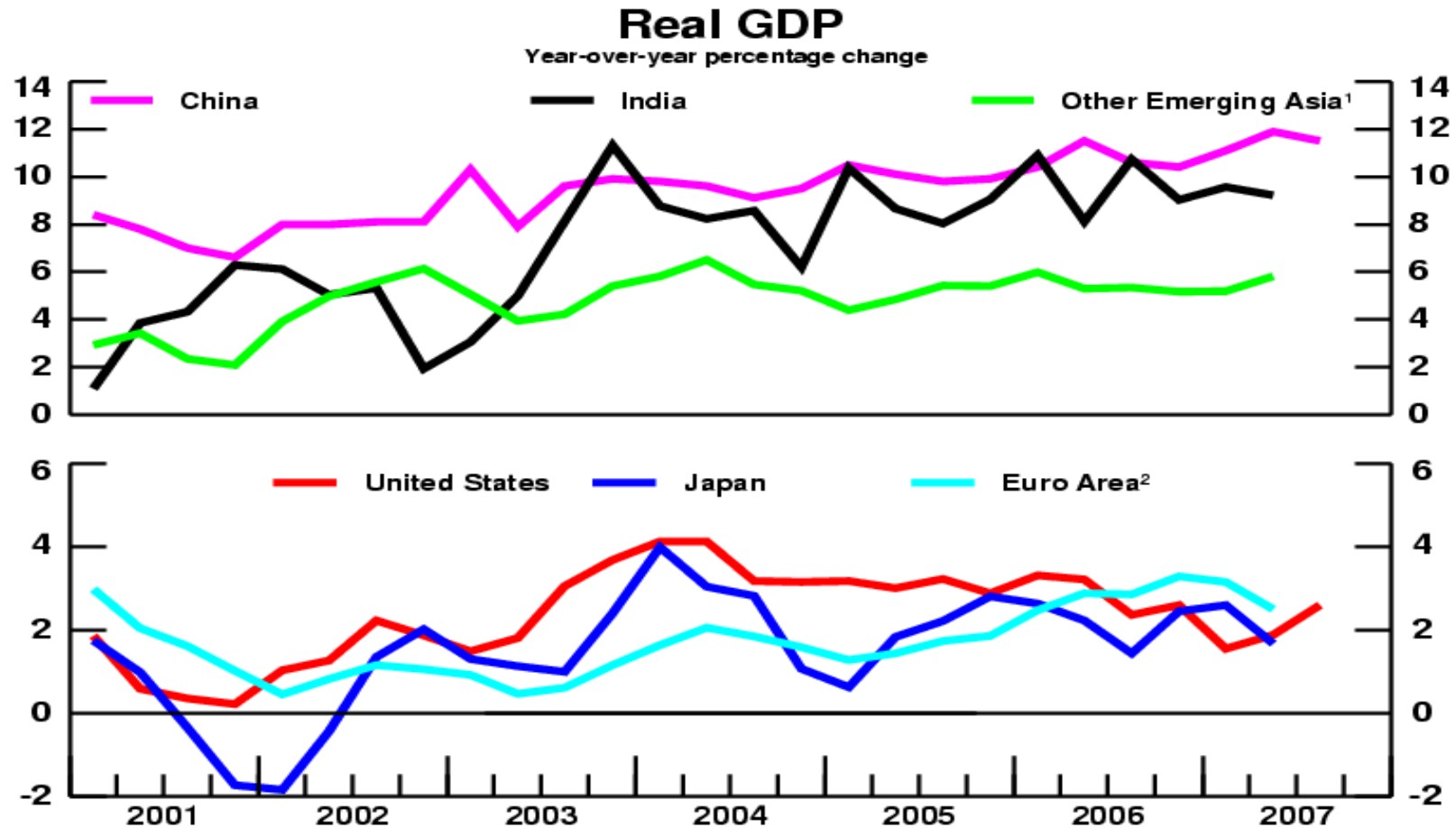


Outline

- ❖ Global economic and financial trends
- ❖ Implications for Canada
 - Canadian economy
 - Ontario economy



Global Economy



¹ Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea and Thailand
² Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain



Global Economy

Projection for Global Economic Growth					
	Share of real global GDP ^a (per cent)	Expected growth (per cent) ^b			
		2006	Projection		
			2007	2008	2009
United States	20	2.9 (3.3)	1.9 (2.1)	2.1 (3.0)	3.0 (3.0)
European Union	19	2.9 (2.8)	2.6 (2.6)	2.0 (2.2)	2.2 (2.1)
Japan	6	2.2 (2.2)	2.0 (2.6)	1.7 (1.9)	1.8 (1.8)
China and Asian NIEs ^c	18	10.0 (9.8)	10.0 (9.3)	9.4 (9.0)	8.0 (8.2)
Others	37	6.3 (6.2)	6.3 (5.9)	5.8 (5.7)	5.1 (5.3)
World	100	5.4 (5.4)	5.2 (5.0)	4.8 (4.8)	4.5 (4.6)

a. GDP shares are based on the purchasing-power-parity (PPP) valuation of country GDPs for 2006. Source: IMF, WEO Database, April 2007

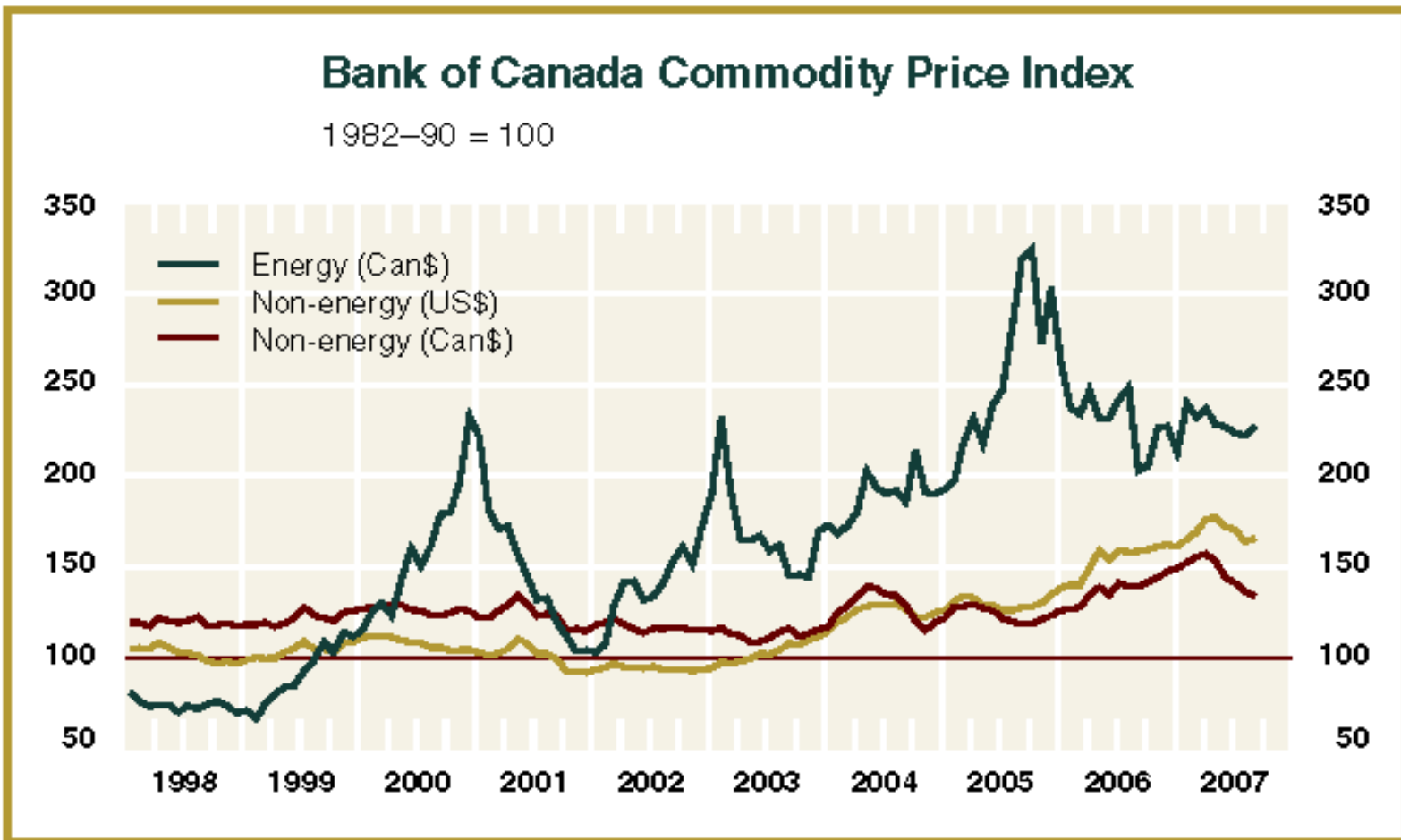
b. Numbers in parentheses are projections used for the July 2007 *MPR Update*.

c. NIEs are newly industrialized economies. These include Hong Kong (Special Administrative Region), South Korea, Taiwan (Province of China), and Singapore.

