

What BoC Governor Macklem Has Recently Said

- **This short note reviews salient points offered by Governor Macklem during two recent speeches and press conferences**

Bank of Canada Governor Macklem has delivered two speeches and addressed questions in press conferences over the September–October period. They are worth recapping before tomorrow’s policy decision.

It would be a pretty major issue if the Governor were to do an about-face on any of this guidance tomorrow and so soon after having delivered his speeches. I have done my best to reiterate in verbatim fashion what was said in the Governor’s own words by relying upon notes made at the time.

SPEECH 1: ECONOMIC PROGRESS REPORT: MONETARY POLICY FOR THE RECOVERY (SEPTEMBER 9TH 2021)

A fuller recap of his remarks during the September ‘reinvestment speech’ is [here](#). The general tone set up the expected shift toward the reinvestment phase tomorrow and reiterated guideposts around future exit moves.

Importantly, he repeated that:

“We have tied interest rate decisions to our forward commitment to not raise the policy rate until slack is absorbed so that we sustainably achieve our inflation target”

and he pledged that after arriving at the reinvestment phase

“we will remain there for a period of time, at least until we raise the policy interest rate.”

Macklem therefore re-emphasized the distinction between the parameters governing a shift to the reinvestment phase versus lift-off.

SPEECH 2: INVESTING IN GLOBAL PROGRESS (OCTOBER 7TH 2021)

His next speech [here](#) did not contain remarks directly specific to monetary policy or the outlook, but his audience Q&A and press conference did. It is the fresher of the two speeches, having been delivered less than three weeks ago, and so we have more confidence around pointing to what he said on this occasion.

Audience Q&A

Q1. How confident are you that inflation in the developed world—albeit at different rates and with different drivers—is transitory?

A1. Inflation is running above our control range and we expect it to continue to run above this range through to the end of this year. We decompose this into several drivers. One is base effects. Secondly there are a number of material disruptions to global supply chains such as computer chips. Third is that there are bottlenecks and delays in global shipping that is driving shipping costs up and feeding into prices for other goods. These things appear to be related to the specific circumstances (of the pandemic). We do think these supply factors will work themselves through. I will say they are proving more

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complicated. They are continuing. There is the risk that there is more persistence than we previously thought. There are still some good reasons to think these are transitory. Measures of inflation expectations have gone up nearer-term but longer-term remain well anchored. Wage growth in Canada is fairly moderate, we are not seeing any evidence that this is becoming an independent driver of inflation. We will be looking for signs of this broadening.

Press Conference Q&A:

Q1. Can you elaborate on your inflation views?

A1. We do expect that we will work through these supply issues, but I must say they are proving to be more complicated and could last longer than previously thought.

Q2. A lot of the research on the mandate renewal was pre-pandemic. Now we are in a potentially different inflation environment. Does the research done for the mandate review still hold into the expected mandate renewal announcements?

A2. We need a framework that is robust enough to hold up to all circumstances.

Q3. Did your speech last month on reinvestment set up a move to the reinvestment phase at the next decision?

A3. We'll take that decision at the date. We've been deliberate in our communications and forecasts. The market can hopefully get a pretty good idea of where we're headed.

Q4. What do you think about the closing of the output gap given 2021Q2 and 2023Q3 GDP implications?

A4. We still expect a stronger second half to the year. The track for GDP is a little bit slower than what we put out in July but we do still expect a solid rebound.

Q5. Is the uneven recovery in jobs and vacancies affected by covid supports?

A5. The most effective solution is to get as many Canadians vaccinated as possible.

Q6. How is back to school affecting returning to work?

A6. That's a difficult question to answer. We do see that women's labour force participation goes up when the kids go back to school. I would expect to see more of that.

Q7. Are you not seeing any signs of inflation coming from the demand side of the economy? Is it really supply side?

A7. We are seeing good signs of demand. The main thing holding things back are these supply disruptions. In terms of demand there is still considerable excess supply in the economy. What's holding back the economy's ability to meet demand are problems on the supply side.

For more views on the Bank of Canada ahead of tomorrow's meeting, please see the Global Week Ahead [here](#). Please also consult with your sales contact for a copy of the Bank of Canada presentation deck and recording of last Thursday's conference call with clients.

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