

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



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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.

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