

CANADA

Inflation stays near the median target

HIGHLIGHTS

- The total consumer price index (CPI) rose 0.1% in September.
- The main components contributing to the rise are clothing (+5.5%), tuition (+3.2%), meat (+1.5%), shoes (+1.5%) and reading materials and other printed matter (+4.2%).
- In contrast, the main components negatively contributing to the monthly variation in total CPI are automobiles (-1.2%), traveller accommodations (-4.5%), fresh vegetables (-5.0%), gas (-0.8%) and baked goods (-2.2%).
- The total annual inflation rate fell from 2.1% to 2.0%.
- The Bank of Canada's core index (CPIX), which excludes eight volatile components, advanced 0.2% for the month. Its annual change remained at 2.1%.

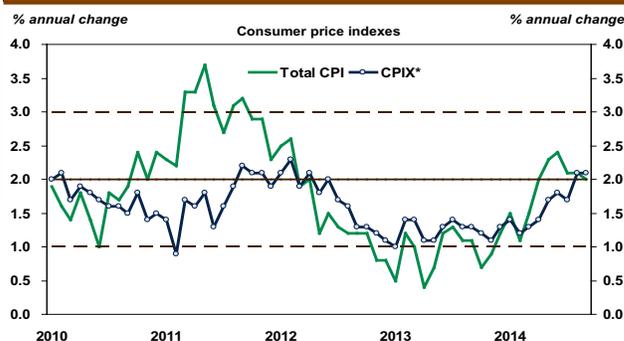
COMMENTS

September's results for the CPI are completely in line with our forecast. Seasonal effects dragged total CPI down 0.1%, with the decrease in fresh vegetables and gas largely offset by an increase in clothing prices. Therefore, seasonally adjusted total CPI posted 0.2% growth. This result more accurately reflects the trend than did the weaker fluctuations recorded in July and August.

All in all, both total inflation and core inflation remained near the median target (2%) in September. Based on what is currently being seen in several western countries, we can question whether Canadian inflation will fall off somewhat in the coming months. Preliminary data indicate that gas prices have fallen around 4% in October after just two weeks. Despite lower gas prices, our projections show that total and core inflation will hold steady near the median target for the coming months.

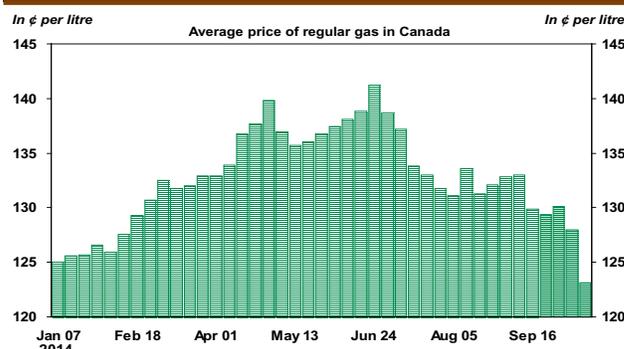
Implications: Even though inflation should not diminish significantly across the country, its relative stability around the median target provides the Bank of Canada with a fair amount of room to move in managing monetary policy. Given the uncertain economic outlook, we can expect that

Inflation has been stable around the median for several months



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

Price of gas has fallen recently



Sources: Natural Resources Canada and Desjardins, Economic Studies

the first order to increase key rates will not be issued before fall 2015.

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