Canada: Inflation’s Slow Rise Continues

HIGHLIGHTS

- The total consumer price index (CPI) rose 0.1% in August.
- The total annual inflation rate went from 1.2% to 1.4%.
- The annual average change in the Bank of Canada’s (BoC) three new benchmark indexes remained at 1.5%.

COMMENTS

Overall, CPI results for August were consistent with expectations. The increase in gas prices boosted the index’s monthly growth, but its impact was offset by a seasonal drop in certain prices, particularly fresh fruit and vegetables. Thus, the seasonally adjusted CPI increased 0.15% during the month, which is consistent with expectations.

More turbulence is expected in the next few months as the hurricanes that affected the southern United States have caused some upheavals in gas prices. The month of September will therefore likely end with an average 6% increase in prices at the pump, which could in turn contribute +0.2% to the monthly change in CPI. The reverse situation may become evident in October.

IMPLICATIONS

We can expect that the increase in total inflation will remain modest in the coming months while the total annual inflation rate should hold below the target median (2%). However, as excess production capacity now appears to be used up, upside pressure on prices is expected to increase gradually-particularly in the second half of 2018.

Given the lag between monetary policy decisions and their impact on the Canadian economy, the BoC should start positioning itself for faster price growth in the future. From this perspective, the highly expansionary monetary policy that has been in effect for some time no longer appears appropriate. This has prompted the BoC to order two key interest rate increases since July. A third increase could also be announced in October, to be followed by others in 2018.

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