

CANADA

Total inflation drops back below the lower target

HIGHLIGHTS

- The total consumer price index (CPI) dipped 0.2% in October.
- The main components driving this decrease are gas (-5.1%), traveller accommodation (-8.1%), natural gas (-3.9%), electricity (-1.2%) and fresh vegetables (-3.2%).
- On the other hand, the most positive contributions are from motor vehicle purchases (+1.6%), property taxes (+3.2%), footwear (+2.3%), tools and other household items (+1.7%) and fresh fruit (+1.5 %).
- The total annual inflation rate shrank from 1.1% to 0.7%.
- The core index (CPIX), which excludes eight volatile components, increased 0.2% during the month. Its annual change slipped to 1.2%, from 1.3% previously.

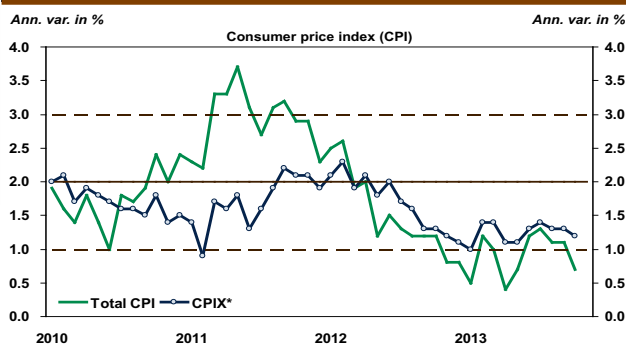
COMMENTS

As forecast, total CPI was down 0.2% in October. Seasonal effects were consistent with prior years and saw decreases in the prices of gas, recreation, healthcare and food. Once seasonally adjusted, total CPI posted a decrease of 0.08%, down slightly from the last two months.

This weakness in price growth is clearly reflected in the 0.7% slide in the total CPI's annual change, a level below the Bank of Canada's lower target of 1%. This phenomenon of disinflation is not unique to Canada, as similar trends are currently being observed in most industrialized countries. Clearly, substantial surplus production capacity noted around the world is a significant drag on price growth. Under these conditions, the total annual inflation rate should remain very weak (between 0.5% and 1.5%) in Canada for several more months.

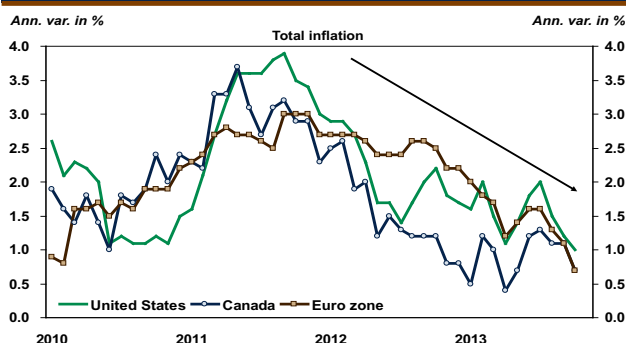
Implications: Limited price growth argues in favour of maintaining the status quo for Canadian key interest rates. We may not see a lasting return to the median target for inflation before 2015, so the Bank of Canada will likely need to wait until mid-2015 before beginning to raise its rate.

Total inflation drops below the 1% target, again



* Bank of Canada's core index.
Sources: Statistics Canada and Desjardins, Economic Studies

Slowing inflation is not unique to Canada



Sources: Eurostat, Bureau of Labor Statistics, Statistics Canada and Desjardins, Economic Studies

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