ECONOMIC NEWS

Canada: Inflation Remains Fairly Weak, While Retail Trade Exceeds Expectations

HIGHLIGHTS

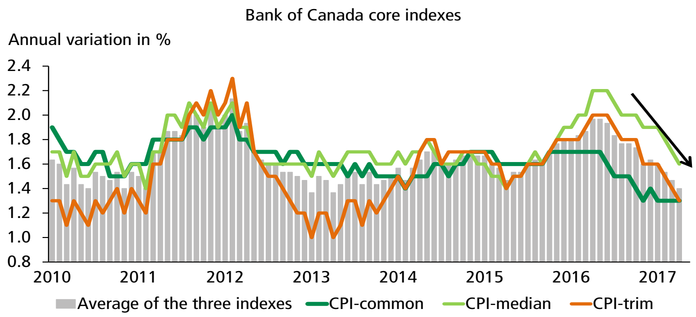
- The total consumer price index (CPI) rose 0.4% in April, an advance slightly below expectations.
- The main components contributing positively to a higher CPI are gas (+9.5%), telephone services (+3.8%), traveller accommodation (+6.1%), fresh fruit (+3.4%) and food purchased from restaurants (+0.3%).
- In contrast, the main components reining in CPI growth are tour packages (-12.1%), motor vehicle purchases (-0.5%), shoes (-1.5%), children's clothing (-3.7%) and household appliances (-1.7%).
- The total annual inflation rate stays at 1.6%.
- For the Bank of Canada's core indexes, the annual change in trimmed CPI and median CPI fell a tenth of a percentage point, while that of the common CPI held steady. The average of these three indexes therefore went from 1.5% to 1.4%, the lowest level since October 2013.
- Statistics Canada also indicated this morning that retail sales were up 0.7% in March, a better-than-expected result.

COMMENTS

Overall, the change in the CPI basket was fairly consistent with expectations. As such, slightly weaker-than-expected growth for total CPI largely stems from seasonal price fluctuations, which were slightly negative instead of slightly positive, which they typically are for this time of the year. For example, the seasonal drop in prices for food, recreation and education was a little more than expected.

On the retail sales front, the increase seen in March is basically due to automobile products (+3.7%), as the other sectors posted a 0.2% decrease. In real terms, total sales were up 1.2%.

GRAPH
Core inflation continues to fall



Sources: Statistics Canada and Desjardins, Economic Studies

IMPLICATIONS

The sharp rise in the volume of retail sales in March, combined with previously released very favourable results, suggest that economic growth could be fairly good during the month. That introduces an upside risk to our forecast for the overall first quarter, which is already very high at 4.4%. Yet this lively advance in real GDP will not prevent the Bank of Canada from maintaining its status quo in light of many uncertainties. In addition, as weakness in the core indexes confirms, inflation pressure is very tenuous, which provides significant flexibility in managing monetary policy.

Benoit P. Durocher, Senior Economist

François Dupuis, Vice-President and Chief Economist
Hélène Bégin, Senior Economist • Benoit P. Durocher, Senior Economist • Francis Généreux, Senior Economist
Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics