**INFLATION REPORT PRESS CONFERENCE**
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**OPENING REMARKS BY MERVYN KING**

Good morning everyone and happy Valentine's day.

The Bank's rather unromantic message is that the MPC continues to see economic stability and low inflation as the most likely prospect over the next two years. Moreover, the focus of the Committee is not on the central projection, but on the risks around that projection.

When the US economy sneezes, MPC members catch colds, unless of course they are men, in which case they catch flu. The UK economy by contrast is in reasonable shape. The position of the UK is very different from that of the US economy. The US grew at an annual rate of 6% in 2000Q2, which was clearly unsustainable. So some slowdown was both expected and necessary. Debt ratios are high, the saving ratio low, and the trade deficit at record levels. Business and consumer confidence have also fallen sharply. The severity of the slowdown took everyone by surprise. As a result, the Federal Reserve cut rates by 100 basis points in January.

In the UK, by contrast, business and consumer confidence have held up remarkably well. Quarterly growth did fall to 0.3% in 2000Q4, but that was in part caused by temporary factors, such as adverse weather and disruptions to the rail network. The least volatile component of spending, private consumption, remained strong. Growth in consumers' spending in 2000Q3 was unchanged from Q2 at 1.0%, and retail sales and car registration data suggest continued strength in the fourth quarter. Investment outturns have been weaker than expected. That remains something of a puzzle, given the strength in investment intentions implied by surveys. The MPC continues to believe that some of the weakness in investment is likely to be temporary.

New labour market data were published this morning, and the Committee will review those numbers along with all other data published over the month before its March MPC meeting. At the time of the Committee's February meeting, official Labour Force Survey data were suggesting that employment and unemployment might have reached a turning point. Business survey data, however, showed strong employment intentions. It is clear that the labour market remains tight. Survey data and information from the Bank's Agents suggest that companies are continuing to experience difficulties in recruitment. Both earnings growth and wage settlements have been edging up slightly. January and April are key months for settlements, and the MPC will be watching developments carefully.

Much has been made of the low outturn for RPIX inflation as an influence on policy. It is true that RPIX inflation averaged 2.1% in each quarter last year. But month to month, the numbers have been very volatile. This monthly volatility reflects the sharp movements in retail petrol prices and abrupt changes in seasonal food prices. It would be foolish to let that volatility affect policy. In any event, because of the time it takes for interest rate changes to influence inflation, anything we do now will have almost no effect on inflation outturns over the next few months. We must continue to look ahead over the next two years.

Chart 1 on page iv shows the assessment of the outlook for GDP growth on the assumption that the official interest rate remains at 5.75% over the forecast period. In the central projection, the annual growth rate dips to around 2% during the second half of this year. That in part reflects worsening global prospects. But the Committee expects also a slowdown in consumer spending in the next year, as the impetus from earlier gains in wealth will gradually fade and the current low level of savings is unlikely to persist. But during 2002, output growth is expected to recover to around its trend rate. Government spending will grow rapidly. Stronger export growth should play a part as world activity recovers. The MPC believes that the slowdown in the US is likely to be temporary. The relaxation in US monetary policy, together with a prospective fiscal easing, a somewhat weaker dollar and continuing strong productivity growth could lead to a US recovery as early as the second half of this year.

Chart 2 on page iv shows the corresponding projection for RPIX inflation. Today is the fifth anniversary of the red fan chart and, as you will no doubt recall, February 96 was the last time publication of the Report coincided with Valentine's Day. The central projection shown in Chart 2 stays at around 2% throughout 2001. But it then picks up to reach 2½% by 2003Q1 as the pressure of demand on supply capacity raises prices and wages, supported by rapid growth of money and credit and the preponderance of business surveys showing a greater intention by firms to raise prices.

But the real news is in the skews. In particular, the MPC is concerned about the possibility of a more prolonged US downturn than is captured by the central projection. There was much discussion in the Committee about that and other risks – on both the upside and downside - and different members place different weights on the significance of these risks. Nevertheless, the best collective judgment was the balance of risks was clearly on the downside. And it was this balance of risks which led to a modest pre-emptive reduction in the official rate at last week's meeting.

Some members prefer different assumptions about supply side developments and the extent and consequences of the US slowdown. These alternative assumptions could lower the inflation profile by up to ½% at the forecast horizon.

So the message from the Bank today, even if a somewhat unromantic one, is that the prospect is for continuing economic stability. That should lead you to protest your undying love for the MPC in your columns tomorrow.

You will see that the Report has a new design. And the Minutes of the Monetary Policy Committee meetings are now produced as a separate publication. We have also decided, and announced last week, that the Bulletin will no longer be published on the same day as the Inflation Report. The Bulletin will be hitting the streets on 12 March. It too will have a new design. And also it will carry a broader range of articles than it has in the past.