Statement by Gordon Thiessen
Governor of the Bank of Canada
on the release of *Recent Developments:*
An Update to the Monetary Policy Report

16 February 2000

This morning, we released our update to the November 1999 *Monetary Policy Report*. It gives the Governing Council's latest outlook for the economy and for inflation.

Information received since November confirms that our economy performed well last year – expanding by close to 4 per cent between the fourth quarter of 1998 and the fourth quarter of 1999. And nearly 430,000 new jobs were created during the year (December over December), taking the unemployment rate down to a 23-year low of 6.8 per cent.

With respect to the outlook for this year, the *Update* presents our revised view that foreign and domestic demand for Canada's output is now stronger than had been anticipated in November. This is because of greater strength in the global economy, particularly in the United States, and in world commodity markets. We now expect real Gross Domestic Product growth in 2000 to be near the top of the 2¾ to 3¾ per cent range projected in November.

Our core measure of inflation has been slightly lower than we expected, but it should still move up to the midpoint of the 1 to 3 per cent target range for inflation control in the next few months. Because of the recent sharp step-up in energy prices, however, the rate of increase in the total Consumer Price Index will likely rise to close to 3 per cent over the same period. Nonetheless, we continue to see the total CPI moving down towards the core rate during the course of the year, if energy prices moderate, as we expect.

Monetary policy must always be forward-looking. And so the Bank must remain sensitive to, and be ready to respond to, any future inflation risks. We highlighted two such risks last November: the possibility of a much stronger momentum of demand in Canada from both domestic and foreign sources, and a potential buildup of inflation pressures in the United States that could spill over to Canada.

Developments since then continue to point to these risks, reinforcing the need for the Bank to be vigilant and ready to act in a timely fashion to keep the trend of inflation well inside the target range. Our decision to raise the Bank Rate two weeks ago reflected these concerns.

I would like to emphasize once again the importance of keeping the future trend of inflation in Canada low and stable. This is the way monetary policy can help to keep our economy expanding in a sustainable way.