Release of the *Monetary Policy Report*

1 May 2001

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Opening Statement for the Press Conference

This morning, we released our spring 2001 *Monetary Policy Report*. In the six months since the November 2000 *Report*, the pace of economic expansion in Canada has slackened, primarily because the economic slowdown in the United States has been more pronounced than anticipated. The extent of the easing in economic activity in Canada is the key issue facing monetary policy at this time.

The slowing we have seen in Canada to date is broadly in line with the Bank's expectations last February. And it is consistent with our view that there will be considerable weakness in the first half of the year concentrated in the markets for motor vehicles, electronics, and telecommunications equipment. Significant adjustments in production are underway in these markets in response to soft demand. On the positive side, there is still considerable strength in other areas of our economy, including the energy sector, retail sales, housing, non-residential construction, and most service industries.

The Bank continues to believe that, after very modest growth in the first half of 2001, economic activity will pick up in the second half, resulting in average growth for the year of between 2 and 3 per cent. The pace of activity should strengthen further in 2002 to slightly above the economy's growth potential. The factors that will help to bring this about include firmer U.S. economic growth, the completion of the current inventory adjustment, ongoing investment by businesses in new technology, the recent tax cuts, and the easing in domestic monetary conditions.

Since January, the Bank has cut interest rates by 100 basis points to support growth in aggregate demand and thus keep inflation close to 2 per cent over the medium term. The Bank's overnight rate is now 4 3/4 per cent. This is the rate that corresponds to the U.S. federal funds rate which, at 4 1/2 per cent, is slightly lower.

With the moderation in economic growth working to hold down price increases, core inflation in Canada will probably average somewhat less than 2 per cent over the remainder of this year. As growth picks up to a rate above potential next year, core inflation should move back up to 2 per cent towards the end of 2002. The rate of increase in the total CPI is expected to be volatile over the next few months, before moving down to 2 per cent by the end of the year if world energy prices remain close to current levels.

The main risk to this outlook for the Canadian economy is the timing and strength of the projected pickup in U.S. growth. The Bank will continue to monitor developments closely.