Cooperation Week – October 16 to 22, 2016
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CANADA

Inflation comes in below expectations, once again

HIGHLIGHTS

• The total consumer price index (CPI) was up 0.1% in September.
• The main components that contributed to this increase are women’s clothing (+5.6%), tuition (+2.8%), men’s clothing (+2.7%), shoes (+2.7%) and gas (+0.8%).
• In contrast, the components reining in total monthly CPI growth are fresh vegetables (-6.0%), dairy products (-1.8%), other food preparations (-2.5%), cereal products (-4.2%) and air transportation (-1.9%).
• The total annual inflation rate ticked up from 1.1% to 1.3%.

COMMENTS

For the third straight month, the monthly change in the total CPI was less than expected. However, the fluctuations associated with seasonal effects and price changes at the pump were fairly in line with forecasts. The problem stems mainly from the weakness of the underlying inflation trend, as illustrated in the seasonally adjusted version of the total CPI. This indicator shows average monthly growth of only 0.03% from July to September, compared to an average advance of 0.22% from March to June.

The CPI’s weakness, and especially the persistence of inflation below the median target (2%), is increasingly becoming a concern for the Bank of Canada (BoC) leaders. In fact, the monetary authorities seriously discussed the possibility of cutting key interest rates at their meeting this week. They are particularly concerned about a drop in consumer and corporate expectations of future inflation after a prolonged period of weaker price growth.

Implications: Our forecasts on changes in the total CPI and other BoC forecasts released this week show that inflation is poised to accelerate closer to its median target in 2017. If these projections materialize in the months ahead, a further cut to the overnight rate should not be needed.

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* Bank of Canada’s benchmark index.
Sources: Statistics Canada and Desjardins, Economic Studies.

Total inflation should climb closer to the median target in 2017

Inflationist expectations remain well anchored

Note to readers: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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