Source: Bank of Canada



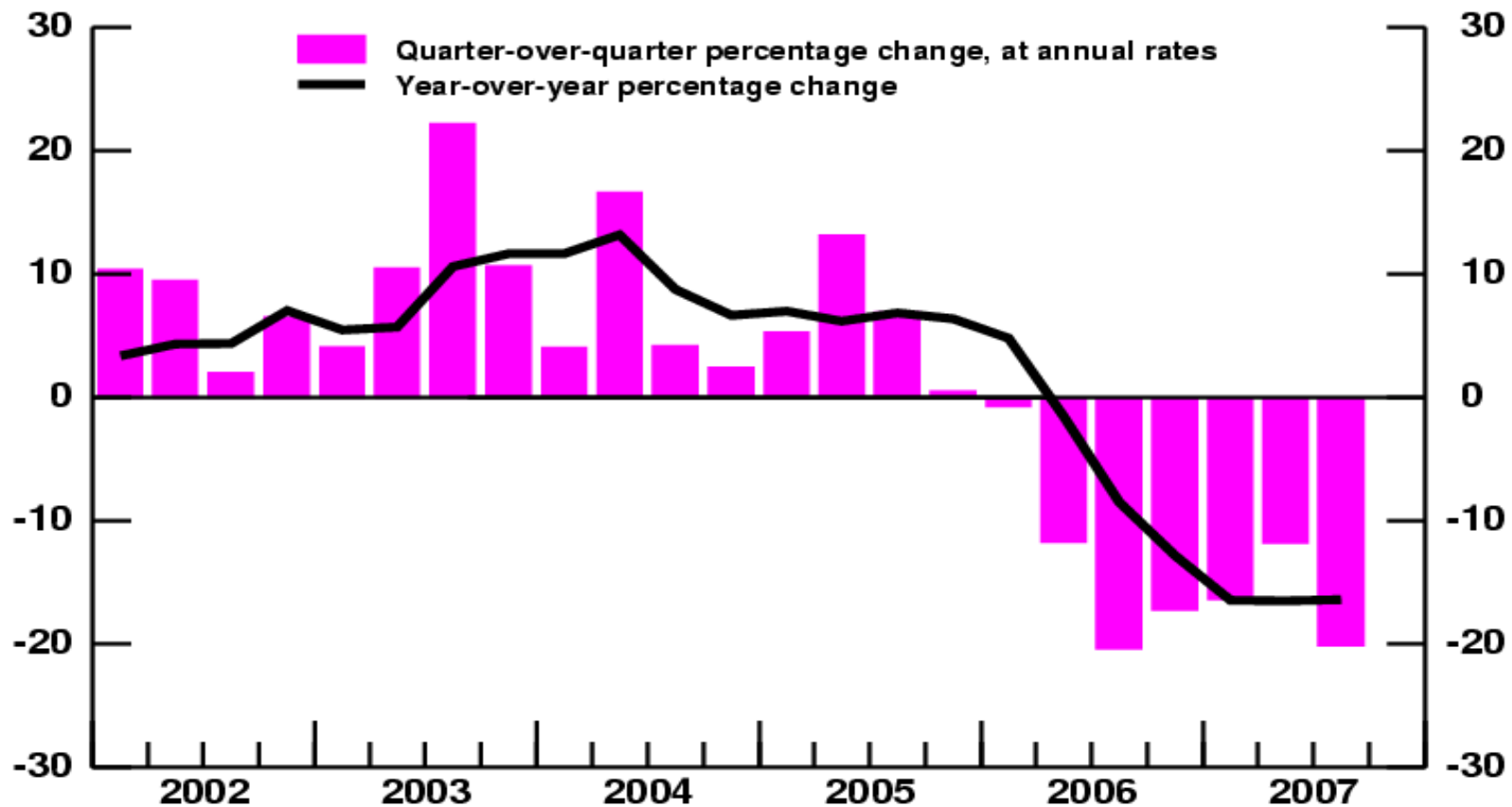
Global Economy





Global Economy

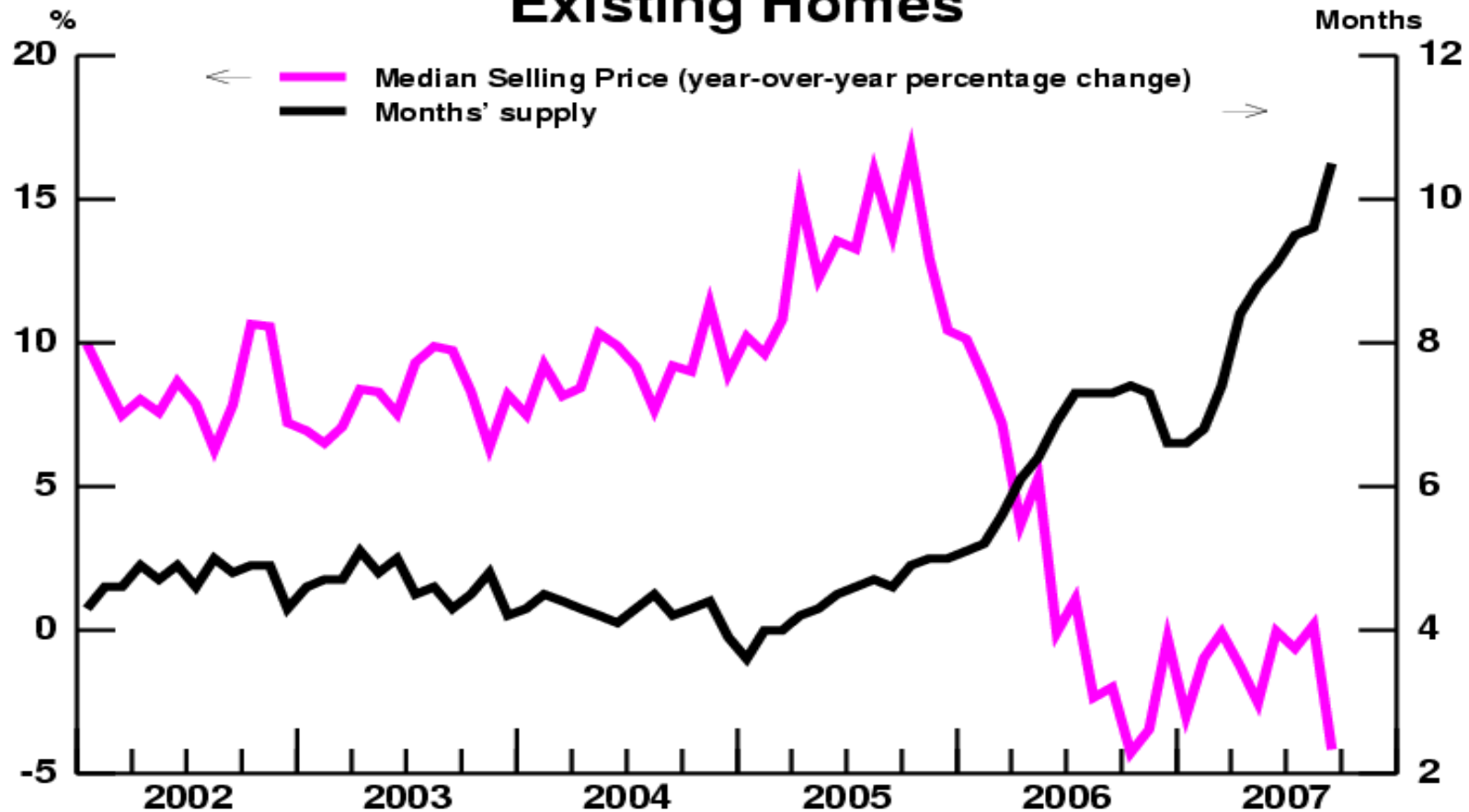
United States: Real Residential Investment





