



CANADA

Inflation temporarily dips close to the lower target

HIGHLIGHTS

- The total consumer price index (CPI) rose 0.8% in February.
- The components most responsible for this increase are gas (+2.3%), tour packages (+14.3%), motor vehicle purchases (+1.6%), traveller accommodation (+4.7%) and women's clothing (+2.7%).
- Conversely, the main components reining in total CPI growth in the month were electricity (-0.7%), non-alcoholic beverages (-1.9%) and computer and digital equipment (-1.4%).
- The total annual inflation rate fell from 1.5% to 1.1%. The annual change in the core consumer price index (CPIX) slipped to 1.2% from 1.4% in January.
- Statistics Canada has also reported that retail sales were up 1.3% in January. In real terms, sales have posted a 1.4% gain, which only makes up for some of the 2.3% lost in December.

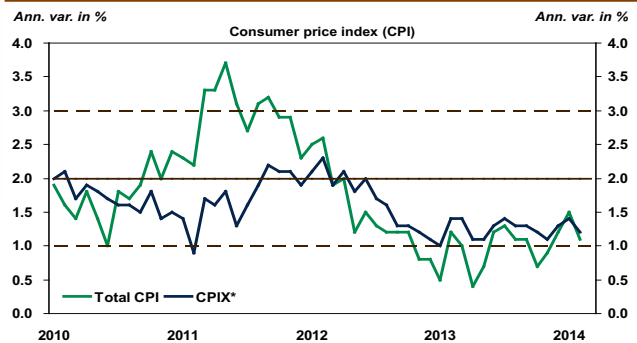
COMMENTS

Total CPI monthly growth was a little stronger than expected. The rise associated with seasonal fluctuations in February (+0.5%) was sharper than in previous years (particularly for clothing and transportation), while the 0.3% monthly gain in seasonally adjusted total CPI is evidence that underlying inflation was stronger than the 0.2% growth seen in recent months.

However, this did not prevent the annual change in the total CPI to go back near the lower target (1.0%) of the Bank of Canada as the effects of the monthly increase of 1.2% occurred in February 2013 disappeared from calculation. But this retreat by total inflation is likely to be short-lived. The annual change in total CPI could return to around 1.5% as soon as next month. We could also see a total annual inflation rate that is close to the median target (2.0%) when April's results will be released.

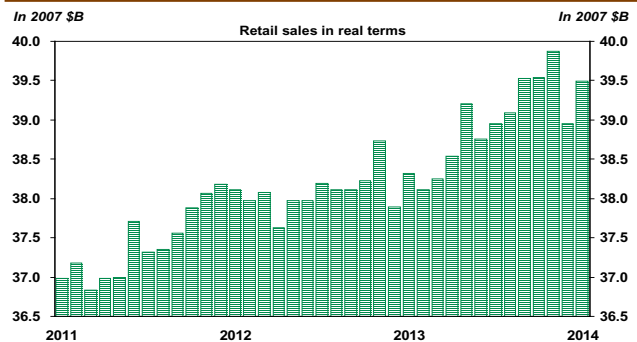
Implications: Despite a fairly weak inflation rate in February, the rebound expected in the coming months

Total inflation could rise to near the median target soon



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

Despite January's increase, the volume of retail sales did not completely make up for December's loss



Sources: Statistics Canada and Desjardins, Economic Studies

could quickly dispel worries associated with overly weak growth in prices across the country. This could spread into financial markets, which have recently been plagued by stronger pessimism from the BoC's governor.

Benoit P. Durocher
Senior Economist

François Dupuis
Vice-President and Chief Economist

Yves St-Maurice
Senior Director and Deputy Chief Economist

514-281-2336 or 1 866 866-7000, ext. 2336
E-mail: desjardins.economics@desjardins.com

Hélène Bégin
Senior Economist

Benoit P. Durocher
Senior Economist

Francis Généreux
Senior Economist