

Economic good news, bad news

Rising inflation calms fears

Julian Beltrame

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Canadian inflation jumped more than expected in February, reversing a five-month trend toward lower prices and calming concerns of deflation.

Statistics Canada reported yesterday a sizable 0.7 per cent price increase from January to February and said the annual inflation rate rose to 1.4 per cent -- not a large number, but significant given that overall inflation had been falling since September.

The Bank of Canada had forecast prices could drop in the absolute during the second and third quarters of this year, raising the spectre of deflation -- which comes with fears of nasty spirals in which prices and wages fall in a vicious downward cycle.

But the 0.3 percentage point annual inflation increase from January's 1.1 per cent rate makes that "a remote risk," said Douglas Porter, deputy chief economist with BMO Capital Markets.

"I think there's just a little more underlying pressure on inflation and it's coming partly from the steady rebound in gasoline prices we've seen since the start of the year and partly from the impact of the lower Canadian dollar," Porter said, adding that it has decreased the odds that prices will dip into negative territory for longer than a few months this year.

Porter said the central bank may still resort to non-traditional means of stimulating economic activity -- now that interest rates are too low to drop much further -- but said it would almost certainly be less dramatic than what the U.S. Federal Reserve has done.

Labour economist Erin Weir of the United Steelworkers also welcomed the slight uptick in inflation as a sign that deflation is diminishing as a concern.

But he cautioned that the Canadian economy remains in need of stimulus and urged Bank of Canada governor Mark Carney to continue with his monetary easing policies.

"The Bank of Canada was right to raise the possibility of credit and quantitative easing and should also consider targeting a zero per cent interest rate," he said.

Porter said the lower loonie is especially being reflected in food costs, since a significant portion of what Canadians eat is imported, especially during the winter months.

The next move by the Canadian central bank is likely to cut the overnight interest rate on April 21, Porter predicted, and if more measures are needed, would likely limit quantitative easing to purchasing commercial paper. Although the annual inflation increase was higher than economists had expected, the uptick was moderate and not a total surprise given that U.S. inflation also rose slightly during the month after declining for some time. Leading the charge was food prices, which have been rising for almost a year.

The cost of food prices at grocery stores rose 8.9 per cent in February, but particularly pronounced was the 25.8 per cent spike in fresh vegetables, 9.7 per cent increase in baked goods and cereal and a 6.1 per cent rise in meat prices. The inflation rate in Canada would already be close to zero if food was taken out of the calculation, Statistics Canada said. Shelter costs due to higher mortgage costs also rose in February by three per cent, although that was lower than the 3.3 per cent year-over-year rise the previous month. But gasoline prices remain the major drag on inflation in Canada.