Global Economy

United States: House Price and Inventories of Existing Homes

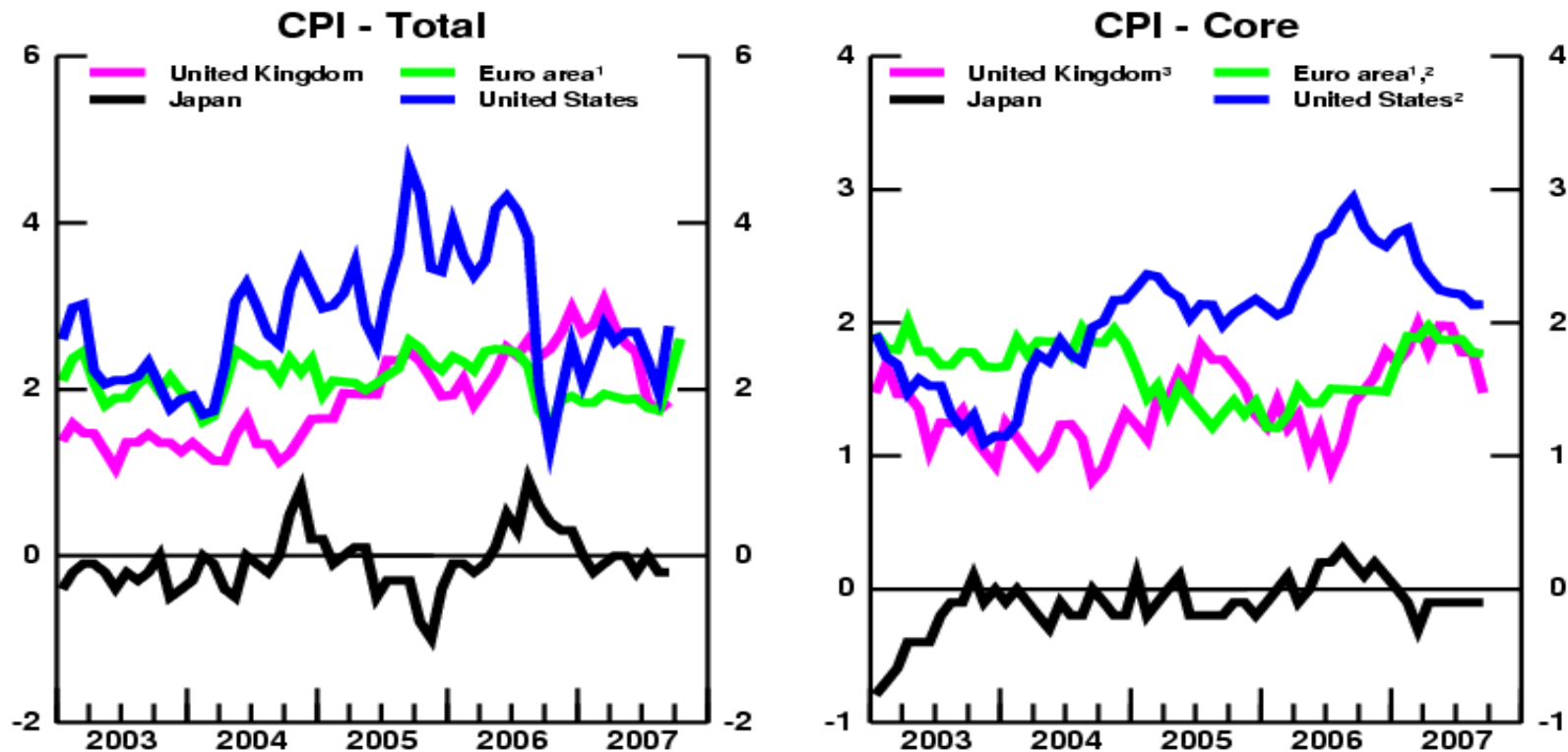




Global Economy

International Inflation Comparisons

Year-over-year percentage change

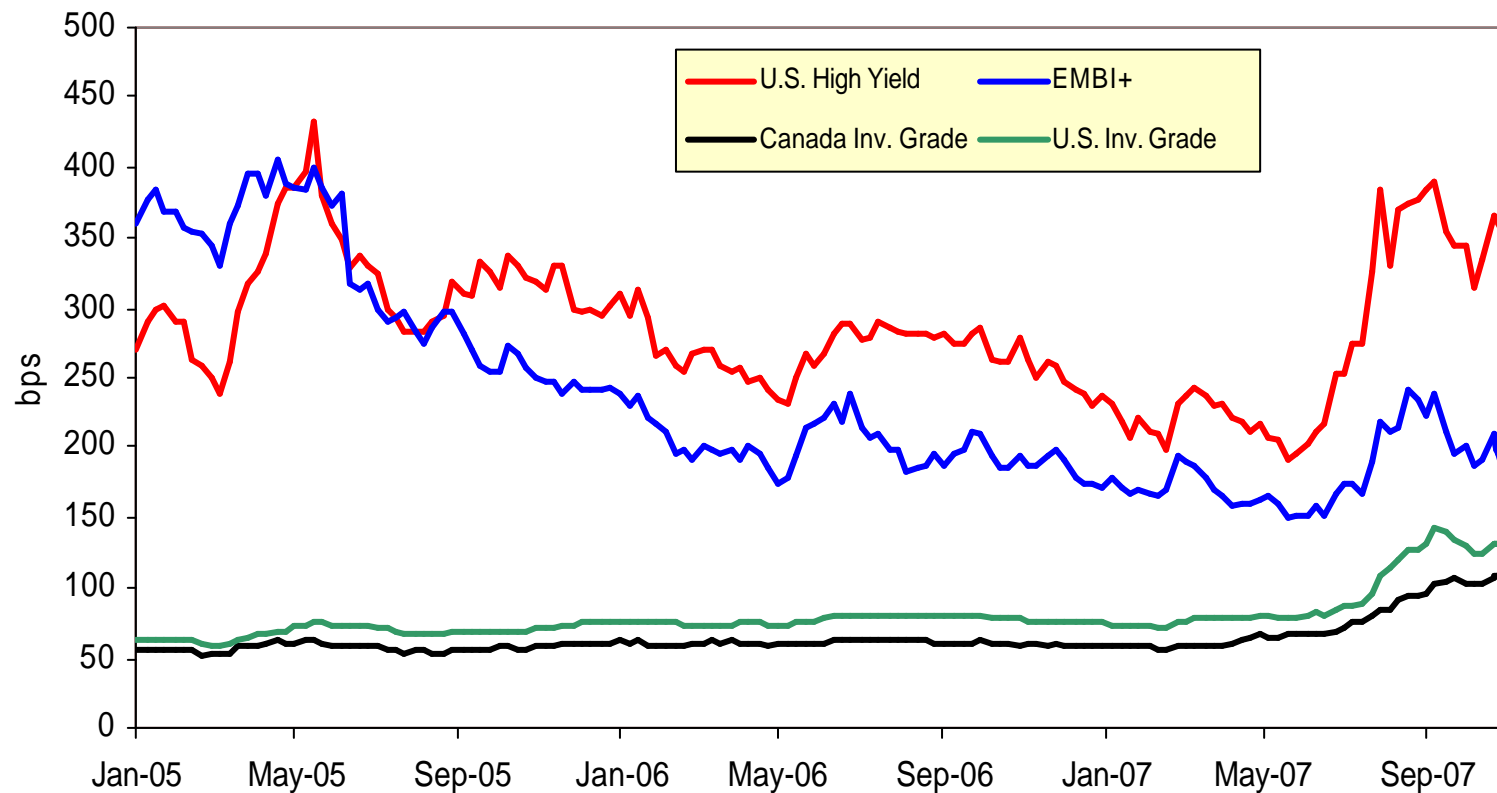


1 Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain
2 Excluding food and energy.
3 Excluding food, energy, alcohol and tobacco.



Global Economy

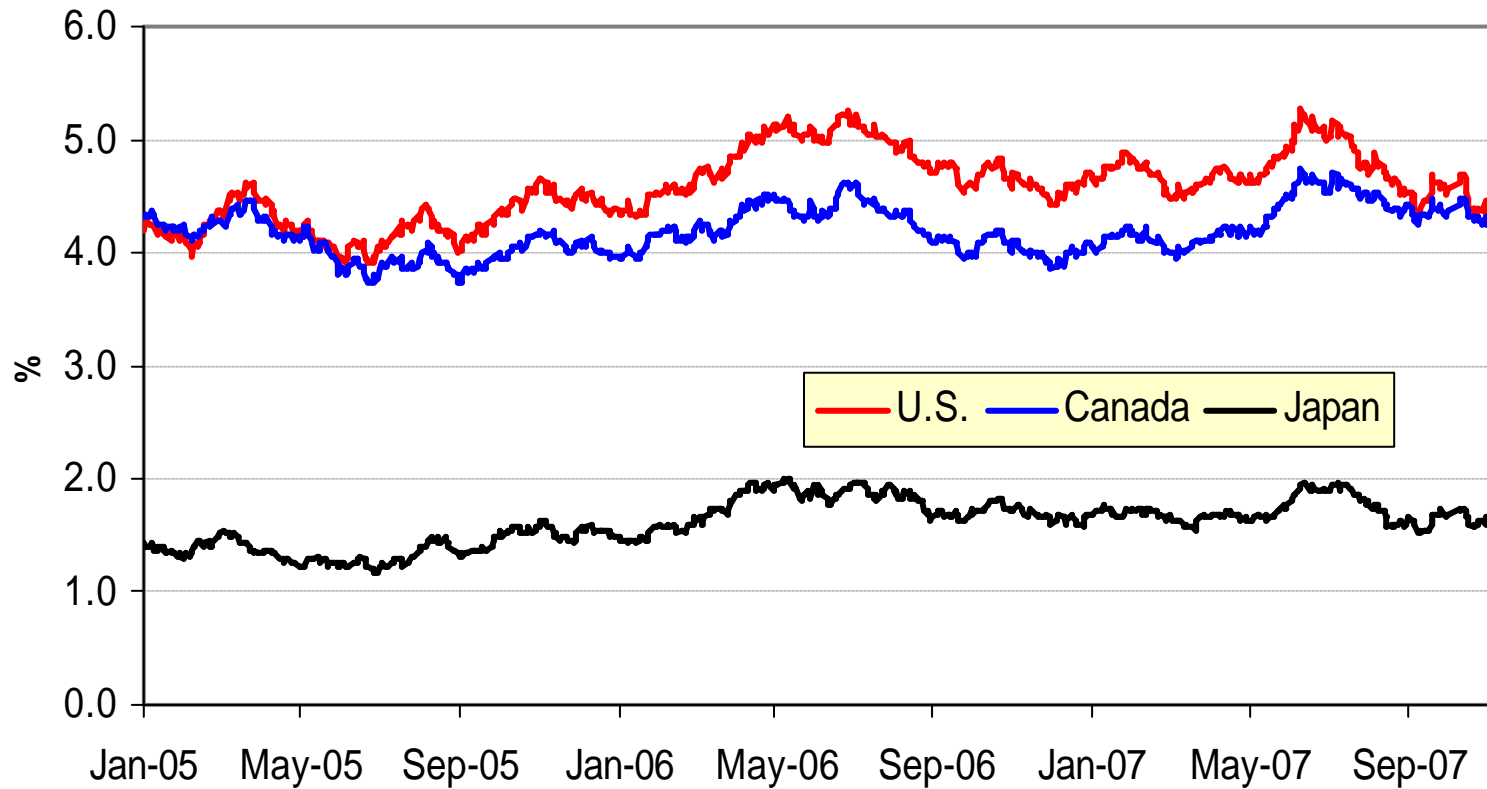
Corporate Bond Spreads (basis points over government yields)





