BANK OF CANADA
BANQUE DU CANADA

PRESS RELEASE

archival service by CanEquity

Canadian Mortgage News - National Archive 2003

Bank of Canada releases Monetary Policy Report Update

23 January 2003 — The Bank of Canada today released its Update to the October Monetary Policy Report. These reports discuss economic and financial trends in the context of Canada's inflation-control strategy.

Core inflation has been higher than anticipated in recent months. This reflects not only a stronger-than-expected increase in premiums for auto and home insurance, but also some broadening of price pressures resulting from strong demand in the economy. Based on the analysis of the inflation data and other indicators of pressures on capacity, the Bank believes that the economy may be operating closer to its production potential than previously thought.

In the second half of 2002, the Canadian economy slowed to a growth rate close to potential, which is estimated at 3 per cent. The slowdown reflected the effects of financial and geopolitical uncertainties and weakness in the global economy. In the Bank's base-case projection for the Canadian economy, demand pressures are expected to strengthen in the second half of 2003 and into 2004, following growth at slightly below potential in the first half of this year.

Core and total rates of inflation are projected to decline through 2003 as the effects of the one-off factors diminish, but they will likely still be somewhat above 2 per cent at the end of 2003. Total CPI inflation will continue to be affected by developments in crude oil prices. If these prices were to stay at current levels of just over US$30 per barrel, total inflation could move up to between 4.0 and 4.5 per cent in the first quarter. If, however, oil prices ease back in the second half of the year, total inflation is projected to move down, back in line with core inflation.

With the stance of monetary policy currently very stimulative, a reduction of stimulus will be required to return inflation to the 2 per cent target over the medium term. A number of elements will come into play in determining the pace of increase in policy interest rates. Although much of the recent rise in inflation has been the result of one-off factors, the possibility that demand pressures are becoming more prominent cannot be ruled out. As well, there is a risk that inflation persistently above the 2 per cent target might lead to an increase in the expected trend of inflation. While we have seen an improvement in financial conditions, business and investor confidence remain fragile because of uncertainty about the geopolitical situation. And the way in which events in the Middle East unfold could affect demand and inflation, both globally and in Canada.

See also: Monetary Policy Report Update

CONTACT: Pierre Laprise
(613) 782-8782