

ECONOMIC NEWS

Canada: Inflation Levels Off at 4.7%

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HIGHLIGHTS

- ▶ The consumer price index (CPI) rose 0.2% in November.
- ▶ The components that contributed the most to this increase were fresh vegetables (+9.8%), furniture (+4.6%), homeowners' replacement cost (+1.1%), natural gas (+2.9%) and the purchase of passenger vehicles (+0.3%).
- ▶ In contrast, the components that contributed the most to the decrease were telephone services (-6.7%), travel tours (-19.4%), traveller accommodations (-3.1%), reading materials (-5.3%) and video equipment (-1.8%).
- ▶ The total annual inflation rate stayed at 4.7%.

COMMENTS

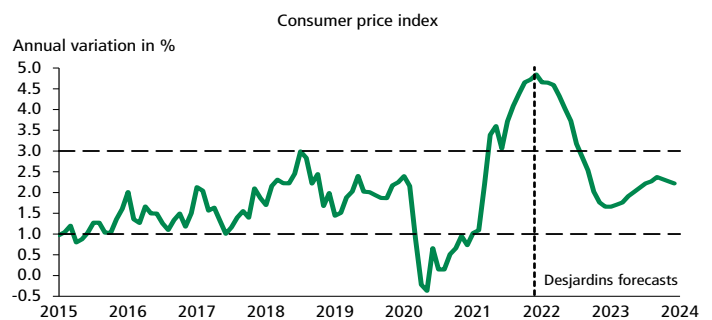
As expected, the total annual inflation rate stayed at the same level in November. However, at 4.7%, inflation is far above the Bank of Canada's (BoC) target range of 1% to 3%. Nevertheless, the 0.3% increase in the seasonally adjusted version between October and November is encouraging. This was the lowest monthly increase since June. According to our projections, monthly growth in the seasonally adjusted index will continue to gradually ease over the next few months. However, the risks associated with these projections are on the upside as supply issues have clearly intensified due to the flooding in British Columbia.

Ultimately, we expect the inflation rate to remain high for the first months of 2022. We likely won't see inflation truly slow down in Canada until the second half of 2022.

IMPLICATIONS

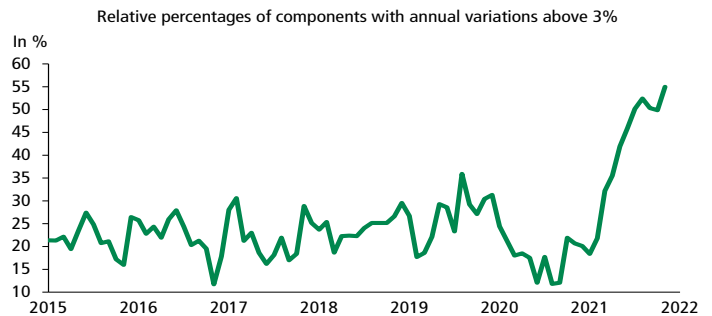
Due to the current high inflation, it's becoming increasingly clear that it's no longer necessary to keep key interest rates at their effective lower bound. The BoC should therefore start to gradually raise its target for the overnight rate next April. This

GRAPH 1
Inflation expected to remain high for several months



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 2
A large proportion of CPI basket components continue to post very high inflation



CPI: Consumer price index
Sources: Statistics Canada and Desjardins, Economic Studies

timeframe is due to the need to gradually tighten monetary conditions, although the BoC took a key step by ending its net bond purchase program in October. It also takes into account the uncertainty over the spike in COVID-19 cases.