

Where is Canadian inflation and growth headed?

Expect inflation to firm up tomorrow and growth to moderate next week, but NAFTA and the threat of US tariffs are the real snags for the Bank of Canada



Source: Shutterstock

Inflation to firm

For the Bank of Canada (BoC), tomorrow's inflation numbers will be important – not because they will impact any immediate monetary policy decisions, but because they are likely to reaffirm the economy is strong enough to weather further gradual rate hikes.

The consensus is expecting February's headline CPI to come in at 1.9% year-on-year, an increase from January's 1.7%, which fits with the BoC's forecast that inflation should hit its 2% target by the end of 2018.

Growth to moderate

The first GDP figure for 2018 is released next Thursday (29 March).

It's widely expected that the Canadian economy will experience a moderation over the course of

this year after 2017's impressive 3% performance, and after last week's disappointing manufacturing sales we think this slowdown is likely to continue into January's GDP figure, despite the small increase in wholesale trade.

Nonetheless, the outlook for the economy is still positive. In his most recent speech, Bank of Canada's Governor Stephen Poloz noted that Canada is 'carrying untapped potential' where the labour market could expand by another half a million workers. He said that this could prolong the economic expansion by meeting rising demand while having little impact on inflation.

The hold-ups

As mentioned in our [previous piece](#), the current hold-ups for the BoC are trade related. NAFTA and the threat of US tariffs on steel and aluminium have forced the Bank to pause and wait for a more secure economic environment before continuing their hiking schedule, these also being reasons for the CAD's recent underperformance against its peers.

Nonetheless, there have been rumours of a potential NAFTA breakthrough with the US apparently making key concessions on content rules on cars, a possible sign that the deadlock in negotiations is beginning to thaw, but it is still early days and time will tell whether this is the case.

Given the NAFTA storm does blow over we expect the Bank's tightening cycle to continue in the second half of this year.

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 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.