ECONOMIC NEWS

Canada: Inflation Remains Around the Midpoint Target

HIGHLIGHTS

- The total consumer price index (CPI) went up 0.2% in February.
- The components that contributed the most to the increase are travel tours (+12.7%), traveller accommodation (+6.2%), clothing (+2.4%) and fresh vegetables (+1.6%).
- In contrast, the components that curbed total CPI growth the most are gas (-4.9%), telephone services (-1.7%), natural gas (-2.5%), fresh fruit (-1.7%) and electricity (-0.3%).
- The total annual inflation rate goes from 2.1% to 2.0%.
- The average annual change in the Bank of Canada’s (BoC) three new core indexes stays at 1.6%.

COMMENTS

Overall, the change in the CPI was fairly consistent with expectations for February. Among other things, gas prices went down substantially, as suggested by the surveys at the pump, and the monthly change in prices due to seasonal effects was close to 0.4%.

The main difference with our forecast involves the seasonally adjusted change in the total CPI. At -0.2% in February, it is a little weaker than expected. Note, however, that January posted a very big increase of 0.7%. February’s decline can therefore be seen as the pendulum swinging back to converge on the trend of the last few months.

IMPLICATIONS

After staying below the BoC’s midpoint target for quite some time, the total annual inflation rate was around 2% in February for a second straight month. The annual changes in the BoC’s three new core indexes show slighter growth, however. This should reassure the monetary authorities about inflation pressure in Canada. Under these circumstances, price evolution should not keep the BoC from extending the status quo on its key interest rates until the summer of 2018.

Benoit P. Durocher, Senior Economist

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