



TD Economics

March 24, 2015

Data Release: Gasoline prices push up inflation in February, but rebound will be short lived

- Consumer prices rose by 0.2% (month-over-month) in February, bang-on market expectations. Core CPI (excluding food and energy) also rose 0.2%, ahead of expectations for a 0.1% M/M gain.
- Consumer price inflation (on a year-over-year basis) rose to 0.0% from -0.1% in January. The core rate edged up to 1.7% from 1.6%.
- Energy prices rebounded in February, rising by 1.0% (M/M), following seven straight months of declines. Increase in energy prices was led by gasoline, which rose 2.4% on the month. Energy prices were still down 18.8% on a year-over-year basis.
- Food prices rose 0.2% (M/M), accelerating from 0.0% growth in January. Food prices are up 3.0% from year ago levels.
- Core goods prices rose 0.5% (M/M) following three straight months of declines. Price increases were widespread across core goods categories, led by used cars and trucks (+1.0%) and medical care commodities (+0.7%)
- Core services price growth decelerated to 0.1%. Price growth decelerated across other categories and declined for medical care services (-0.2%).

Key Implications

- The level of inflation is the metric to watch for guidance on monetary policy and interest rates. The rebound in price growth in February, however, is less a surprise than a false dawn. The rebound in energy prices in February has been short lived - crude oil prices have fallen again in March and given continued over-supply could continue to fall. Inflation is likely to remain weak through the mid-point of this year, giving the Fed cause to leave rates on hold.
- Core price growth was interesting this month, reversing the typical dichotomy of falling goods prices and accelerating service prices. This month it was the opposite – core goods prices rose, while core services showed slower growth. It's much too early to call this a trend. Core goods price growth will remain subdued, knocked down by falling energy prices and the higher dollar. But, core services are a much larger category (58.8% of the total basket compared to 19.5% for core goods). Should core service price growth also remain weak, it suggests an even softer inflation profile than currently anticipated.
- The level of unemployment has not been much of a factor in current inflation dynamics, but that does not mean it should be ignored altogether. As the unemployment rate pushes towards 5.0%, job growth will begin to eat into "shadow" labor market slack – drawing more marginally attached people into the workforce and contributing to greater full-time job growth. This will eventually give rise to faster wage growth, keeping a floor under inflation. For more on the outlook for job growth, inflation and monetary policy please see our [Quarterly Economic Forecast](#).

**James Marple,
Senior Economist**

DISCLAIMER

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.