

ECONOMIC NEWS

Canada: Inflation is lower than expected

HIGHLIGHTS

- ▶ The total consumer price index (CPI) fell 0.4% in November.
- ▶ The main components making downside contributions are gas (-4.3%), traveller accommodation (-7.4%), women's clothing (-2.4%), telephony services (-2.2%), and the purchase of passenger vehicles (-0.5%).
- ▶ The components that pushed the monthly change in the total CPI up the most are fresh vegetables (+7.7%), fresh fruit (+4.1%), homeowner replacement costs (+0.6%), home and mortgage insurance (+1.6%), and tools and other household items (+2.3%).
- ▶ The total annual inflation rate goes from 1.5% to 1.2%.

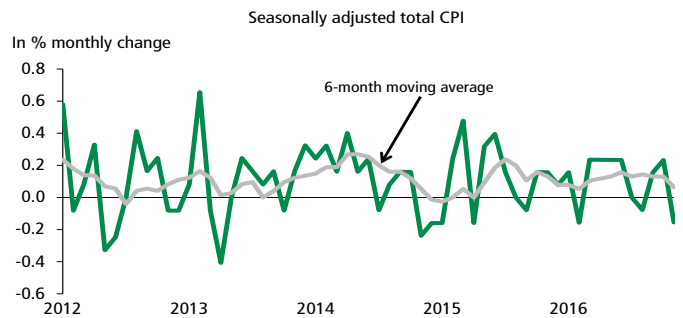
COMMENTS

The monthly change in total inflation declined a little more sharply than anticipated, mainly because of a larger decrease in some prices' seasonal fluctuations. However, the 0.16% pullback by the seasonally adjusted version shows that the weakness of some prices also results from other factors, including a drop in gas prices. Just like that, the inflation trend has weakened somewhat recently (graph 1). This corroborates the relatively subdued growth by the Bank of Canada's (BoC) three new core indexes, which are all oscillating under the mid-point target (graph 2). Inflation pressure is clearly very weak.

IMPLICATIONS

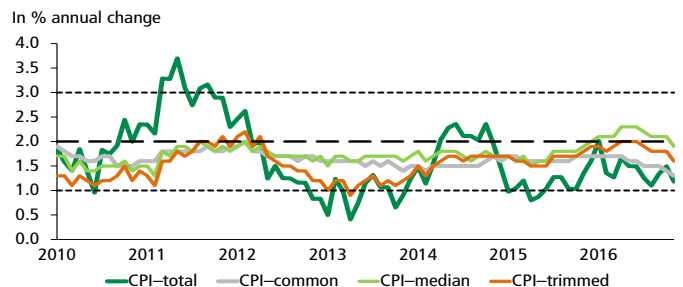
Weak Canadian inflation is not news, as the annual change in the total CPI has not exceeded the mid-point target for over two years. Persistent anaemic price growth is also at the heart of the BoC's concerns. Under these conditions, monetary authorities will certainly want to wait quite some time before raising key interest rates. However, the financial markets do not seem to have absorbed this forecast much, as many investors think the

GRAPH 1
The total CPI's trend weakens a little



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 2
The annual change in the core indexes is in the bottom of the target range



Sources: Statistics Canada and Desjardins, Economic Studies

BoC will track U.S. key rate increases in 2017. In our opinion, a first increase will not be ordered until the fall of 2018.

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