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# TD Economics

**Data Release: Inflation accelerates to 1.4% as worst of energy price declines move into the rear-view mirror**

- Consumer prices were flat in January, coming in ahead of expectations for a 0.1% decline. Core prices (excluding food and energy) rose 0.3%, also stronger than the 0.2% consensus call.

- Year-on-year, inflation jumped to 1.4% from just 0.7% in December, while the core rate edged up to 2.2% from 2.1%.

- Unsurprisingly the main drag on price growth was energy, which declined by 2.8% (month-over-month). On a year-over-year basis, however, the rate of decline softened considerably to -6.5% from -12.6% in December. Food prices were flat on the month, following two months of decline.

- Outside of food and energy, price growth generally accelerated. Prices for core services (ex-energy) rose 0.3% (m/m) and were up 3.0% year-on-year (from 2.9% in December), while core goods (ex food and energy) rose 0.2% with the year-over-year reading rising to -0.1% from -0.4%.

**Key Implications**

- The bulk of the disinflationary impulse from lower energy prices is now in the rear-view mirror and inflation is more likely to move higher than lower over the next year. For all the talk of negative (nominal) interest rates, inflation is moving up and the labor market continues to tighten. The case for continued gradual increases in policy rates grew stronger with this report.

- The high-valued dollar will continue to exert some downward pressure on core inflation over the next several months, but like energy, this story is closer to the end than the beginning. This should add confidence to the Fed's insistence that as transitory factors fade, inflation will move up and toward target.

- With wage growth at 2.5% and inflation moving toward 2.0%, the yield on 10-year government bond between 1.7% and 1.8% (it jumped higher after today's report) is looking a tad out of tune. Don't be surprised to see it move up further as the reality of a still resilient U.S. domestic economy sets in.

**James Marple, Senior Economist**
**416-982-2557**

@TD_Economics