



CANADA

Total inflation rate back to target range

HIGHLIGHTS

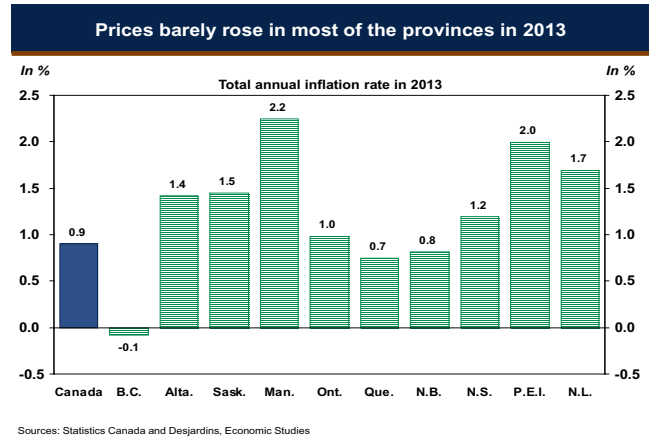
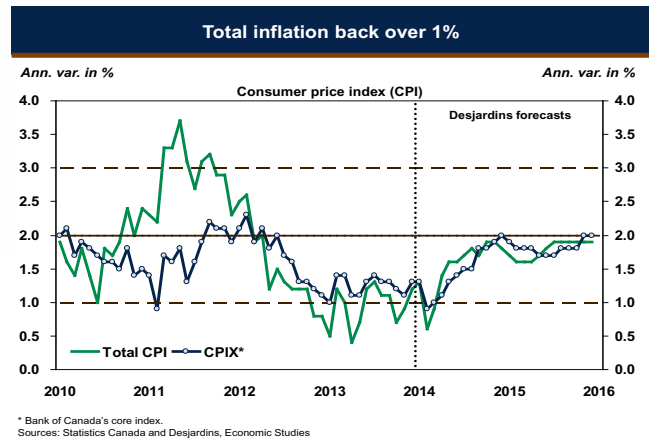
- As expected, the total consumer price index (CPI) dropped 0.2% in December.
- Thanks to base effects, the annual change in CPI is nonetheless back up within the target range, i.e. 1.2% versus 0.9% the previous month.
- The Bank of Canada's core index (CPIX), which excludes the eight most volatile components, declined 0.4% in December. Its annual change increased from 1.1% to 1.3%.
- **Total annual inflation rate for 2013 was only 0.9%.**
- With its CPI declining by 0.1%, British Columbia had the lowest inflation rate in 2013, followed by Quebec at 0.7%. With an inflation rate of 2.2%, Manitoba recorded the greatest price increase.

COMMENTS

The fact that inflation is back within the Bank of Canada's target range (1% to 3%) is good news. That said, this won't be enough to ease the concerns of monetary authorities and investors about Canada's persistently low inflation. At just 1.2% in December, the total annual inflation rate remains historically low. As well, the disappearance of the base effects associated with the sharp monthly increase in February 2013 will translate into a significant decrease in the annual change in the total CPI once the February 2014 figures are announced. It is very likely that inflation will fall back below the lower limit of the target range (1%) at that moment.

This new foray below the lower limit of the target range should, however, be short-lived since, based on some indicators, the real trend is between 1.0% and 1.5%. Once annualized, the average change in CPI on a seasonally-adjusted basis is 1.4% for the last six month. The annual change in the core CPI is also currently 1.3%.

Implications: Despite the ups and downs, inflation will mostly remain within the Bank of Canada's target range



this year although in the lower range. This means no rate reduction is in store in the near term.

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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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