

CANADA

The total annual inflation rate remains in the lower part of the target range

HIGHLIGHTS

- The total consumer price index (CPI) rose 0.1% in July.
- The main components that contributed to the rise are electricity (+2.4%), traveller accommodation (+3.9%), men's clothing (+2.0%), gas (+0.4%) and tour packages (+1.6%).
- In contrast, the main components reining in CPI growth are motor vehicle purchases (-1.7%), mortgage interest costs (-0.8%), footwear (-1.7%), dairy products (-0.9%) and non-alcoholic beverages (-2.7%).
- The total annual inflation rate went from 1.0% to 1.3%.
- Core inflation (CPIX), which excludes eight volatile components, was unchanged in July. Its annual change still rose to 2.4%, from 2.3%.
- Statistics Canada also released retail sales results for June this morning. The 0.6% increase recorded was consistent with our expectations.

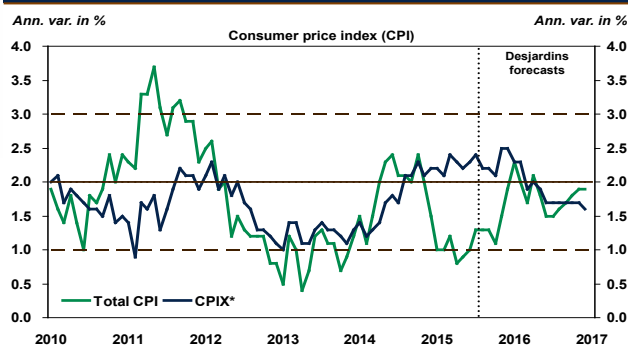
COMMENTS

The monthly advance in total CPI and CPIX was a little weaker than expected, but this gap is mainly due to slightly higher-than-normal seasonal price reductions for this time of year. As such, seasonally adjusted total CPI posted a 0.2% increase in July. Nevertheless, the result is slightly below the average of the past six months, attesting to somewhat weaker inflation pressure. It must be said that output has slowed considerably in recent months. Inflation pressure should continue easing in the coming months; this will likely keep the total annual inflation rate in the lower part of the target range set by the Bank of Canada (BoC).

Most of the rise in the value of June's retail sales stems from rising prices. In real terms, retail sales were nearly flat. Retail sales should therefore not be expected to contribute significantly to growth in real GDP by industry in June.

Implications: With the outlook on inflation being fairly modest, all in all, the BoC has quite a bit of flexibility

Total inflation should stay fairly low in the coming months



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

in managing monetary policy. Following difficult first and second quarters, all hopes now rest with the Canadian economy's expected rebound in the third quarter. However, we will have to wait until September to see the initial results for that period.

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