

CANADA

The total annual inflation rate stays at 1.0% Retail sales disappoint in September

HIGHLIGHTS

- The total consumer price index (CPI) rose 0.1% in October.
- The main components contributing to the rise are motor vehicle purchases (+1.9%), property taxes (+3.0%), fresh fruit (+3.8%), meat (+1.1%) and women's clothing (+0.8%).
- In contrast, the main factors reining in total CPI growth are traveller accommodation (-12.2%), gas (-2.0%), natural gas (-7.4%), tools and other household items (-2.9%) and non-alcoholic beverages (-2.9%).
- The total annual inflation rate stays at 1.0%.
- The Bank of Canada's core index (CPIX), which excludes the eight most volatile components, advanced 0.3% for the month. Its annual change remained at 2.1%.
- Statistics Canada also released September's retail data. Sales were down 0.5%, falling short of expectations.

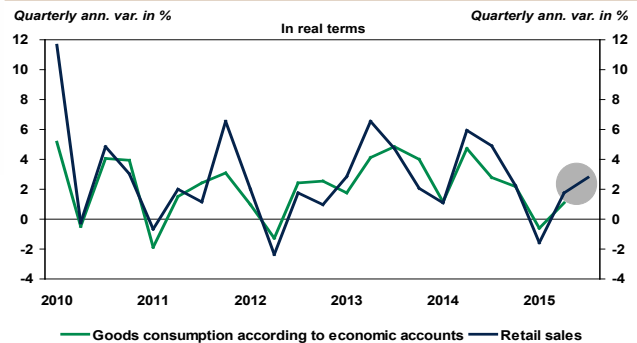
COMMENTS

Overall, total CPI advanced slightly faster than expected in October. Downside seasonal effects normally seen during that month were smaller this time. If we exclude these considerations, seasonally adjusted total CPI posted an increase of 0.2% in October, an advance similar to the average for the last six months. The uptrend in prices therefore holds steady. The change in CPIX also clearly illustrates this trend, with a very stable annual change that has held steady between 2.1% and 2.4% for 15 months.

The surprise in retail trade essentially stems from auto sales, which were down in September even though preliminary data suggested an increase. It also seems that the value of retail sales was impacted more than expected by decreases in certain prices (including gas). Retail sales in real terms therefore posted a 0.1% increase during the month.

Implications: Third quarter results were fairly good for the volume of retail sales, gaining 2.8% (quarterly annualized). This suggests that consumer spending will contribute positively to third-quarter economic growth.

The increase in retail sales volume suggests greater goods consumption in the third quarter



Sources: Statistics Canada and Desjardins, Economic Studies

For inflation, the uptrend continues. As crude oil prices stabilize, the impact of falling gas prices on total inflation should gradually wane. According to our projections, total inflation should reach the median target (2%) during the next year. This should lay the groundwork for increasing Canadian key rates, likely in early 2017.

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