

# Canada's annual inflation rate drops to 1.7 per cent on lower gas prices

By David Ljunggren

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Lower gas prices pulled Canada's annual inflation rate in November down to 1.7 per cent, the first time in 10 months it has been below the Bank of Canada's 2.0 per cent target, underscoring market expectations that imminent interest rate hikes are off the table.

Analysts in a Reuters poll had forecast the annual rate would fall to 1.8 per cent from 2.4 per cent in October. November's rate matched the 1.7 per cent seen in January 2018.

The Bank of Canada, which has raised rates five times since July 2017 as the economy strengthened, said earlier this month that economic data heading into the fourth quarter had been weaker than expected.

"There's absolutely no rush for the bank and probably the earliest we're going to hear from them is in the springtime, in terms of rate hikes," said Doug Porter, chief economist at BMO Capital Markets.

The central bank, which had predicted lower gas prices would pull down the annual rate, is due to announce its next interest rate decision on Jan. 9 and markets expect no change.

Statistics Canada said on Wednesday that gasoline prices fell by 5.4 per cent from November 2017 on lower crude prices and overall energy costs dropped by 1.3 per cent over the same period. In both cases, it was the first year-over-year decline since June 2017.

It also noted that the Bank of Canada's three core inflation measurements came in at 1.9 per cent, the first time they have all been below 2.0 per cent since June 2018.

"That informs a near-term dovish Bank of Canada. No hike in the first quarter (of 2019), probably returning to a hike in April is still our call," said Derek Holt, vice president of capital markets economics at Scotiabank.

The Canadian dollar pared its gains on the news, touching \$1.3446 to the U.S. dollar, or 74.37 U.S. cents.

The drop in the overall annual rate was the sharpest in absolute terms since May 2012, when lower gas prices pulled it down to 1.2 per cent from 2.0 per cent in April.