

ECONOMIC NEWS

Canada: Inflation Returns to the Lower Target

HIGHLIGHTS

- ▶ The consumer price index (CPI) rose 0.1% in November.
- ▶ The main components that contributed to this increase are homeowners' replacement cost (+1.1%), fresh vegetables (+3.1%), purchase of passenger vehicles (+0.4%), women's clothing (+1.8%) and furniture (+2.6%).
- ▶ In contrast, the components that did the most to curb CPI growth in November are gas (-1.5%), traveller accommodation (-4.4%), mortgage interest costs (-0.9%), computer equipment and digital devices (-2.9%) and telephone services (-0.9%).
- ▶ Total annual inflation rose from 0.7% to 1.0%, which is the lower target of the Bank of Canada (BoC) range.
- ▶ The average annual variation in the three BoC benchmark indexes remained unchanged at 1.7%.

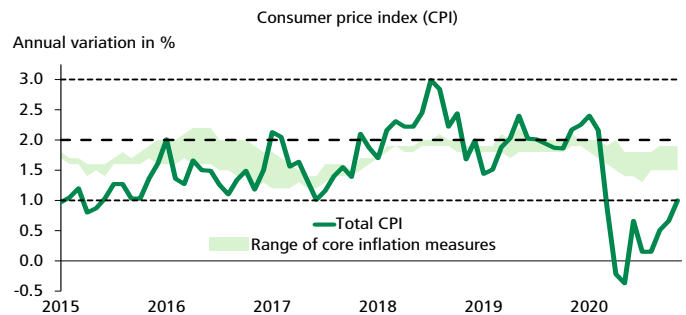
COMMENTS

Little by little, the climb in inflation is proving faster than we thought it would be. The total annual inflation rate has now returned to the BoC's target range threshold (1%). Let's not forget that barely six months ago, annual inflation stood at -0.4%. The increase is particularly prominent in the seasonally adjusted monthly variation in total CPI. It has been between 0.2% and 0.3% for three months now. Annualized, this represents growth of between 2.4% and 3.7% over one year, which is fairly high.

This result is astonishing. There is still much excess capacity, however, which is expected to lead to less pressure on price growth. Clearly, other factors also come into play. Statistics Canada is signalling a problem with prices for travel tours. Since travel tours were not offered in November, Statistics Canada had to use an imputation method that resulted in an 18.0% increase in the annual variation of this component.

GRAPH

A further rise in total inflation



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

However, this result should be interpreted with caution, according to Statistics Canada.

One might also wonder if the fast climb in consumer spending after the spring plunge is not contributing to upward pressure on the price of some components. That said, all of this could easily be reversed with the new restrictions recently imposed to stem the spread of the second wave of the pandemic.

IMPLICATIONS

Aside from the fluctuations in total inflation, the BoC benchmark indexes paint a better picture of the inflation trend in the country. The average of the three benchmark indexes has been very stable since the spring and remains in the lower bound of the target range. Inflation is therefore still not a concern for keeping a very accommodative monetary policy.

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