

Inflation pressures build as Canada's economy keeps rolling

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Canadian inflation jumped above the Bank of Canada's 2 per cent target as the nation's red-hot economy begins to show signs of price pressure.

Inflation accelerated to 2.1 per cent in November from a 1.4 per cent rate in October, Statistics Canada reported Thursday in Ottawa.

While the jump was due to a surge in gasoline prices, the increases went beyond energy. A separate report showed retail sales surging in October, adding to evidence the expansion continues to steam ahead.

If the inflation proves sustained, it will pose a challenge for the Bank of Canada. Policy makers have been keen to keep the expansion moving with low interest rates on the expectation price pressures will be muted. The Canadian dollar jumped as much as 0.9 per cent as the reports raise the prospect of earlier rate increases by the central bank.

"All told, some upside beats on retail and inflation leave room for the Bank of Canada to tighten" in the first quarter, Nick Exarhos, an economist at CIBC World Markets, said in a note to investors.

Investors are anticipating the Bank of Canada will move ahead with three more interest rate increases by the end of next year, adding to two rate hikes this year. Inflation last hit 2 per cent in February, and last surpassed the central bank's target in January. The jump in the inflation rate was the biggest one-month increase since 2013.

Persistently weak inflation had been one of the main arguments against further interest-rate increases. But inflation is coming in faster than the central bank had forecast in October, when it predicted it would average 1.4 per cent in the final three months of 2017. Policy makers don't expect a sustained return to 2 per cent inflation until the end of next year.

Shrinking Capacity

At a rate decision this month, the central bank said the faster-than-expected inflation was due to temporary factors. Yet, today's figures suggest that shrinking excess capacity in the economy is beginning to lift inflation.

The average of the Bank of Canada's three key core inflation measures – which exclude volatile items such as energy – rose to 1.7 per cent, the highest level in more than a year.

And today's retail sales figures suggest growth in the final quarter of 2017 remains above the nation's non-inflationary growth rates.

Retail sales increased 1.5 per cent in October, the largest gain since January, Statistics Canada said. Economists surveyed by Bloomberg News forecast a 0.3 per cent gain. The jump represents a comeback for retailers after a recent slowdown in sales had raised worries about consumers paring back in the second half of this year.

The retail sales figures bode well for October gross domestic product data, which will be released Friday by Statistics Canada. Economists forecast GDP growth of 0.2 per cent in October.