Global Economy

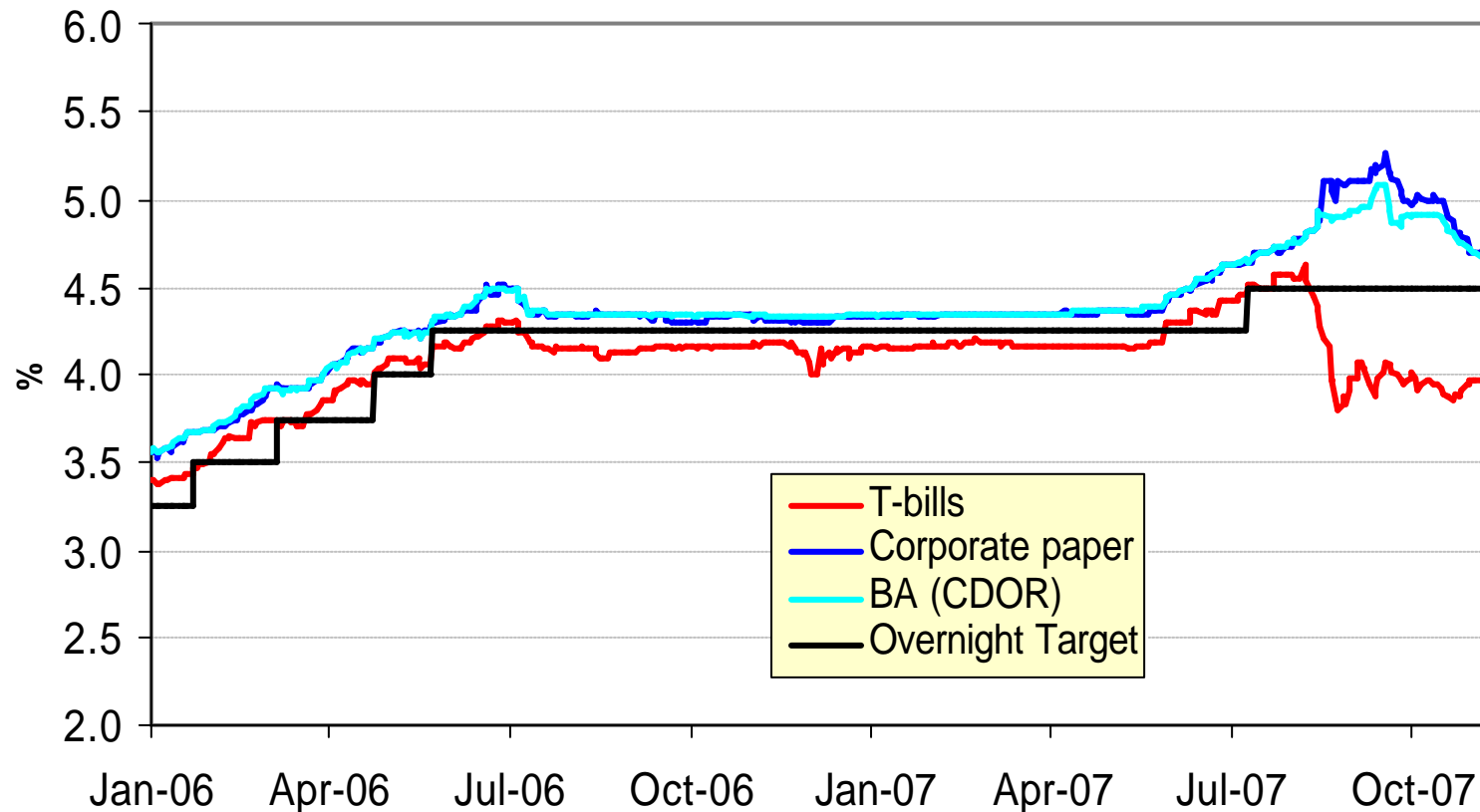
10 Year Government Yields





Global Economy

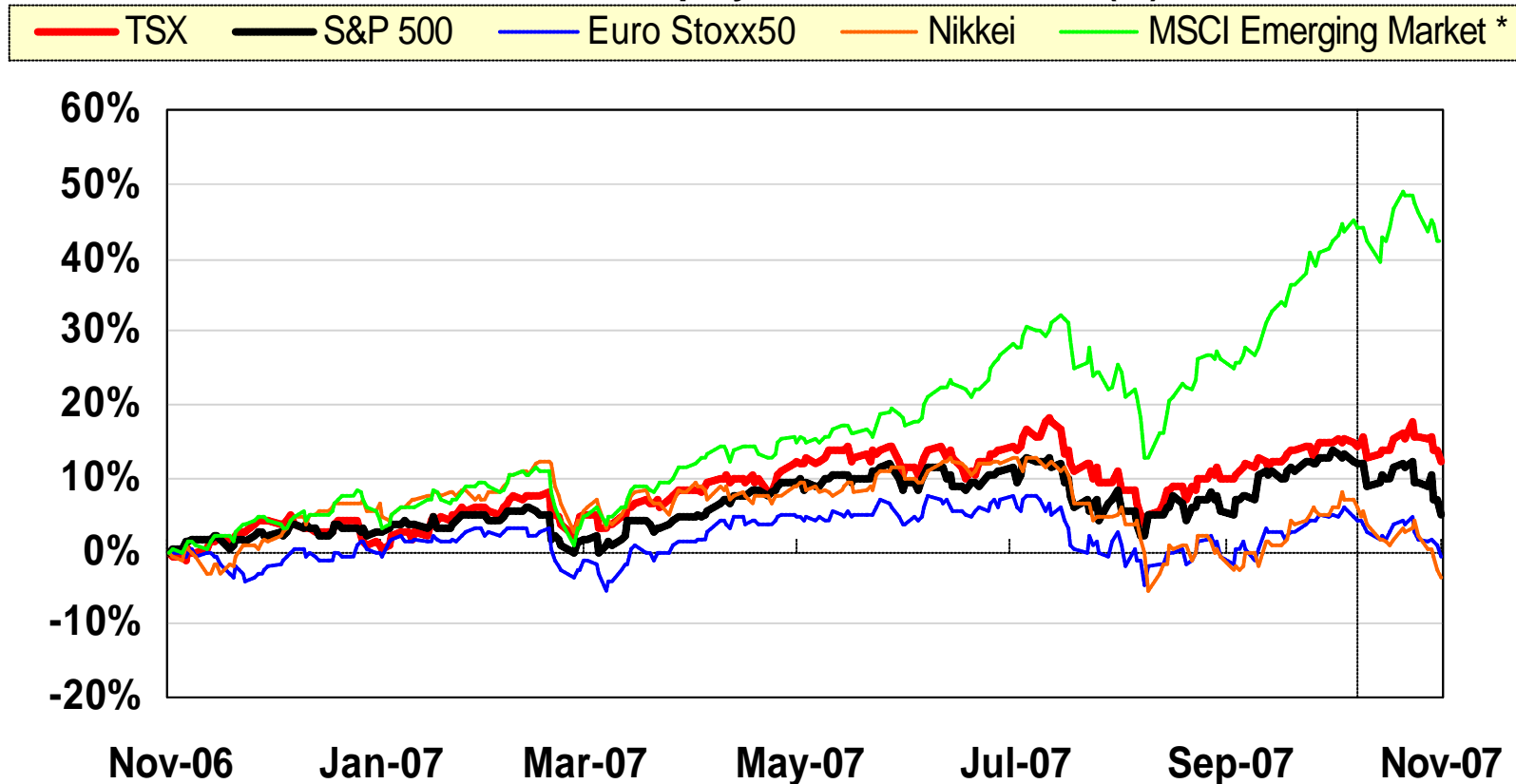
3 Month Canadian Money Market Rates





Global Economy

Relative YOY Equity Index Performance (%)

