Inflation remains close to the lower target

HIGHLIGHTS

- The total consumer price index (CPI) ticked up 0.2% in September, a slightly higher than forecast result.
- The main components contributing to this increase are women’s clothing (+4.8%), motor vehicle purchases (+1.0%), tuition fees (+3.1%), footwear (+2.1%) and natural gas (+1.3%).
- In contrast, CPI advances were halted by declines in the cost of traveller accommodations (-3.2%), fresh fruit (-3.7%), fresh vegetables (-3.3%), tour packages (-2.7%) and air transportation (-2.0%).
- As is usually the case at this time of year, price fluctuations due to seasonal effects were nil in September.
- The total annual inflation rate remained steady at 1.1%.
- The Bank of Canada’s core index (CPIX), which excludes eight volatile components, also edged up 0.2% in September. Its annual change held steady at 1.3%.

COMMENTS

The weak climate for price growth in Canada continued in September, to no surprise. As a result, the total annual inflation rate remained close to the Bank of Canada’s lower target (1%) for the fourteenth consecutive month. The primary source of this moderate price growth is goods. Prices for goods rose by a scant 0.5% in the past year while prices for services rose by 1.5%. Durable goods stand out with a price advance of zero in the past 12 months.

Implications: Inflation is likely to remain weak in the next few months. On one hand, Canadian output advanced at a level below its full potential, greatly limiting the pressure on prices. On the other, changes in energy prices should remain fairly moderate. In fact, the weekly surveys currently available for October show a drop of about 5% of gas for the month. In such conditions, there is no pressing reason to increase key interest rates. The Bank of Canada may therefore wait until 2015 before raising the target for the overnight target.

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