ECONOMIC NEWS

Canada: Lower Inflation Than Anticipated

HIGHLIGHTS

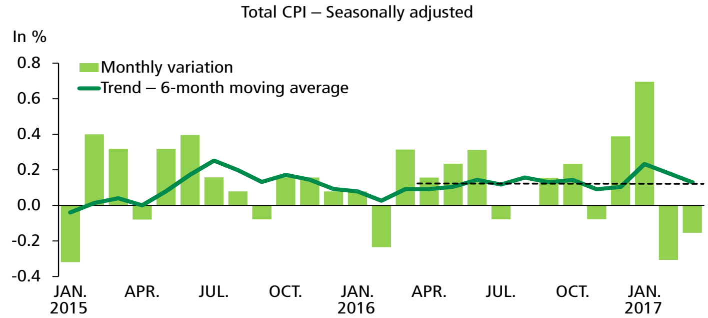
- The total consumer price index (CPI) went up by only 0.2% in March. This is lower than expected.
- The main contributors to this monthly increase were travel tours (+15.4%), clothing (+2.4%) and homeowners' replacement costs (+0.3%).
- Conversely, the main brakes on total CPI growth for the month were automobile purchases (-0.7%), traveller accommodation (-3.6%), gasoline (-1.1%), fresh fruits (-3.4%) and telephone services (-0.9%).
- The total annual inflation rate went from 2.0% to 1.6%.
- The average annual change of the three new core indexes remained stable at 1.5%.

COMMENTS

Once again, the monthly change in the seasonally adjusted total CPI confounded the forecasts. After the 0.3% decline in February, we expected it would rise again in March as per the trend of recent months, gaining ground slightly in positive territory. Instead, a decrease of 0.2% was reported. As in February, this new downturn is largely due to temporary factors such as a less pronounced increase in clothing sales than usual for this season, coupled with an astonishing drop in gasoline and automobile prices for the month. In theory, those one-off factors should disappear as of next month and the seasonally adjusted CPI should get back on a positive track.

That said, the weak rise by total CPI in March had a significant impact on its annual change, which fell below the median target (2%). According to our forecasts, the total annual inflation rate could hover around 1.5% in coming months. That matches the trend of the three new core indexes, which also show average annual change of 1.5%.

GRAPH
The seasonally adjusted trend went back to a level similar to that of recent months



CPI: consumer price index
Sources: Statistics Canada and Desjardins, Economic Studies

IMPLICATIONS

Most economic indicators have shown astonishing strength, so most forecasters expect the real GDP increase in the first quarter of 2017 to be much higher than 3%. That could put pressure on the Bank of Canada to shorten the status quo on key interest rates. However, the low inflation rate remind the slack that is still present in the Canadian economy. Despite good news on the economic growth front, we can expect the target for the overnight rate to stay at 0.50% until spring 2018. That will give the monetary authorities time to monitor several risks that are still besetting Canada's economic outlook.

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