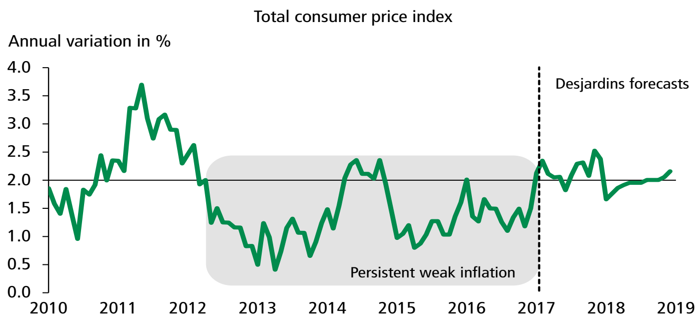
ECONOMIC NEWS

Canada: Consumer prices rebounded in January

HIGHLIGHTS

- The total consumer price index (CPI) was up 0.9% in January, an advance that clearly exceeded expectations.
- The main components that contributed to this increase are gas (+7.4%), motor vehicle purchases (+2.8%), natural gas (+10.2%), organized tours (+4.4%) and telephony services (+1.8%).
- In contrast, the main components that reined in monthly CPI advances were electricity (-1.7%), clothing and footwear (-0.9%) and furniture (-2.3%).
- The total annual inflation rate jumped from 1.5% to 2.1%.

GRAPH
Is persistent weak inflation now history?



Sources: Statistics Canada and Desjardins, Economic Studies

COMMENTS

Once seasonally adjusted, the total CPI's monthly growth reached 0.7% in January, the sharpest increase since June 2008! This sharp growth clashes with the recent trend where the monthly change in the seasonally adjusted CPI was only 0.1% on average in the last six months of 2016. A combination of a several one-off upside factors largely explains this strong growth; these factors should start to dissipate as of next month. This should help the monthly change in the seasonally adjusted CPI to quickly get back to its recent trend. The inflation pressures that are currently working their way through Canada's economy remain mostly unchanged.

The total CPI's monthly growth of 0.9% in January is also the result of a 0.2% increase in seasonal price fluctuations. This is also a surprise, since the changes associated with seasonal effects are usually almost nil in January. In short, the conditions were created in January to trigger a huge monthly spike in the total CPI.

IMPLICATIONS

The jump in the total CPI in January had a huge impact on the index's annual change. As a result, the total annual inflation rate climbed to 2.1%. This is an important outcome for the Bank of Canada, which had expressed concerns in recent months about persistent price weaknesses with a total annual inflation rate that spent much of the past few years below the median target (2%). Yet, according to our forecasts, the total annual inflation rate could remain close to the median target for the next few months; this should reassure the monetary authorities. Under these conditions, a new key rate cut is not in the cards. That said, the target for the overnight rate is not poised for an increase anytime soon either—not only is there an absence of signs pointing to an inflation rate acceleration to the upper range of the target, but the measures for core inflation are stable. What's more, major uncertainties continue to loom over the economic outlook.

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