Canada: Inflation Surpasses the Target Median

HIGHLIGHTS

- The total consumer price index (CPI) rose 0.3% in November.
- The main components contributing to the rise are gas (+7.4%), fresh vegetables (+9.5%), motor vehicle purchases (+1.2%), fresh fruit (+3.3%) tools and other household items (+3.0%).
- Conversely, the main factors reining in total CPI growth are traveller accommodation (-8.1%), personal care supplies and equipment (-2.8%), air transportation (-1.9%), children’s clothing (-3.9%) and women’s clothing (-0.9%).
- The total annual inflation rate went from 1.4% to 2.1%.

COMMENTS

Although slightly above forecasts, November’s total CPI results are consistent with expectations. The total annual inflation rate jumped significantly, a phenomenon that has repeated itself for the last three years at this time of year. As was previously the case, this surge will likely be quickly followed by a pullback.

However, the situation appears to be different this time as upward pressure on prices is intensifying as excess production capacity is absorbed. Two of the Bank of Canada’s (BoC) three benchmark indexes that measure core inflation were up in November. The annual change in the CPI-median and the CPI-trim are now at 1.9% and 1.8%, respectively, which is very close to the target of 2%.

All signs therefore point to the downturn expected in early 2018 quickly giving way to an uptick in the total annual inflation rate. The annual change in total CPI could therefore return to the target median (2%) by next spring and be more lasting this time.

IMPLICATIONS

Today’s results confirm that the extended period of low inflation is tapering off. This will be a game changer when it comes to managing monetary policy, especially since economic results continue to be strong, as shown by the 1.5% increase in retail sales for October that was also announced this morning. With a monetary policy that remains highly expansionary, the BoC will surely want to continue with its key interest rate hikes. Given the current conditions, an additional rate hike should be ordered in the first quarter of 2018.

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