

ECONOMIC NEWS

Canada: Inflation Remains Lower than Expected

HIGHLIGHTS

- ▶ The consumer price index (CPI) slipped 0.1% in August, while the consensus forecast was expecting a 0.1% increase in the month.
- ▶ The biggest contributors to that decline are air transportation (-5.1%), motor vehicle purchases (-1.0%), meat (-2.9%), fresh vegetables (-4.7%) and gasoline (-0.8%).
- ▶ Conversely, the components that made the most positive contribution to the total CPI's monthly variation are rent (+0.9%), personal care services (+5.5%), clothing (+1.4%) and jewellery (+9.9%).
- ▶ The total annual inflation rate stayed at 1.0%.

COMMENTS

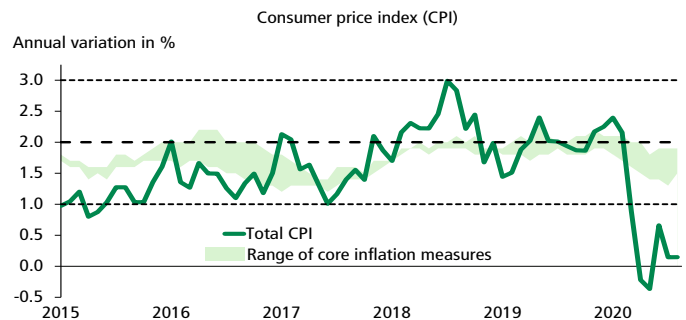
Contrary to our expectations, total inflation is struggling to gain momentum in the country. The annual variation in the price of goods remained slightly negative in August, but the decrease is far less steep than in April, when the full brunt of the sudden drop in gasoline prices was felt. This is fairly consistent with our scenario in general. The recent low inflation therefore stems more from services. The annual variation in service prices continues to slow and rose to just +0.5% in August, compared to +2.2% in February. This is a reflection of weaker demand in some activity sectors, as a number of restrictive measures are still in place to stop the spread of the virus. For example, the price of air transportation has fallen 16.0% over the past year and the price of traveller accommodations, 25.4%.

IMPLICATIONS

The aftereffects of the lockdown and weaker demand in some sectors have not finished leaving their mark on inflation. There is therefore every indication that the total annual inflation rate will stay below the lower target (1%) for some months to come. This will prompt the Bank of Canada to keep monetary policy very accommodative.

GRAPH 1

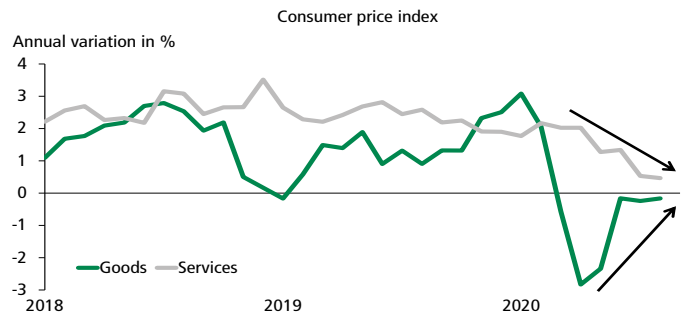
Total inflation holds near zero



Sources: Statistics Canada, Bank of Canada and Desjardins, Economic Studies

GRAPH 2

Lower service prices hamper inflation growth



Sources: Statistics Canada and Desjardins, Economic Studies

Benoit P. Durocher, Senior Economist

François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist
Hélène Bégin, Senior Economist • Benoit P. Durocher, Senior Economist • Francis Généreux, Senior Economist

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

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