Canada: Another year of low inflation

**HIGHLIGHTS**

- The total annual inflation rate stands at just 1.4% for 2016 as a whole, below the mid-point target for a second straight year.
- At just 0.7%, Quebec has the lowest inflation rate for 2016.
- The total consumer price index (CPI) fell 0.2% in December.
- The change in the total CPI from December 2015 to December 2016 is 1.5%.
- This morning, Statistics Canada also released the figures for retail sales. They rose 0.2% in December, less than we expected.

**COMMENTS**

2016 was marked by persisting weak inflation. What will 2017 hold? Will we finally see inflation really come up? Most forecasters are expecting slightly faster price growth this year, largely because of much more inflationary impacts from energy.

However, the rise cannot be taken for granted. The Bank of Canada’s (BoC) three new measures of core inflation are still not showing any acceleration by price growth.

**IMPLICATIONS**

Persisting weak inflation is, of course, one of the BoC’s main concerns. This is one reason why Governor Poloz did not shut the door on the possibility of an eventual key interest rate cut at this week’s press conference. That being said, if we avoid negative shocks and our scenario of faster economic growth in 2017 materializes, an ongoing status quo on the target for the overnight rate remains the most probable option.

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