



Economic Flash!

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Canadian Inflation: Hotter Than Last Month, But Cooler Than Expected

All Items (% chg)	17:Q4	18:Q1	Jan	Feb	Mar
<i>Year/Year Rate (Unadjusted)</i>	1.4	1.8	1.7	2.2	2.3
<i>Monthly Rate (Unadjusted)</i>			0.7	0.6	0.3
<i>Monthly Rate (SA)</i>			0.5	0.2	0.1
<i>Three-month Rate (SAAR)</i>			4.7	3.1	3.1
<i>CPI-Trim</i>	1.5	1.7	1.8	2.1	2.0
<i>CPI-Median</i>	1.7	1.8	1.9	2.1	2.1
<i>CPI-Common</i>	1.5	1.6	1.8	1.9	1.9

- Inflation heated up in March, but not enough to satiate investor expectations heading into the release. In spite of that disappointment for markets, inflation data across a range of indicators are now hovering around the Bank of Canada's 2% target. While on the surface that might look like cause for central bankers to accelerate the pace of rate hikes, the numbers are being buoyed by the effects of higher minimum wages in some provinces and the recent run-up in oil prices, neither of which are signposts of an economy at risk of overheating.
- Headline CPI rose by 0.3% MoM NSA in March, nudging the annual rate up a tick to 2.3%. That was, however, still below the consensus forecast for an acceleration to 2.4%. A surprising decline in fresh fruit and vegetable prices were the main culprits behind today's sub-consensus readings. That said, produce prices tend to bounce around fairly often and, as a result, aren't much reason to change our outlook for underlying consumer prices trends.
- The drop in food prices on the month was particularly unexpected, given the boost that category has been seeing following the minimum wage hike in Ontario. Food prices at restaurants are now tracking 4.4% over the past year, after running at a pace of 2.9% in December.
- Rising oil prices have been a major contributor to the hotter inflation readings of late. Gas prices are up more than 17% nationally over the past year. As a result, after stripping out food and energy, prices are rising at a cooler 2% pace. Similarly, the average of the Bank of Canada's three core measures suggests that inflation is trending right at the central bank's 2% target.

Implications & Actions

Re: Economic Forecast – Headline inflation is likely to accelerate further over the remainder of the year. However, with part of that due to the transitory effects of higher gas prices and minimum wage hikes, we see little reason for the Bank of Canada to react aggressively to the slight overshoot.

Re: Markets – With inflation underperforming investor expectations and weak underlying numbers in today's retail sales release, the Canadian dollar has weakened. As markets continue to pare back expectations for the Bank of Canada, look for the loonie to trade weaker in the months ahead.

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