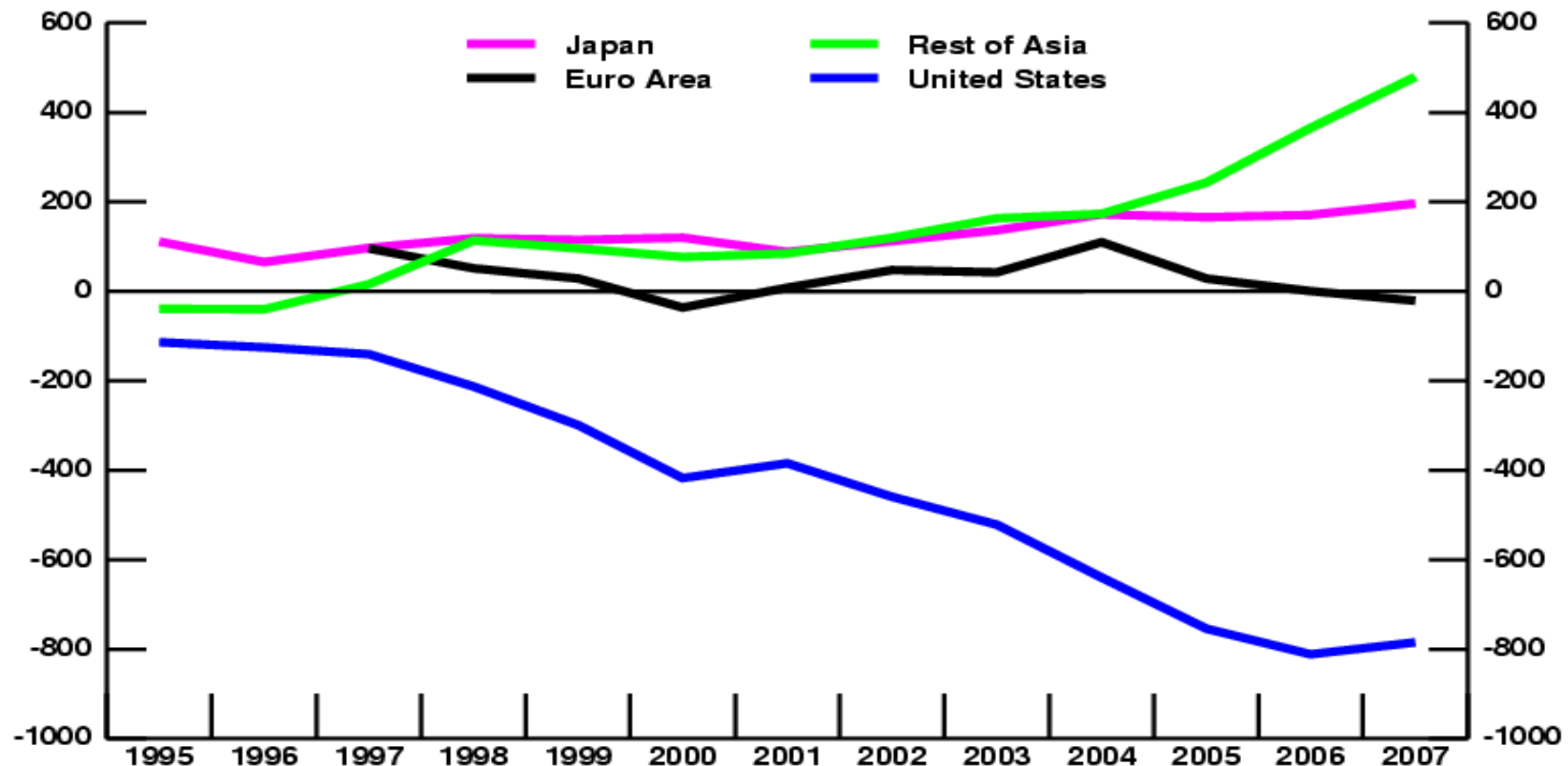




Global Economy

Current Account Balances

Billions of U.S. dollars

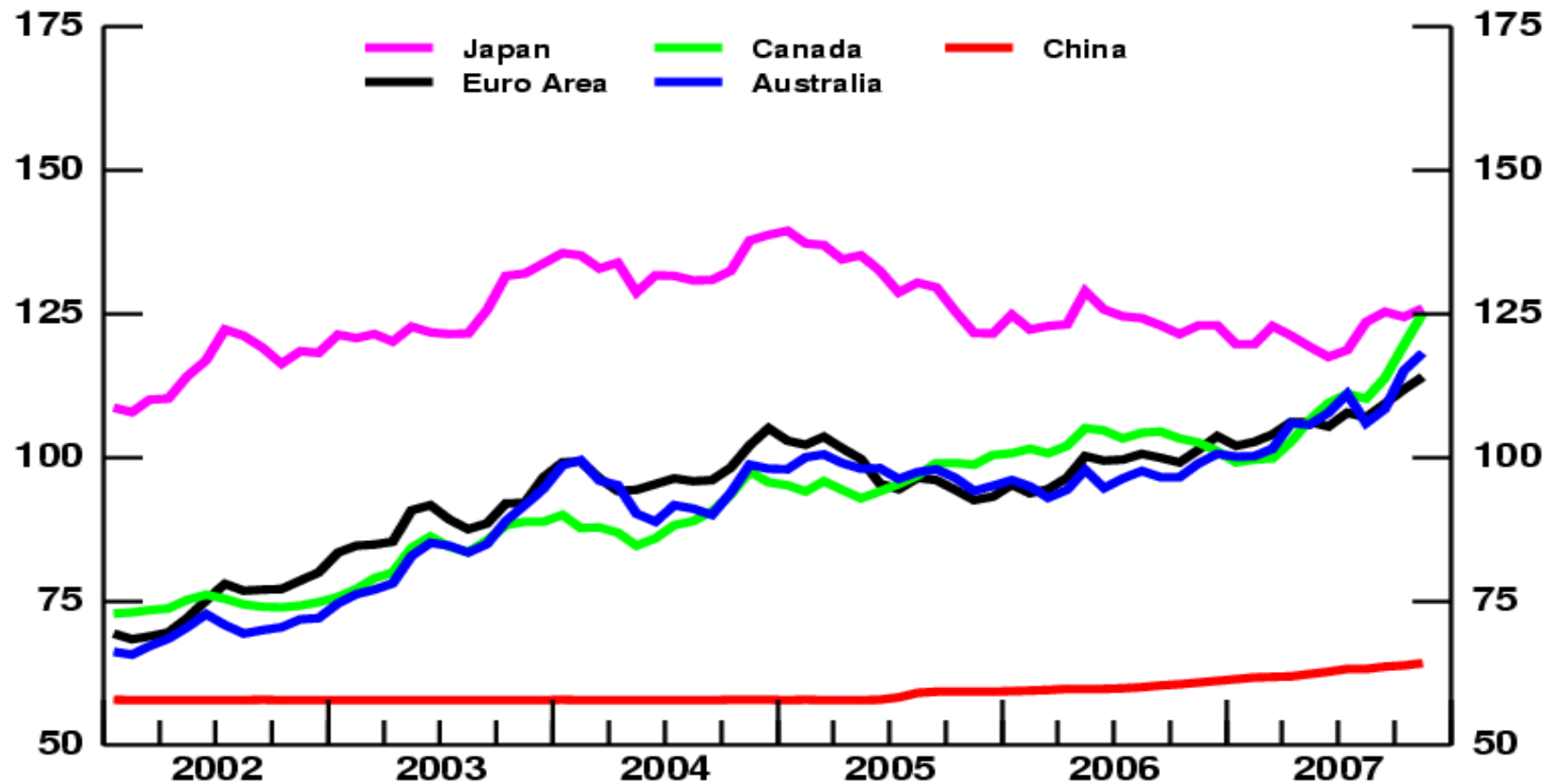




Global Economy

Exchange Rates in U.S. Dollar Terms

1990 = 100

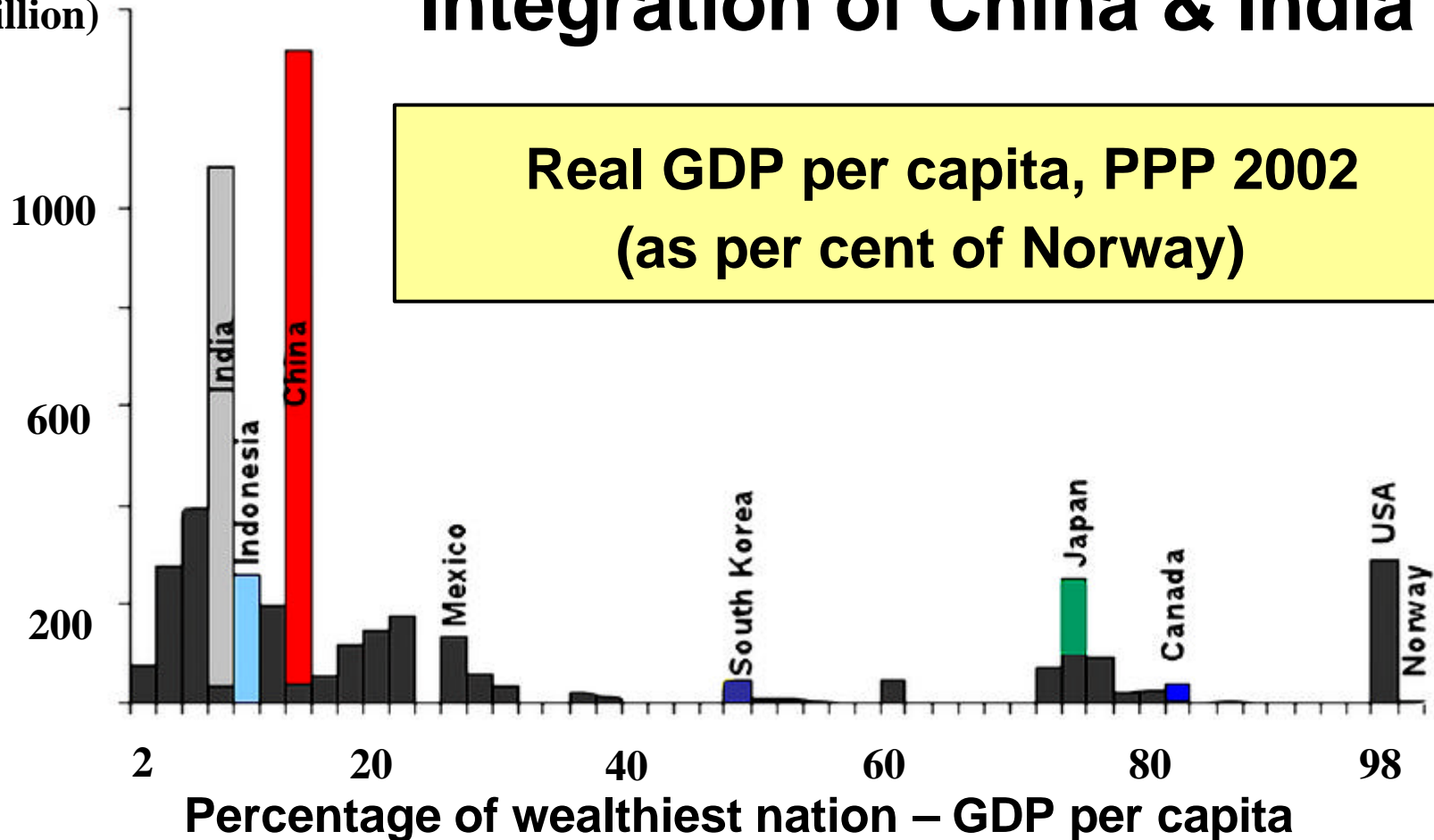




Global Economy

Integration of China & India

2002 population
(million)

