

Opening Statement by Gordon Thiessen Governor of the Bank of Canada for the release of the *Monetary Policy Report*

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This morning we released our ninth *Monetary Policy Report*.

The economic and financial situation is much improved since our previous *Report* in November. Financial markets have steadied in Southeast Asia, and prospects are good for a gradual recovery there. In Brazil, the authorities have taken major steps to address their difficulties. Overall, global financial markets now seem better able to assess risk. Interest rate cuts by central banks in all major countries have helped restore investor confidence.

Most economic forecasters have recently upgraded their projections for Canada's growth in 1999. We have also raised our forecast to a range of 2 ³/₄ to 3 ³/₄ per cent. Our forecast at the upper end of the range is above most private sector forecasters. That outcome is based on the possibility of stronger exports and weaker imports in response to the current levels of competitiveness than expected in most private sector forecasts. We expect the economy to expand in the year 2000 at a similar pace to this year.

Recently, the driving force in the Canadian economy has been exports. Strong demand in the U.S. economy, the relatively weak Canadian dollar and increasingly competitive Canadian manufacturers are allowing us to sell into the United States very successfully.

What we expect to see now, however, is an increase in consumer and business spending. We believe that the improvement in confidence that we have seen in the last few months, the better employment picture and recent reductions in interest rates will all help support domestic spending.

Consistent with this economic outlook, we expect core inflation to rise gradually but to remain in the lower half of the inflation control target range.

Finally, I believe it is important for me to stress the conditional nature of any projections for growth and inflation. Economic uncertainties remain. One of the main risks to the world economic outlook revolves around the divergent economic performances of the major industrial countries, particularly the United States and Japan. On the domestic side, there is the uncertainty regarding estimates of the economy's capacity to produce goods and services and the margin of unused capacity. As a result, the Bank will be placing increased weight on a range of indicators to assess the degree of pressure on the economy's production capacity. What we have in mind are such things as movements in inflation relative to expectations, growth of money and credit, wage pressures, evidence of supply bottlenecks and the information provided to our regional representatives from their business contacts.