

Breaking News from The Globe and Mail

## Inflation rate hits six-month low

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Canada's inflation rate is the most sluggish in six months thanks to a strong dollar, leaving plenty of room for the Bank of Canada to keep cutting interest rates if economic conditions worsen.

The annual rate eased to 1.8 per cent last month, Statistics Canada said Tuesday, as car and car rental prices tumbled at the steepest pace in more than half a century. That said, the more stable core rate edged higher to 1.5 per cent on higher home costs.

Overall inflation has been easing in recent months though, and was markedly slower than January's 2.2-per-cent pace, leaving the central bank the option to cut rates if market turmoil spreads and the economy deteriorates further.

Canadian inflation remains "comfortably within the Bank of Canada's target range," said Douglas Porter, deputy chief economist at BMO Capital Markets, in a note. "There may be less urgency to cut rates in Canada than stateside, but the bank still has plenty of leeway to do what they see fit in the months ahead."

Inflation is likely to stay weak for the next few quarters, bottoming out at just over 1 per cent by the middle of the year, said Jacqui Douglas, economics strategist at TD Securities, who expects "a string of further 50 basis-point rate cuts over the next three meetings."

Canadian inflation remains well below other countries. The average among OECD countries is 3.5 per cent and in the U.S., it's running at 4 per cent.

February's cooling stemmed from less upward pressure from gasoline prices along with tumbling car prices, the report said.

Buying and leasing a car was 6.8 per cent cheaper, the fastest decline since February, 1956, as many dealers cut prices to match U.S. rivals. Factories lowered their suggested prices and dealers discounted 2008 models ahead of the arrival of 2009 models – something that normally only happens later in the year.

Food inflation is a growing problem around the world, but that strong dollar is making Canada an anomaly. Fresh vegetable prices saw their biggest drop in 12 years, with a 16.9-per-cent drop from last year's level thanks to the loonie. Prices were relatively higher last year, due to a California frost.

Fresh fruit prices tumbled 14.5 per cent, led by a slide in oranges and grapes.

Computer equipment and supplies prices continued to fall, led by laptops, and so did women's clothing.

Economists had expected inflation to cool to 1.8 per cent and a core price increase of 1.2 per cent.

On the flip side, gasoline prices were 17.1 per cent higher this February than last as world crude oil prices rocketed, though that's down from the previous month's 20.9-per-cent increase in gasoline.

Housing costs also got more expensive. Mortgage interest cost climbed 8.1 per cent last month, a pickup from January and the eighth straight monthly acceleration. The gain stemmed more from higher new housing prices than a rise in mortgage renewal rates, the report said.

Homeowners' replacement cost, which represents the cost of maintaining a home, rose 4.8 per cent, the second month in a row of increases.

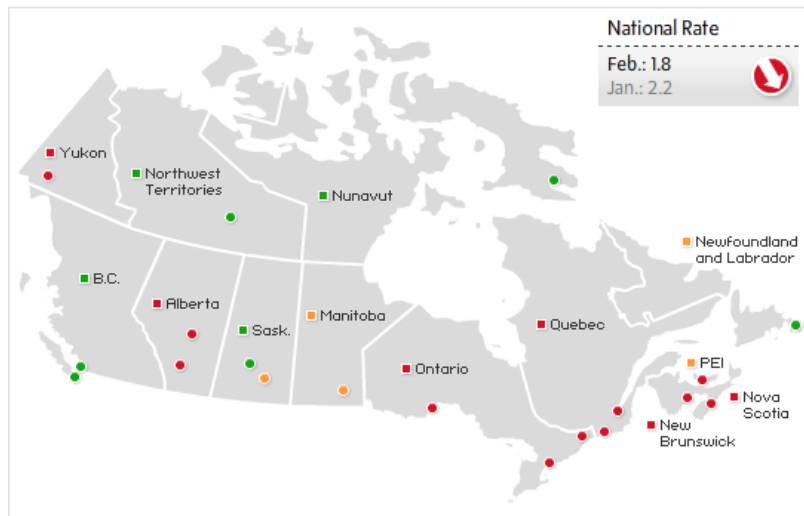
"Builders reported higher labour costs, as well as increases in the cost of certain materials, such as concrete, roofing, exterior siding and heating equipment," Statscan said.

Among provinces, Ontario consumers experienced the fastest slowdown in consumer prices. As in previous months, inflation was especially strong in Alberta and Saskatchewan.

On a monthly basis, higher hotel and tour prices sent consumer prices 0.4 per cent higher in February after a GST cut prompted a previous monthly 0.2-per-cent drop.

## Inflation across the country

An interactive look at the latest CPI data broken down by province and city



Source: Canadian Press

Instructions: Roll over province and city markers to view rates

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