Canada: Inflation Enters a Period of Greater Uncertainty

HIGHLIGHTS

- The total consumer price index (CPI) rose 0.1% in October.
- The main components contributing to the rise are telephone services (+3.9%), motor vehicle purchases (+1.5%), property taxes and other special charges (+2.8%), air transportation (+2.8%) and personal care supplies and equipment (+2.4%).
- In contrast, the main factors reining in monthly CPI growth are traveller accommodation (-11.4%), gasoline (-3.2%), tour packages (-5.4%), fresh fruit (-4.6%) and meat (-1.3%).
- The total annual inflation rate went from 1.6% to 1.4%.
- The average for the three measures of core inflation remained at 1.6% for the third consecutive month.

COMMENTS

Overall, CPI results for October were consistent with expectations. Seasonally adjusted total CPI posted an increase of 0.15%, an advance similar to the trend seen in recent months. The upswing in the annual change seen in September was short-lived. With the 1.4% pullback observed in October, the total annual inflation rate was close to the lower target again. That said, some major inflation rate fluctuations should be expected in the coming months in tandem with the impact of the base effects and changes in gas prices. For example, preliminary data currently indicate a gas price increase of around 8% in November; this could contribute to a gradual return of the inflation rate to the mid-point target (2%) as of November. This increase could be followed by other reductions, particularly at the start of 2018.

IMPLICATIONS

The annual variation in total CPI is entering a period of greater uncertainty characterized by substantial month-to-month changes, both positive and negative. This is on top of the current climate of uncertainty brought about in particular by the renegotiation of the North American Free Trade Agreement (NAFTA). For the time being, with nearly 47% of the CPI basket’s components posting an inflation rate below the lower target, the Bank of Canada has substantial leeway to remain cautious in conducting its monetary policy.

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