Tame inflation indicates no rush for rate hike

By David Ljunggren

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Canada's annual inflation hit the central bank's 2.0 per cent target in February for the second month in a row, but closely watched core measures remained tame, indicating little pressure for a rate hike.

Analysts in a Reuters poll had expected inflation to remain at 2.1 per cent. The last time it stayed at 2.0 per cent or higher for two consecutive months was October and November 2014, Statistics Canada said on Friday.

That said, all three measures that the Bank of Canada established late last year showed core inflation below 2.0 per cent.

"They've still got this very stable inflation backdrop as an ace up their sleeve, which suggests there's no rush for the bank to move," said BMO Capital Markets chief economist Doug Porter.

The Canadian dollar weakened to $1.3385 (Canadian) to the U.S. dollar, or 74.71 U.S. cents, from $1.3354 (Canadian), or 74.88 U.S. cents before the data was released.

The Bank of Canada cut rates twice in 2015 as lower oil prices hit growth, and it has left them at 0.5 per cent since then. Economists largely expect the next move will be a hike in the second quarter of 2018.

The annual inflation rate dipped in part because consumers paid 2.3 per cent less for food and 2.2 per cent less for telephone services than in February 2016.

Gasoline prices, the main reason for a recent spike in inflation, jumped 23.1 per cent from a year earlier. Once they were stripped out, though, year-on-year inflation was only 1.3 per cent.

Earlier this month, the Bank of Canada said it was looking past what it called the temporary impact of higher energy prices, noting that muted underlying inflation continued to point to material excess capacity.

Desjardins senior economist Jimmy Jean said the February data would boost the central bank's view that there was persistent slack in the economy.

"The Bank of Canada is going to be very happy to stay on the sidelines looking at this," he said.

Of the three new core inflation measures, CPI common, which the central bank says is the best gauge of the economy's underperformance, was furthest away from target, remaining at 1.3 per cent.

CPI median, which shows the median inflation rate across CPI components, remained at 1.9 per cent, while CPI trim, which excludes upside and downside outliers, slipped to 1.6 per cent from 1.7 per cent.