

CANADA

The annual inflation rate is closing in on the mid-point target

HIGHLIGHTS

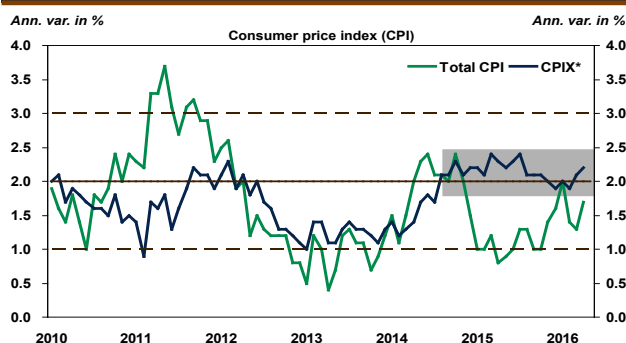
- The total consumer price index (CPI) rose 0.3% in April.
- The main components contributing to the rise are gasoline (+8.9%), new automobile purchases (+0.7%), video and audio service subscriptions (+2.2%), women's clothing (+1.2%) and traveler accommodations (+1.8%).
- Conversely, the components reining in total CPI advances the most are tour packages (-14.2%), fresh vegetables (-5.4%), fresh fruit (-3.5%), natural gas (-2.8%) and meat (-0.8%).
- The total annual inflation rate jumped from 1.3% to 1.7%.
- The Bank of Canada's core index (CPIX), which excludes eight volatile components, rose by 0.2% in April. Its annual change ticked up to 2.2% vs. 2.1% the previous month.
- This morning, Statistics Canada also released the results for retail trade—a 1.0% drop in sales was recorded for March. Expressed in real terms, the decline is 1.3%, after a 1.4% increase in February and a 2.0% jump in January.

COMMENTS

The monthly advance in the total CPI is somewhat weaker than anticipated. As expected, the increase in gas prices largely contributed to the rise in the monthly change. This contribution was partly offset however by an unusual drop at this time of year in the cost of certain food items (meat, fruit and vegetables). According to our estimates, the CPI, minus gas prices and corrected for seasonal fluctuations, declined 0.2% in April—a result that clashes with the 12-month trend (+0.2%).

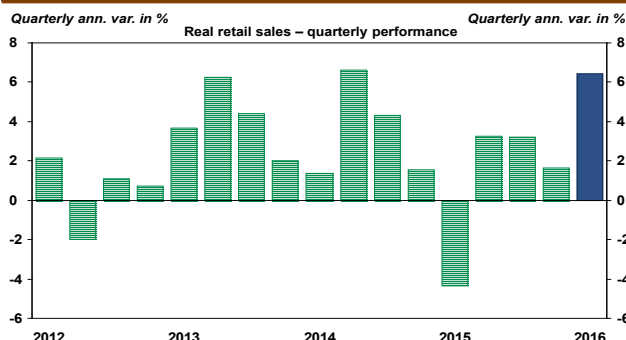
As for the total annual inflation rate, the surge recorded in April is not really worrisome. This does not signal the start of an uptrend, but rather a fluctuation linked to the volatility of the results. In fact, the CPIX is very steady, with an annual change that has stayed within the range of 1.9% and 2.4% for the past 21 months.

Underlying inflation has been very steady for several months



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

Despite the drop in March, the volume of retail sales increased sharply in Q1 2016



Sources: Statistics Canada and Desjardins, Economic Studies

Implications: Core inflation's strong stability shows just how much the Bank of Canada is not worried about rising prices. The results for retail sales in the first quarter of 2016 point to a significant increase in sales; this could bode well for advances in consumer spending on goods for the period.

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