

# Canadian Core CPI: Olympian Increase

Canadian consumer prices came in higher than expected in February, with a particularly nasty high-side surprise on core inflation (with an asterisk). Overall headline prices rose 0.4% in February, which wasn't a big shock, and was still mild enough to cut the headline inflation rate to a 1.6% y/y pace from 1.9% in the prior month. However, core inflation was much less benign, as underlying prices rose 0.7% in the month (but a little less scary 0.3% in seasonally adjusted terms), which actually lifted the annual rate to 2.1% from 2.0% in January. Core CPI is running far above levels in Q1 that the Bank of Canada expected just two months ago. In the January Monetary Policy Report, the BoC called for core inflation to average 1.6% in Q1 (forget about it), and 1.7% in Q2 (still possible, but a stretch).

There is a big caveat to this number: travel services soared an off-the-charts 17.9% m/m, due to the Olympics, with hotel rates spiking in February. This category alone accounted for almost all of the high-side surprise in core CPI in the month. Assuming this gets reversed, core should back down substantially in March. The other big driver was auto prices, which have remained quite firm amid pricing discipline among automakers. Auto prices are up 3.5% y/y—versus a 5.9% drop last year.

	(month/month % change)			(3-mo. % chng : a.r.)	(12-mo. % chng)	
	Feb	Jan	Dec		Feb	Jan
<b>All Items *</b>	0.1	0.4	0.0	2.1	1.6	1.9
<b>All Items (n.s.a.)</b>	0.4	0.3	-0.3			
<b>Ex. Food &amp; Energy *</b>	0.3	0.4	-0.1	2.5	1.4	1.2
<b>Core</b>	0.7	0.1	-0.3	1.8	2.1	2.0
<b>Food *</b>	0.2	0.2	0.1	1.7	1.2	1.4
<b>Energy</b>	-1.2	2.8	-1.6	-0.3	4.0	8.2
<b>Services</b>	0.7	0.0	0.0	2.7	2.0	1.8
<b>Shelter *</b>	0.0	0.4	0.0	1.7	-1.1	-1.1
<b>Alcohol &amp; Tobacco *</b>	0.2	-0.1	-0.1	0.3	1.7	1.5
<b>Clothing &amp; Footwear *</b>	-0.5	-0.4	-1.4	-9.0	-2.6	-1.9
<b>Gasoline</b>	-1.7	3.6	-2.9	-4.6	15.3	23.9
<b>Mort. Interest Payments</b>	-0.4	-0.4	-0.5	-5.1	-5.8	-5.5

\* seasonally adjusted

**The Bottom Line:** Even looking beyond the special factor of travel costs due to the Olympics, core inflation remains surprisingly sticky in Canada, with neither the recession nor the resurgent loonie enough to keep core prices down. While the Bank will not over-react to the persistent high-side surprises just yet, rate hikes are coming up fast on the horizon, with or without the Fed in tow. We continue to expect the tightening cycle to begin in July, but can not completely rule out the Bank going earlier if core inflation does not back down soon.

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