



CANADA

The total inflation rate remains below the lower target... for now

HIGHLIGHTS

- The total consumer price index (CPI) rose 0.6% in May.
- The main components that contributed to the rise are gas (+5.5%), traveller accommodation (+14.7%), fresh fruits (+5.1%), fresh vegetables (+4.0%) and recreational vehicle purchases (+4.3%).
- In contrast, the main components reining in CPI growth are women's clothing (-3.0%), air transport (-2.2%), natural gas (-1.9%), jewelry (-2.4%) and sporting equipment (-3.5%).
- The total annual inflation rate went from 0.8% to 0.9%.
- Core inflation (CPIX), which excludes eight volatile components, advanced 0.4% in May. Its annual change slipped to 2.2% from the previous 2.3%.

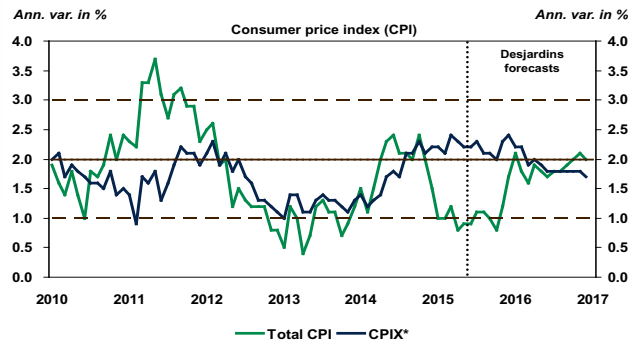
COMMENTS

Overall, May's results were consistent with expectations. For one, half of the monthly increase in total CPI stems from the increase in gas alone. For another, a seasonal rise in certain prices is responsible for a good portion of the other half of total CPI's monthly advance.

Despite May's monthly increase, total CPI's annual change was still fairly weak. At 0.9%, the total annual inflation rate is holding steady below the Bank of Canada's lower target (1%) for a second month in a row. However, this result reflects past decreases in gas prices, and it is only a question of time before total inflation moves back inside the Bank of Canada's target range. Prices are clearly trending up, as evidenced by the annual change in CPIX, which has hovered around 2% for quite some time.

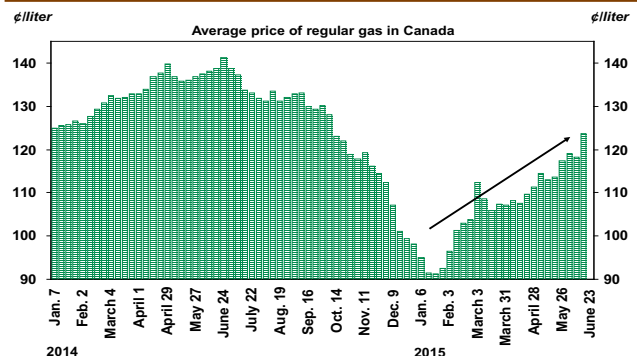
Implications: With total inflation that should climb in the coming months, and core inflation near the median target, monetary authorities are not overly concerned with changes in prices. More focus will be on the vitality of the North American economic recovery expected in the spring.

Total inflation should eventually make its way back to the median target



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

Gas prices continue to rise



Sources: Natural Resources Canada and Desjardins, Economic Studies

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