Economic News
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UNITED STATES – CANADA

Total inflation remains weak in both the United States and Canada

HIGHLIGHTS

- The consumer price index (CPI) in the **United States** ticked up by 0.3% in June after a 0.4% upturn in May. Energy prices rose by 1.7% thanks the 3.4% increase in gasoline prices. The core index, which excludes food and energy, was up by 0.2% after 0.1% growth in May. The annual change in the all-items CPI edged up from 0.0% to 0.1%, and core inflation from 1.7% to 1.8%.
- Housing starts were up sharply in the United States in June, climbing from an annualized volume of 1,069,000 units in May to 1,174,000, an increase of 9.8%. Building permits saw robust growth of 7.4% in June; this took them from 1,250,000 to 1,343,000 units.
- In **Canada**, the total CPI rose by 0.2% in June with a boost from gasoline prices. The total annual inflation rate edged up from 0.9% to 1.0%. The core index (CPIX), which excludes eight volatile components, was stable in June: its annual change ticked up from 2.2% to 2.3%.

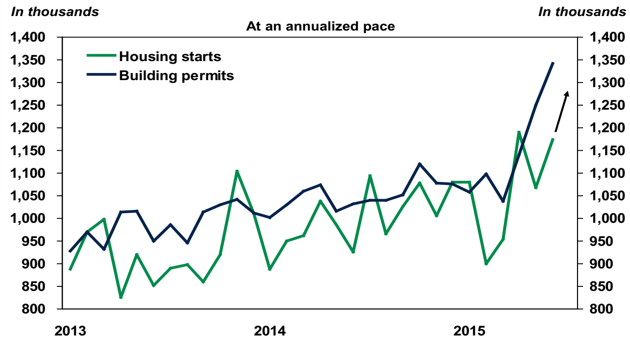
COMMENTS

The housing market really seems to be gathering steam in the United States. Furthermore, the volume of building permits issued in June (the highest since July 2007) and the strong performance by the NAHB homebuilders' confidence index in the past few months suggest that this trend will continue in July.

As far as consumer prices are concerned, total inflation is still very weak in North America. However, rising gasoline prices are starting to push inflation rates up from their recent lows. We also note slight increases in core inflation in both countries. In the United States, the increase comes mainly from rents (+0.4% in June), which are inflating service prices. Goods prices, on the other hand, are on a downwards slope (influenced by the strength of the greenback), which partly accounts for the weakness of U.S. retail sales in June.

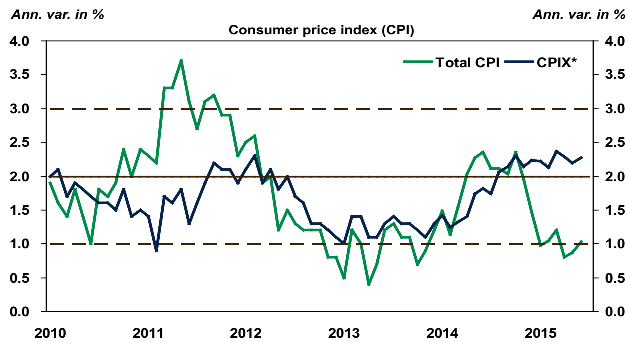
Implications: Total inflation is still weak in Canada and the United States. But since most of the other indicators are diverging, with a rebound taking shape in the United States and a strong probability of a technical recession in Canada, the central banks are obliged to react differently. The Bank of Canada has just announced a cut in key interest rates, while the Federal Reserve could raise its rates twice before year-end.

United States – Housing starts should keep heading up



Sources: U.S. Census Bureau and Desjardins, Economic Studies

Canada – Total inflation is still at the bottom of the Bank of Canada's target range



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

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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.