

Article | 21 March 2019

CANADA

Canada inflation preview: The only way is up

Inflation should stay below-target in February, but from here the trend is more likely to be upwards. But with the Fed hinting at a long pause and a mixed economic backdrop, a Bank of Canada rate hike later this year hangs in the balance

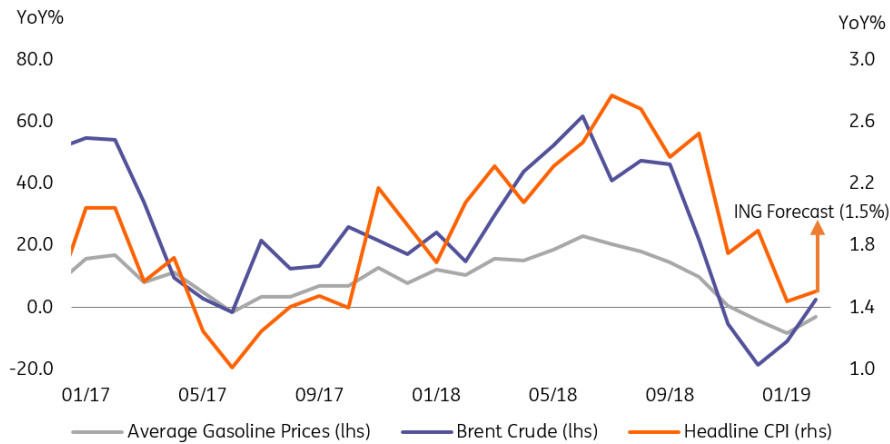


Source: Shutterstock

January took the brunt of the late-2018 decline in oil prices, but things are looking slightly better in February

Weak gasoline prices took their toll in January, which saw headline inflation sink to 1.4%. However, we see a slight change of tune in February. The negative effect of weak energy prices should begin to dissipate, and while we anticipate the headline figure (1.5%) to sit below-target, we suspect this will be the beginning of an upward trend in prices. Our commodities team see oil prices edging slightly higher throughout this year and next.

Gasoline prices recovered in February, though are still in negative territory



Source: Macrobond

Alberta's crude-by-rail plan: A temporary reassurance for oil prices?

Canada's energy sector has been battling with transportation constraints for some time now, and these aren't expected to be alleviated until new pipelines come into operation. Meanwhile though, the Alberta government will invest \$3.7 billion into the shipment of crude oil via rail – one of the only alternative forms of transport in light of major pipeline shortages. If this plan is able to facilitate higher crude exports, and perhaps help support Canadian prices, it could add some extra impetus to inflation too.

February painted another positive picture of the labour market, but core inflation could still be at risk

Another month, another welcome pick-up in wage growth (2.3% YoY). In our recent piece ([Canada's labour market: Resistant to the turbulence](#)) we discussed the increasing signs of strength in the labour market, and we reckon that this should add a decent level of support to core inflation. That said, the housing market and overall spending performed poorly in the fourth-quarter of last year, suggesting the labour markets strength is struggling to translate into better household activity.

the labour markets strength is struggling to translate into better household activity

The Liberal government's 2019 federal budget (released recently) could offer some respite.

Amongst the budget winners were first-time home buyers who, due to the government offering to absorb part of the costs, are incentivised to jump on the housing ladder. This alone won't prevent the housing market from slowing, but it could help avoid a significant downturn.

Bank of Canada: Waiting for it all to blow over, however long that takes

The labour market is undeniably healthy and the Bank of Canada's (BoC) three main measures of core inflation have happily sat around the 2% target for a while now, but these factors alone aren't expected to push the central bank out of wait-and-see mode.

The timing of the next rate hike is contingent on how household spending, oil markets and trade developments between the US and China all evolve over the coming months. If we don't see a materialisation of risks in these three areas, the BoC could still make a move later this year (potentially the fourth quarter). But with the [Federal Reserve firmly in dovish territory](#), the Canadian central bank could equally follow suit and keep policy on hold for longer.

[See here for further details on why the Bank of Canada is firmly in wait-and-see mode.](#)

Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this

THINK economic and financial analysis

report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.