



CANADA

Total inflation drops back below the mid-point target

Retail sales get the year off to a roaring start

HIGHLIGHTS

- The total consumer price index (CPI) rose 0.2% in February.
- The main components making upside contributions are travel tours (+19.4%), telephone services (+2.1%), women's clothing (+1.6%), men's clothing (+2.2%), and the purchase of passenger vehicles (+0.3%).
- The main components reining in the rise by the total CPI are gas (-6.9%), personal care supplies and equipment (-1.2%), electricity (-0.3%), fuel oil (-3.4%), and homeowners' home and mortgage insurance (-0.5%).
- The total annual inflation rate goes from 2.0% to 1.4%.
- The Bank of Canada's core index (CPIX), which excludes eight volatile components, advanced 0.5% in February. Its annual change fell to 1.9% from January's 2.0%.
- Retail sales jumped in January, gaining 2.1%.

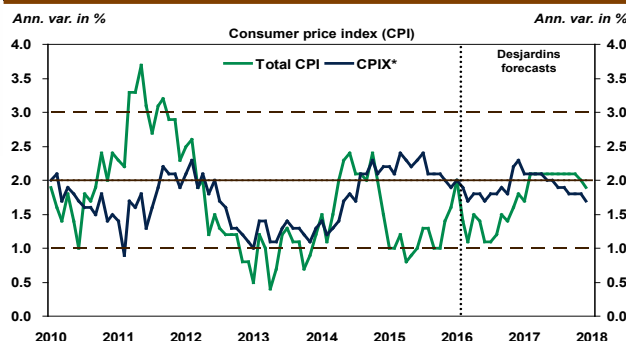
COMMENTS

Total CPI growth was a little weaker than anticipated in February, as the index's seasonally adjusted monthly change retreated 0.16%. Although it is trending up, an occasional downtick is not unusual. That being said, as forecast, the annual inflation rate fell below the mid-point target and should stay there throughout 2016, according to our projections.

This morning, Statistics Canada also released January's results for retail sales. After fluctuating wildly for two months due to one-off factors, sales growth was expected to be more moderate. However, it jumped 2.1% over the month. A catch-up effect due to the late winter no doubt had a hand in this. Moreover, motor vehicle sales soared above expectations.

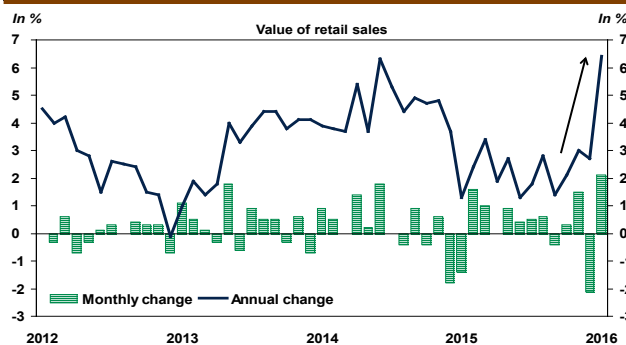
Implications: The news is promising for the start of the year. The rise in retail sales combines with the increase in manufacturer sales to suggest that economic growth will be fairly good in January, in tandem with inflation that is

Total inflation should stay below the mid-point target in the months to come



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

Annual retail sales growth accelerates



Sources: Statistics Canada and Desjardins, Economic Studies

broadly under control. In other words, the Bank of Canada should be happy with this, arguing for an extended status quo on monetary policy.

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