The inflation rate slips to the lower end of the band (1%)

HIGHLIGHTS

• The total consumer price index (CPI) ticked up 0.2% in March.
• The main components that contributed to this increase were clothing (+6.0%), tour packages (+11.6%), footwear (+1.5%) and household appliances (+1.4%).
• In contrast, the total CPI’s monthly advance was reined in by a decline in the price of automobiles (-1.5%), traveller accommodations (-2.5%), fresh vegetables (-2.3%), fresh fruit (-1.7%) and dairy products (-0.9%).
• The total annual inflation rate fell from 1.2% to 1.0%.
• The Bank of Canada (BoC) core index also edged up 0.2% for the month—its annual change remained at 1.4%.

COMMENTS

Generally speaking, the movements in consumer prices were in line with expectations for March. As is the case each year, clothing prices posted a sharp seasonal increase for the month, on the heels of February’s own rise. In addition, as shown by the weekly surveys at the pump, gas prices for the month were up moderately (+0.2%), ending two consecutive months of sustained growth.

The total annual inflation rate fell to the lower end of the BoC’s band (1%), while core inflation remained steady at a very low level. Inflation pressures in Canada are very weak and clearly under control. We expected as much, but this simply confirms that the sharp 1.2% rise recorded in February was merely due to some one-off factors.

Implications: Inflation’s weakness provides authorities with much greater leeway in managing monetary policy, a situation that should last for some time, given that the BoC does not foresee any return to full production capacity until mid-2015. Closing of the negative output gap might not even happen until a bit later: our forecasts, which are slightly more pessimistic than the BoC’s, suggest that full capacity might only be reached by mid-2016. In these conditions, there should be no announcements on key rate increases for several more quarters.

**Gas price is slowing**

*Sources: Natural Resources Canada and Desjardins, Economic Studies*

**Inflation remains very weak**

*Bank of Canada’s core index.*

*Sources: Statistics Canada and Desjardins, Economic Studies*