CANADA

The annual inflation rate remains below its lower target

HIGHLIGHTS

• The total consumer price index (CPI) was up 0.2% in May, an advance that is slightly below expectations.
• The main components that contributed to this increase are traveller accommodations (+8.3%), gas (+1.1%), automobile insurance (+1.7%), air transportation (+3.6%) and recreational vehicles (+2.9%).
• In contrast, the components that reined in CPI advances the most were women’s clothing (-2.8%), automobile purchases (-0.6%), heating oil (-5.4%), household tools (-3.4%) and prescription drugs (-1.7%).
• The total annual inflation rate increased from 0.4% to 0.7%.
• The Bank of Canada (BoC) core index also advanced by 0.2% in May; its annual change stayed put at 1.1%.
• Retail sales rose by 0.1% in April—a fairly weak result due in most part to a major decline in gas station sales (-2.9%).
• Expressed in real terms, retail sales nevertheless posted satisfactory growth of 0.5%.

COMMENTS

Slowly but surely, the total annual inflation rate is climbing toward the BoC’s target range (between 1% and 3%). Based on the weekly surveys at the pump, to date gas prices have posted average growth of about 2% in June. This will translate to a slight monthly increase in the total CPI, which should be sufficient to push the annual change back up above 1% as of June. Total inflation and core inflation should therefore converge to a very similar level soon.

Implications: Not only is inflation very weak across the country, our forecasts show that it should remain in the lower end of the target range for the next few months. Clearly there is no pressing reason to increase interest rates in Canada quickly. The BoC can therefore wait until fall 2014 before it increases the overnight rate, which gives the Canadian and global economy some time to gain strength.