

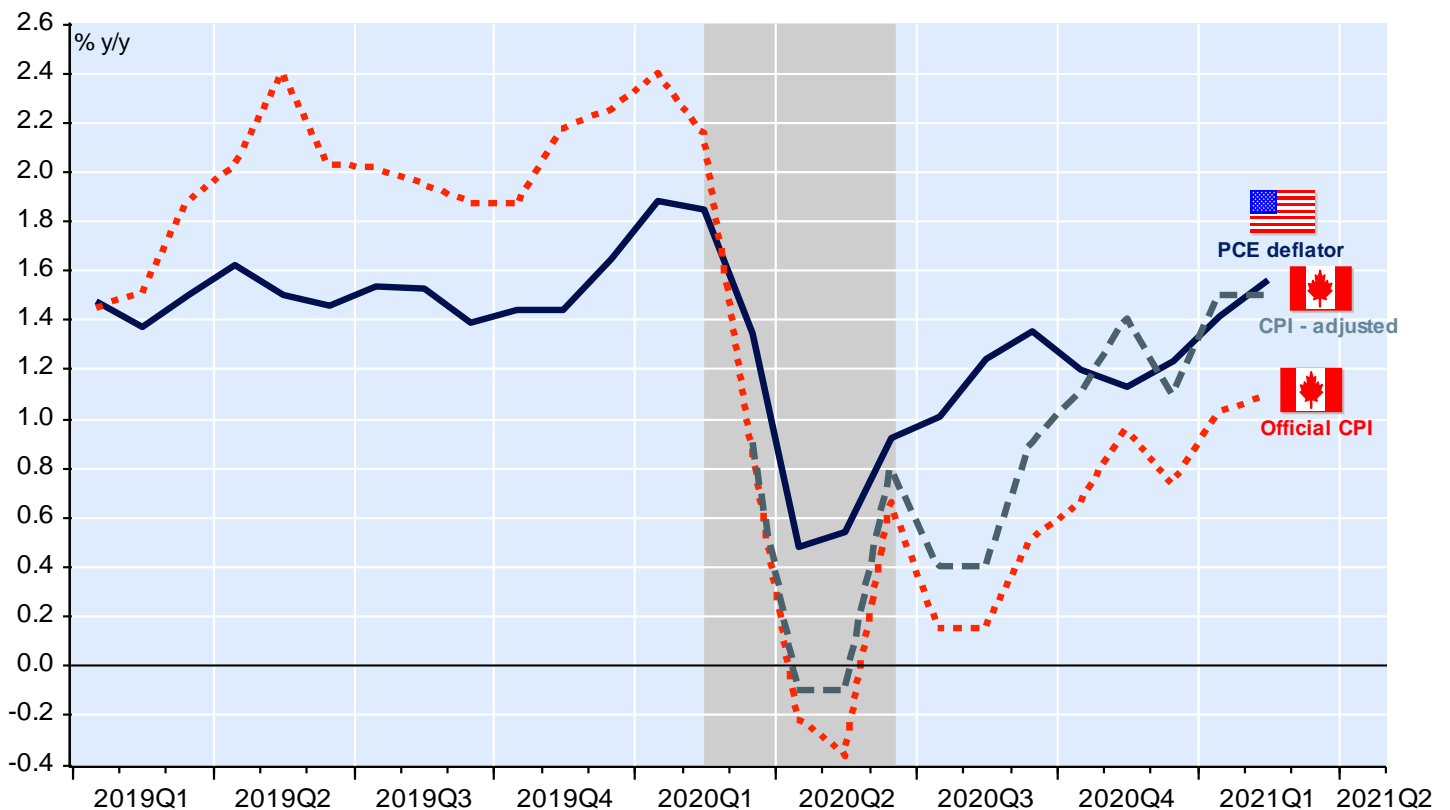
Canada Watch

By Stéfane Marion

The business outlook survey released by the Bank of Canada (BoC) earlier today showed business sentiment continuing to improve and inflationary pressures building. “Over half of firms expect inflation to be above the midpoint of the Bank of Canada’s inflation-control target range of 1 to 3 percent over the next two years” the BoC said. We might get there sooner than later if you believe the just-released alternative measure of CPI inflation produced by Statistics Canada that controls for shifts in household purchasing patterns during the COVID pandemic. As today’s Hot Chart shows, the CPI-adjusted (akin to the U.S. PCE deflator) showed annual inflation running well ahead of the official CPI in February: 1.5% vs 1.1%. Following last Friday’s blockbuster [jobs report](#), this is yet another data point that should give our central bank additional confidence to slow the pace of QE purchases. As detailed in our latest [Fixed Income Monitor](#), we anticipate the BOC to taper its QE next week from \$4 billion to \$3 billion and to modestly move purchases out the curve.

Canada: More inflation than meets the eye

Headline Canadian CPI and CPI-adjusted to reflect pandemic impact vs. PCE deflator



Consumer price index adjusted for changes in spending patterns
NBF Economy & Strategy (Data via Statistics Canada and BEA)

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