

## INFLATION REPORT PRESS CONFERENCE

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### Opening Remarks by the Governor

Over the past six months, the growth of GDP has been close to its long-term average. Inflation has fallen from its recent peak in September of last year and was just below the 2% target in March. Once again, the *Inflation Report* describes a benign central view of steady growth with inflation remaining close to the target over the forecast period, but with many risks around that central view.

After strong growth in the final quarter of last year, consumer spending appears to have eased in the first quarter of 2006. But, following the slowdown in activity in the first half of last year, business surveys have now recovered markedly from the levels seen then. Recent developments, both at home and abroad, should be supportive of future demand and output. The prices of assets such as equities and houses have continued to rise, despite a rise in long-term interest rates from their trough in January. Growth of the major world economies was strong in the first quarter, and the outlook for UK export markets seems better than for some time.

The Monetary Policy Committee's projection for GDP growth is shown in Chart 1 (GREEN CHART) on page ii of today's *Report*. That projection is based on the assumption that official interest rates move in line with market expectations of a small rise in rates over the next year. In the Committee's judgement, the central projection for consumer spending is for it to grow a little below its long-run average rate throughout the forecast period. That is similar to the view taken in February. But the Committee expects a gradual recovery in business investment and that, as the world economy expands, net trade will make a stronger contribution to output growth than over the past decade, offsetting a modest slowdown in public spending. As a result, the central projection is for GDP to continue to grow at around its long-run historical average.

The Committee's projection for inflation is shown in Chart 2 (RED CHART) on page iii of the *Report*, again on the assumption that official interest rates follow market expectations over the forecast period. Since February, the announcements of increases in domestic gas and electricity prices have raised the likely path of energy prices over the coming months, and that profile has been incorporated into today's projections. Following a decade in which import prices have, on average, fallen, they have recently picked up and are expected to add to rather than subtract from inflation over the forecast period. The central projection is for CPI inflation to move above the target over the next year or so and then fall back to the 2% target at the two-year horizon.

In the Committee's view, the risks to output growth are broadly balanced. But the risks are many and varied. In particular, there are still risks on the downside associated with the impact of strong energy and import price inflation on real disposable incomes and consumer spending. But there are also upside risks stemming from the outlook for world activity, particularly in the euro area, the prospects for business investment, and the continuing rapid growth of broad money.

The risks to the outlook for inflation are also balanced. Since the February *Report*, the prices of oil and other commodities, such as metals, have risen further. It is difficult to know precisely how these changes will be passed through to consumer prices and they pose upside risks to inflation. There are also downside risks stemming from uncertainty about the speed and extent of any fall in inflation as energy prices stabilise. And there is continuing uncertainty about the extent of any spare capacity in the economy.

Given the overall outlook, the Committee decided last week to leave interest rates at their present level. But it remains ready to take whatever action is necessary in order to keep inflation on track to meet the target in the medium term.