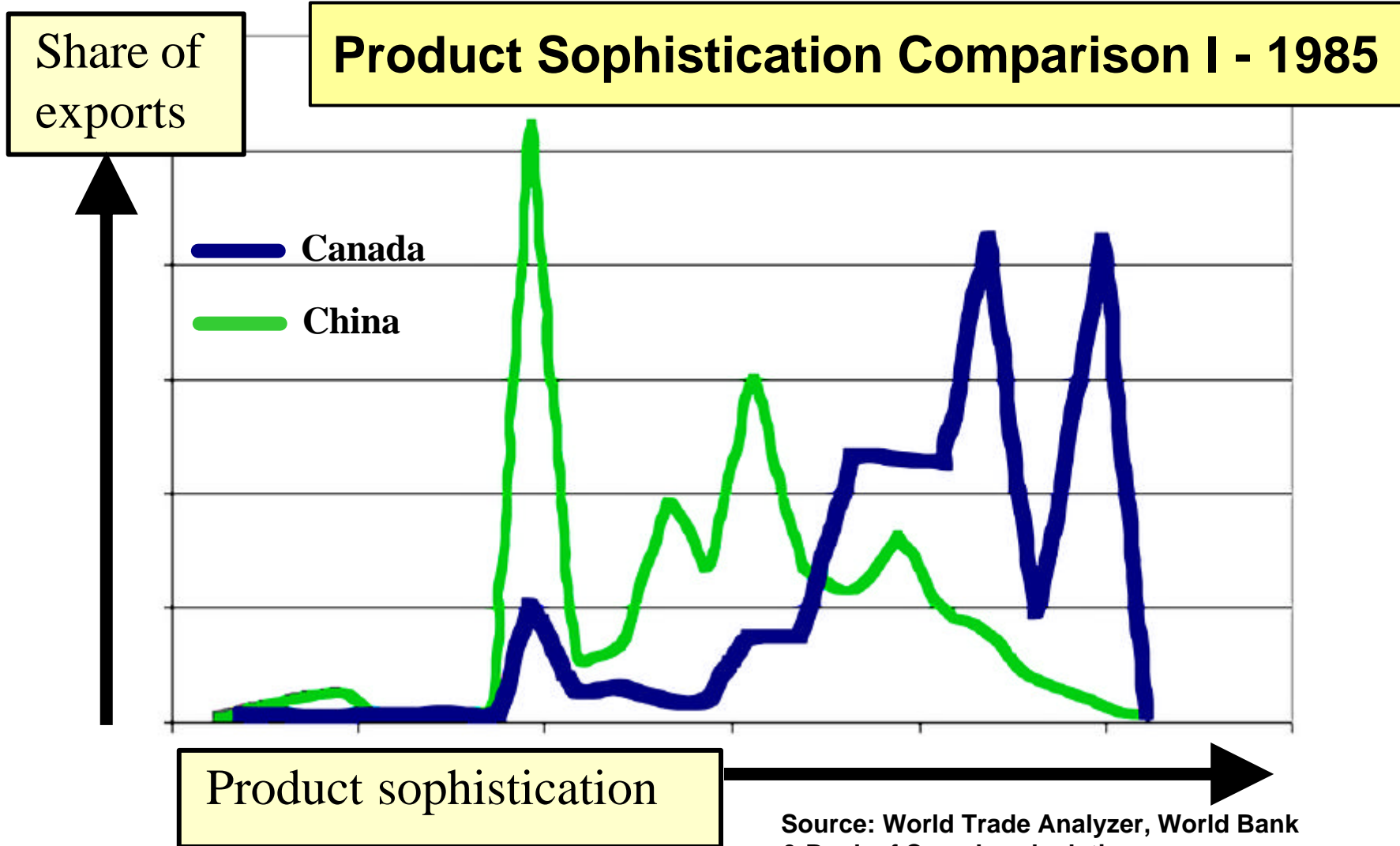


Source: Bank of Canada calculation & World Bank



Global Economy

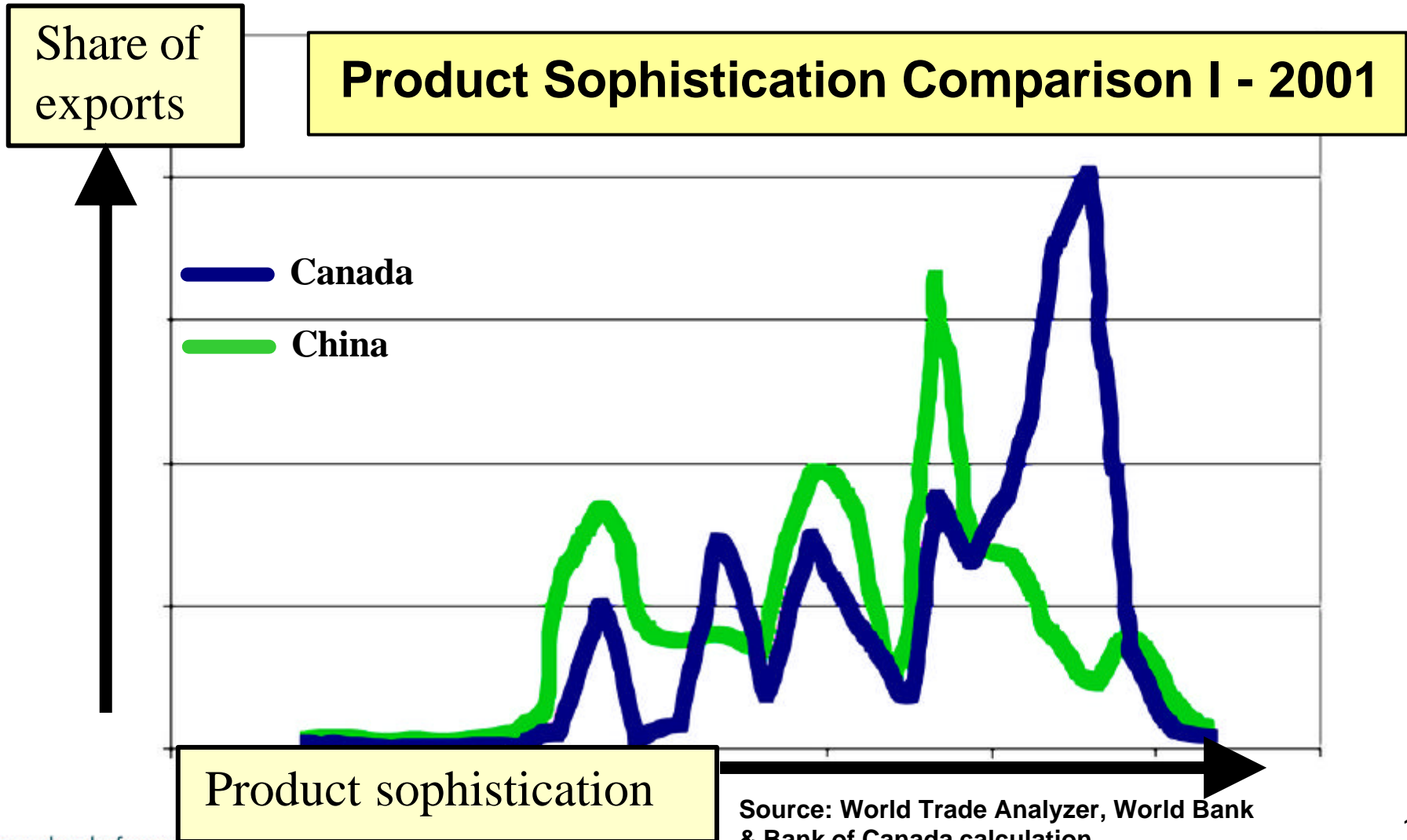
Competition from China





Global Economy

Competition from China





Canadian Economic Developments

- ❖ Issues facing the Canadian economy:
 - Sharp appreciation and volatility of the Canadian dollar
 - Magnitude of recent appreciation appears to be stronger than historical experience would have suggested
 - Weakening of prospects for the U.S. economy
 - Tightening of credit conditions

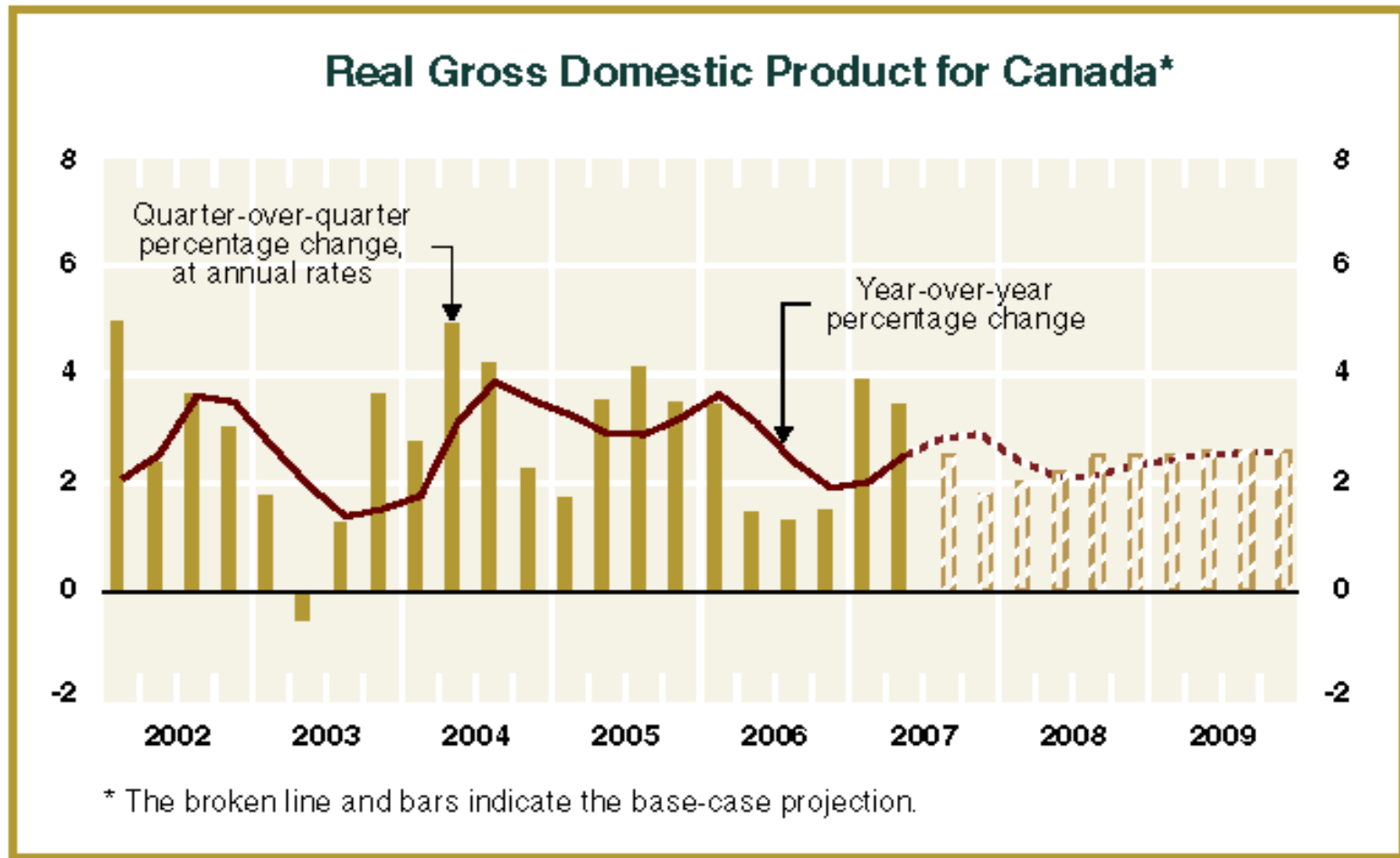


Canadian Economic Developments

- The Canadian economy is operating above its production capacity
- Momentum in domestic demand has been strong, but net exports have been exerting a significant drag on growth



