

CANADA

The inflation rate climbs back to the median target

HIGHLIGHTS

- The total consumer price index (CPI) rose 0.3% in April.
- The main contributing components were gas (+2.1%), natural gas (+8.2%), women's clothing (+1.8%), maintenance and repairs by homeowners (+2.4%) and meat (+1.3%).
- Conversely, the components reigning in total CPI growth were furniture (-4.1%), traveller accommodation (-3.2%), tour packages (-2.3%), automobile insurance premiums (-0.5%) and automobile purchases (-0.2%).
- The total annual inflation rate rose from 1.5% to 2.0%.
- The Bank of Canada's core index (CPIX), which excludes the eight most volatile components, ticked up 0.2% in April. Its annual change edged up to 1.4%, versus 1.3% in March.

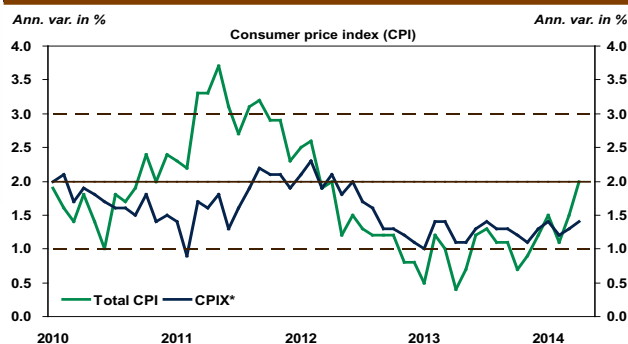
COMMENTS

In general, the CPI's results in April were as expected. The monthly change in total CPI is one-tenth of a percent less than forecast, but this small gap is the result of a less-than-normal seasonal hike in prices for this time of year. For example, the increase in the price of gas, while fairly large in April, was lower than the roughly 3% increase signaled by weekly surveys at the pump.

Total CPI adjusted for seasonal effects inched up 0.2% in April, similar to the average advance of the last six months. This represents an acceleration compared with 2012 and 2013, which saw average monthly growth at 0.1%. Clearly, inflationary pressures are heavier across the country, with faster growth in energy prices as gas and natural gas prices have cumulatively spiked by 8% and 28% respectively since October 2013.

For now, this upward trend is not really reflected in the annual change in the CPIX, which has held steady between 1.1% and 1.4% over the last 15 months. That said, monthly growth in the seasonally adjusted CPIX has also been somewhat faster in recent months, leading our projections to indicate that the annual change in the CPIX could reach the median target (2%) around the end of 2014 or beginning

Core inflation could also start accelerating somewhat in the coming months



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

of 2015. This projection is quite different from the Bank of Canada's projection, which is waiting for core inflation to gradually return to 2% by the beginning of 2016.

Implications: With total inflation already back to the median target zone and expected to stay there in the coming months, and core inflation approaching its target median by 2015, the picture on inflation has changed significantly since last fall. Fears of disinflation are a thing of the past. Does this mean we should fear inflation accelerating too quickly? The expected stability in the coming quarters does not point in that direction, but it is clear that the risks are more balanced than in the past. It remains to be seen if this will be enough to prompt the governor of the Bank of Canada to adopt a less worried stance. Nothing is less certain.

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