**ECONOMIC NEWS**

**HIGHLIGHTS**

- The total consumer price index (CPI) rose 1.2% in February, its biggest monthly increase since January 1991.
- The main factors contributing to such growth are gas (+8.4%), clothing (+5.0%), motor vehicle purchases (+2.1%), fresh vegetables (+6.4%) and traveller accommodations (+4.5%).
- Conversely, the main factors reining in total CPI growth are electricity (-0.8%), cereal products (-0.5%), mortgage interest costs (-0.1%), air transportation (-0.2%) and computers, software and computer equipment (-0.3%).
- The total annual inflation rate has gone from 0.5% to 1.2%.
- The Bank of Canada’s (BoC) core index rose 0.8% over the month. Year over year, its change stands at 1.4% from 1.0% in January.

**COMMENTS**

February’s monthly increase in prices is not only very large historically speaking, it also greatly outstrips expectations. As Statistics Canada today modified each CPI component’s relative weight, some may wonder if the changes may have helped boost February’s monthly increase. Not so, however. The monthly increase would have been almost identical without the change in weightings.

Another explanation is the larger-than-forecast seasonal effects. Since the early 1990s, seasonal effects have helped boost the total CPI by 0.2% on average in February. This time, the impact of seasonal fluctuations was about +0.5%.

That said, when seasonally adjusted, the total CPI still rose 0.7% over the month, its biggest increase in seven years. Clearly, the upside pressures on prices are not limited to seasonal effects. For example, the transportation component is up a monthly 2.4%, once seasonally adjusted. Historically speaking, growth by auto and gas prices has been especially strong at this time of year. Motor vehicles are often subject to substantial volatility depending on the incentives offered to consumers. February’s rise is therefore not extraordinary. For gas, weekly surveys at the pump show that prices were almost unchanged in March, so their contribution will be much smaller than in February (+0.4%).

**Implications:** Due to very strong monthly price growth, the annual inflation rate jumped substantially. Year over year, the total CPI’s change is back within the BoC’s target range. It seems that price growth will head for more normal fluctuations in the months to come, with the inflation rate gradually returning to the mid-point target (2%). Upside pressures will remain fairly limited, allowing the BoC to wait a few more quarters before raising its key rates.

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