

14 August 2000

**Press Conference: Opening Statement**

***Monetary Policy Report Update - 16 August***

This morning we released our update to the May *Monetary Policy Report*. Overall, the outlook for Canadian economic growth and inflation is positive.

Economic activity in Canada has remained strong since our May *Report*. Nonetheless, the underlying trend of inflation has been unexpectedly low – in the bottom half of our 1 to 3 per cent target range.

We have raised our projection for economic growth to a range of 4.25 to 4.75 per cent for 2000. This reflects the upward revision to Canada's GDP in the second half of 1999 and the robust performance of the economy in the first half of this year. For the second half of this year, the Bank expects some slowing in the pace of activity, but to a rate that would remain above the economy's growth potential. As a result, we still expect the core rate of inflation to rise gradually to about 2 per cent by early 2001, reflecting emerging pressures in product and labour markets.

Developments since our last *Report* reinforce the uncertainties surrounding this outlook that we have been highlighting for some time: the risk of a spillover of U.S. demand at a time of growing domestic spending in Canada; the possibility of rising inflation pressures in the United States; and the uncertain balance between demand and supply in the Canadian economy, given that production capacity has not been as tight as we previously thought.

In light of these developments, and in order to preserve the low trend of inflation, we will continue to pay close attention to the strength of total demand in the Canadian economy and to any signs of pressure on capacity.