Canadian Economic Developments



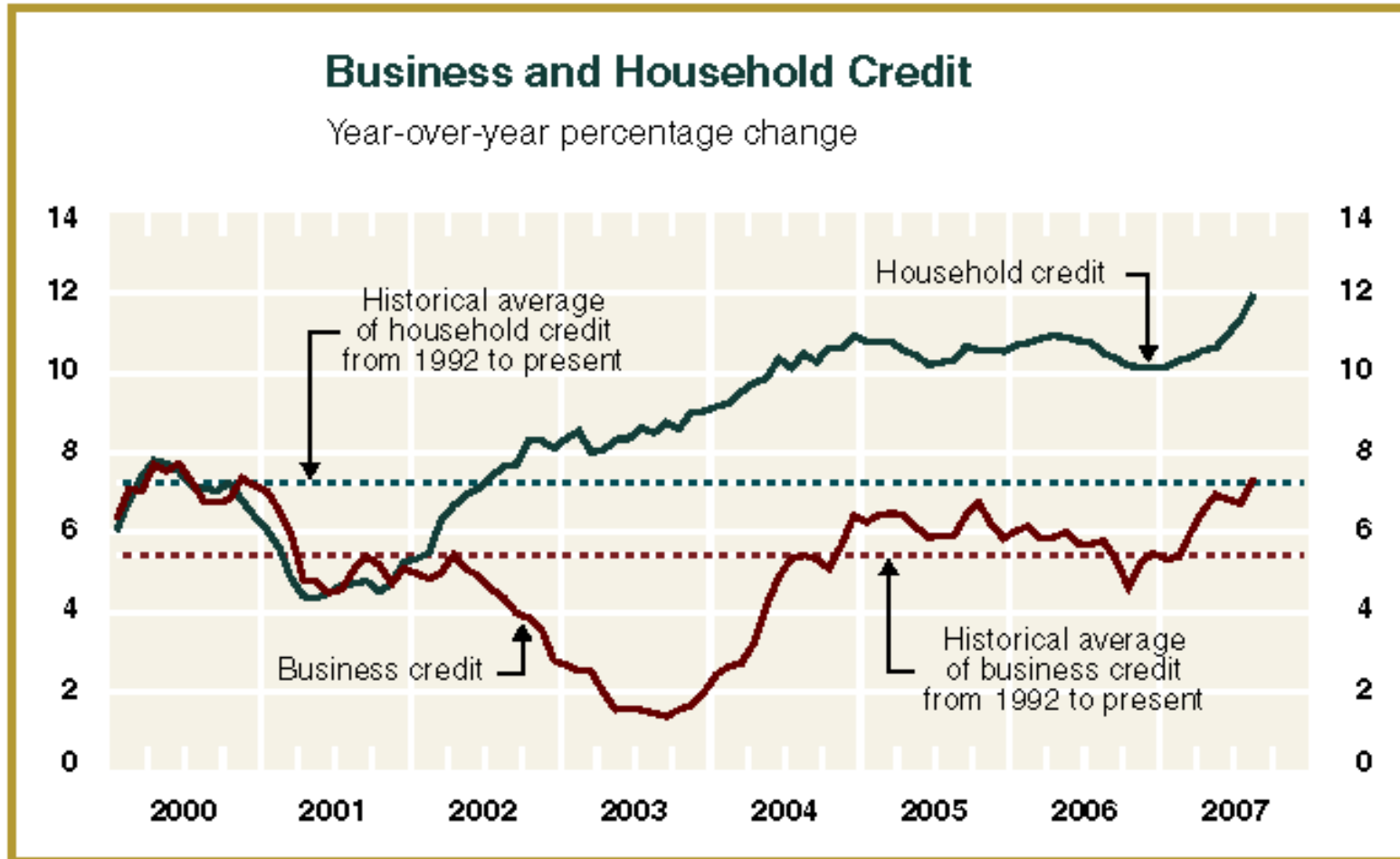


Canadian Economic Developments





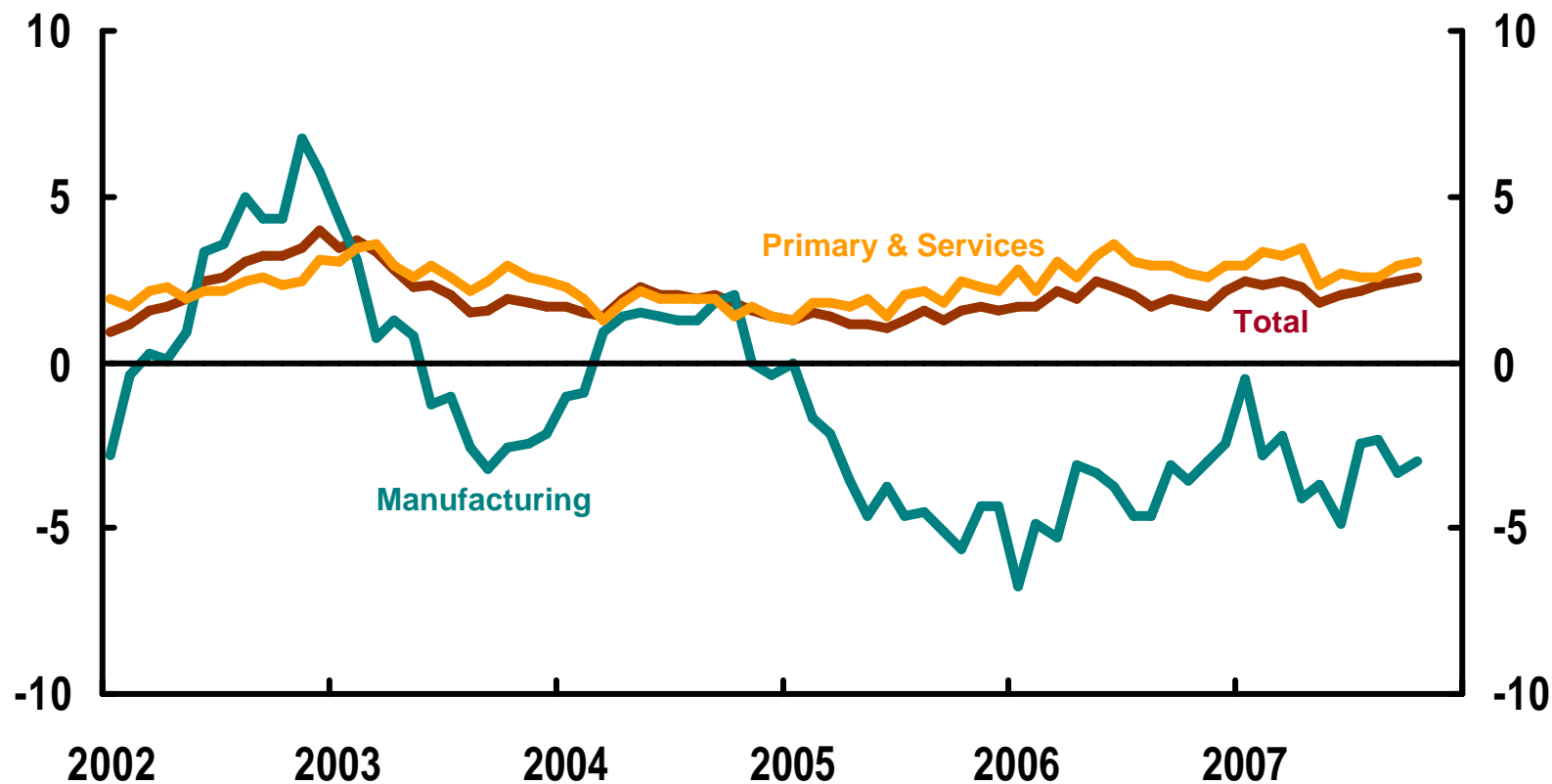
Canadian Economic Developments





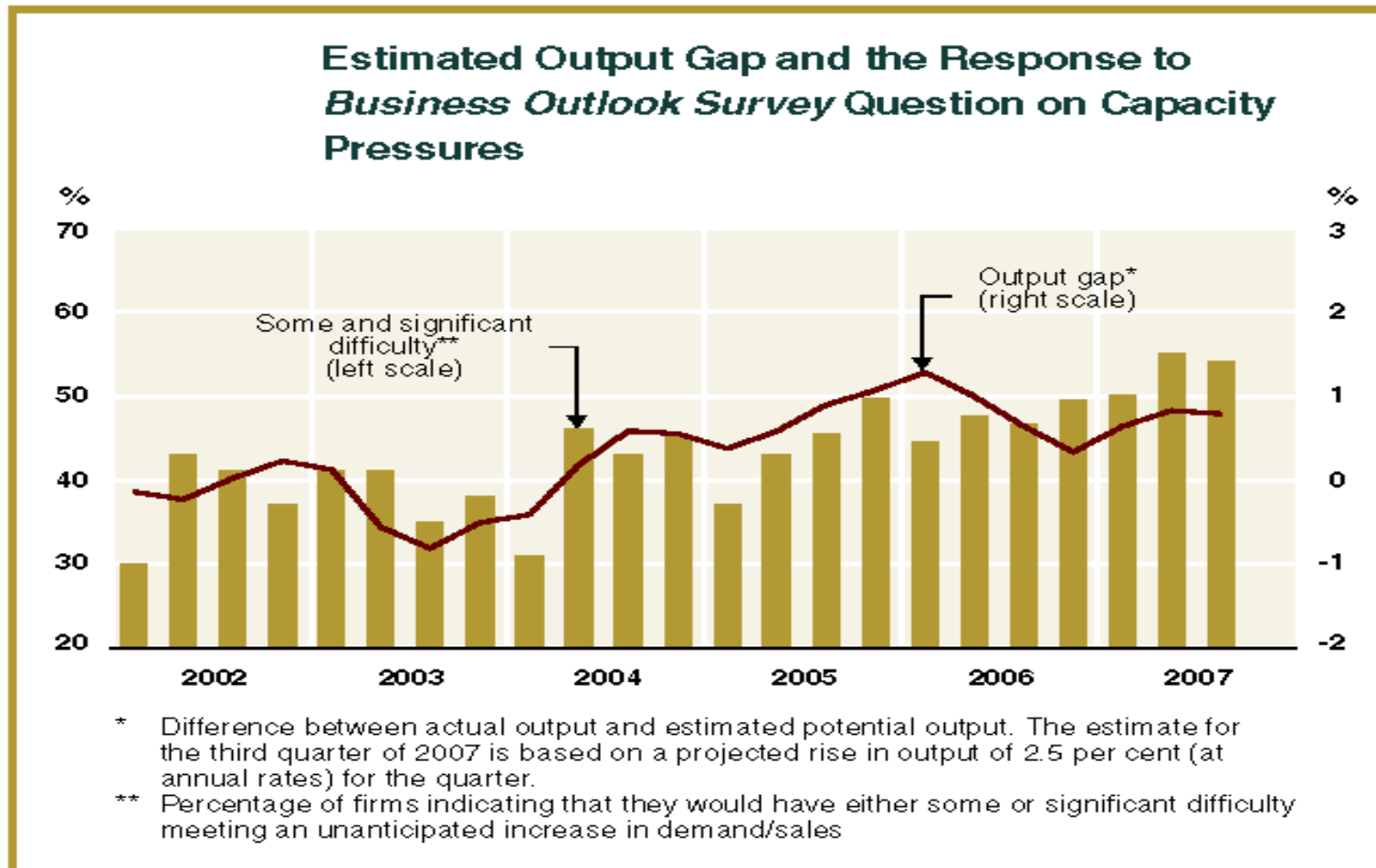
Canadian Economic Developments

Employment Year-over-year percentage change





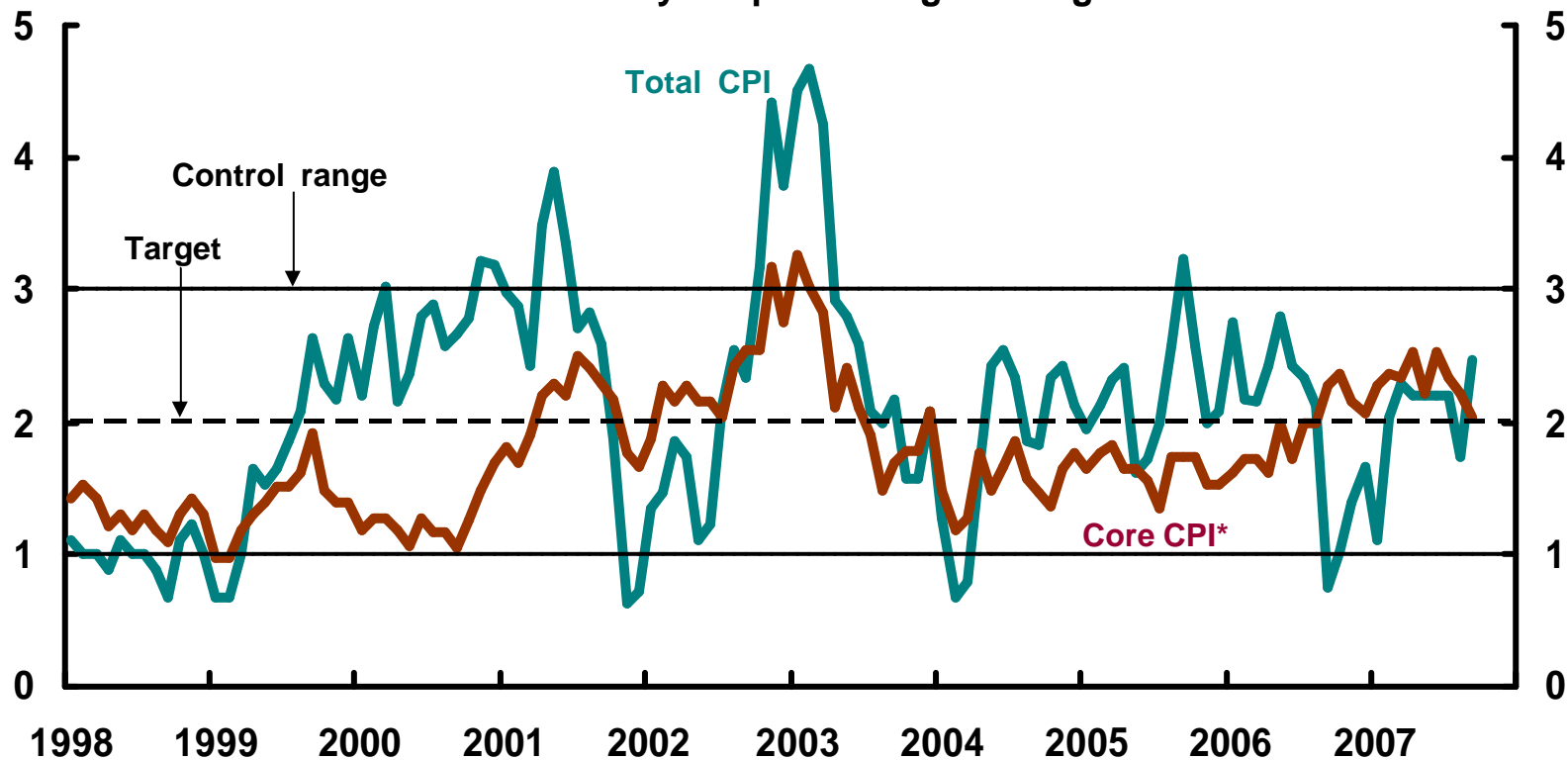
Canadian Economic Developments





Canadian Economic Developments

Consumer Price Index
Year-over-year percentage change

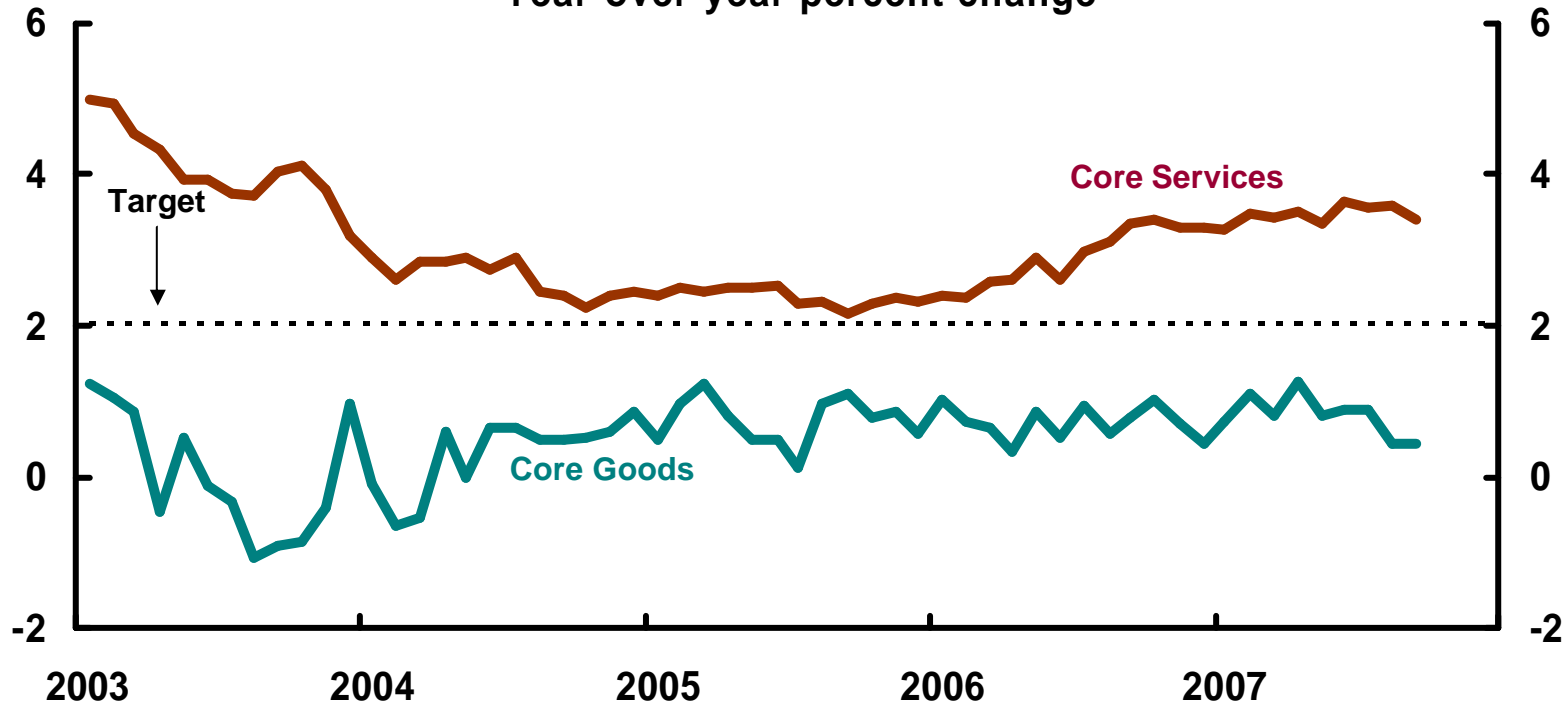


* CPI excluding eight of the most volatile components and the effect of changes in indirect taxes on the remaining components



Canadian Economic Developments

Goods* and Services** in Core CPI,
Excluding the Effect of Changes in Indirect Taxes
Year-over-year percent change



* Excluding fruits, vegetables, gasoline, fuel oil, natural gas and tobacco

** Excluding mortgage interest costs and intercity transportation



Some Summary Thoughts on Global Trends and Developments

- ❖ With the rapid and significant fall in the value of the U.S. dollar, there is increased risk of disorderly adjustment to global imbalances, including the increased risk of rising protectionist sentiment
