

# ECONOMIC NEWS

## Canada: Inflation Tops 5%

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### HIGHLIGHTS

- ▶ The consumer price index (CPI) rose 0.9% in January.
- ▶ The main upward contributors were gasoline (+4.8%), purchase of passenger vehicles (+0.9%), meat (+2.2%), alcoholic beverages purchased from stores (+2.1%) and other owned accommodation expenses (+1.0%).
- ▶ The main downward contributors were air transportation (-18.0%), furniture (-2.0%), passenger vehicle insurance premiums (-0.6%), traveller accommodation (-2.2%) and mortgage interest cost (-0.2%).
- ▶ Inflation jumped 5.1% on a year-over-year basis in January, up from 4.8% in December.

### COMMENTS

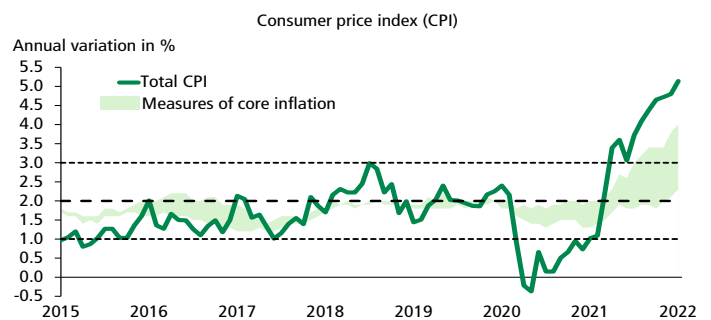
Inflation rose faster than expected again in January. Seasonal price growth was stronger than in previous years, but there's still considerable upward pressure on prices. On a seasonally adjusted monthly basis, CPI was up 0.6% in January—about what we saw last summer and fall. Food, shelter and transportation costs continue to soar.

Components with inflation over 3% now account for a whopping 68.8% of the CPI basket, meaning price gains are picking up speed across the board. On a year-over-year basis, all three of the Bank of Canada's (BoC) benchmark indices rose in January, up on average from 3.0% to 3.2%.

### IMPLICATIONS

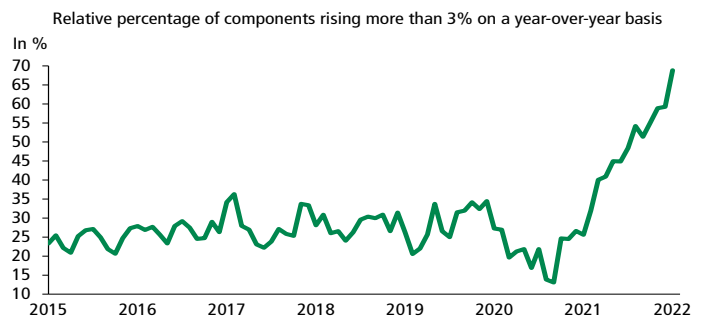
Based on our projections, annual inflation could continue to rise in the coming months before starting to gradually fall this spring. That leaves little doubt that the BoC will start hiking interest rates at its March 2 meeting.

**GRAPH 1**  
Total inflation continues to rise



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

**GRAPH 2**  
A very high percentage of CPI basket components have inflation over 3%



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