- ❖ Given the recent, rapid rise of the Canadian dollar, Canada is bearing a disproportionate share of the adjustment
- ❖ While domestic demand in Canada remains robust, if recent levels of the Canadian dollar were to persist, the risk is that output and inflation would be significantly lower



Some Summary Thoughts on Global Trends and Developments

- ❖ All this points to the heightened need for more exchange rate flexibility on the part of other countries, particularly China and Asia more broadly
- ❖ It also points to the need for stronger domestic demand growth outside North America
- ❖ The G-20 meetings this week in South Africa offer an excellent opportunity for focused discussion of these issues
- ❖ How all of us here today assess and address these global economic forces represents an important challenge for the Canadian and Ontario economies



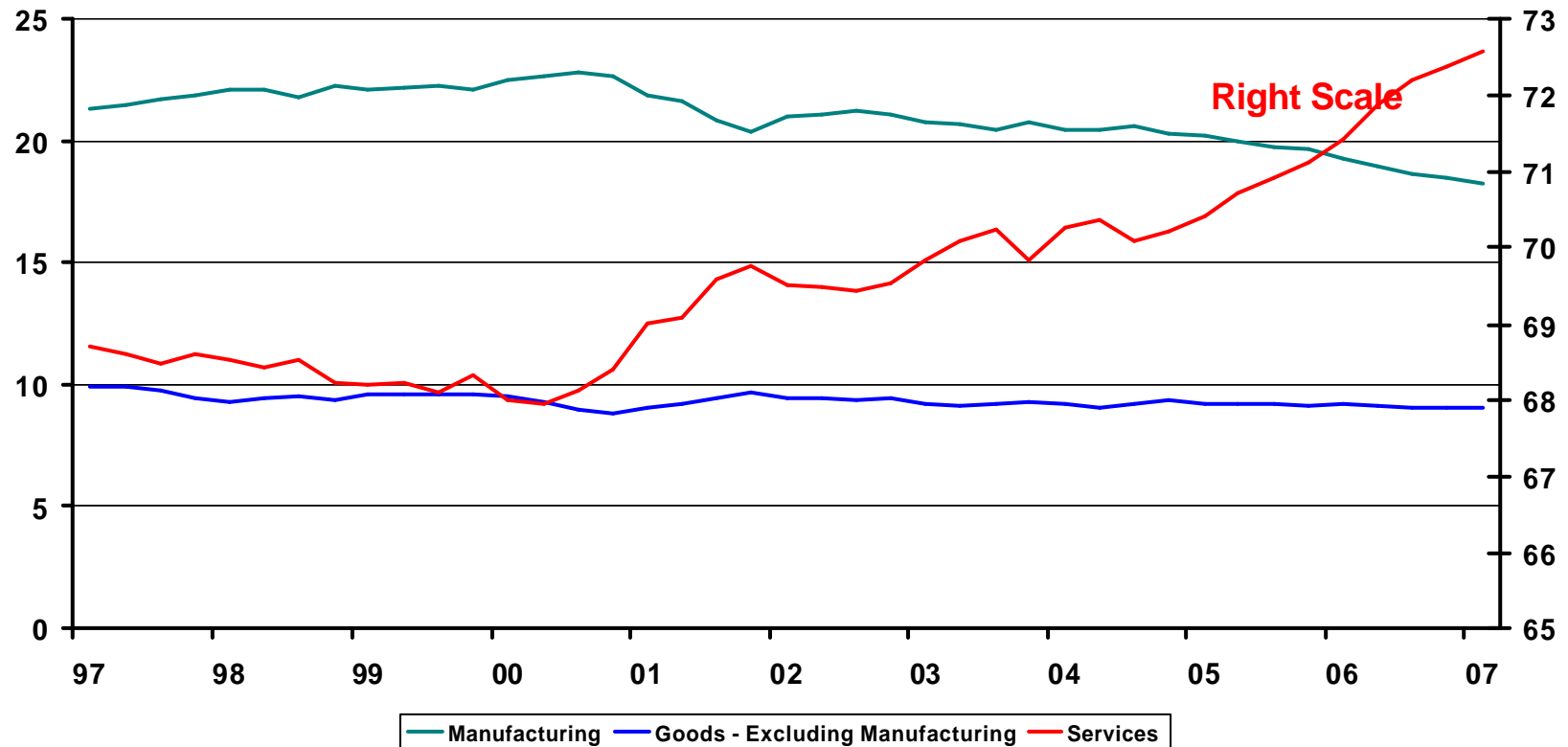
Ontario Economy

- ❖ Issues facing the Ontario economy:
 - Both cyclical and structural forces at play
 - Support for market-based adjustments
 - Importance of taking a medium-term perspective
 - Policies that encourage flexibility and adaptability
 - Focus on comparative advantage



Ontario Economy

Contribution to Real GDP by Sector (Percent)





Ontario Economy

Share of Employment by Sector (Percent)

