Canada: Inflation Surpasses the 2% Target Median

HIGHLIGHTS
- The total consumer price index (CPI) rose 0.6% in February.
- The components that contributed the most to this increase are tour packages (+18.1%), motor vehicle purchases (+1.2%), Internet access services (+6.0%), women’s clothing (+3.0%) and restaurant meals (+0.6%).
- On the other hand, the components that slowed the increase in the total CPI the most are fresh fruit (-3.5%), gasoline (-0.7%), telecommunication services (-0.8%), computer equipment and digital devices (-1.5%), and non-alcoholic beverages (-2.1%).
- The total annual inflation rate went from 1.7% to 2.2%.
- The Bank of Canada’s (BoC) three benchmark indexes were up in February. Their average is now 2.0% compared with last month’s 1.8%.

COMMENTS
The rise in the CPI is in line with our forecast. Seasonal effects, which rose to +0.5% during the month, contributed significantly to the monthly change in the total CPI. In addition, the 0.6% increase in the total CPI observed in February 2018 is clearly more than the slight 0.2% rise recorded in February 2017. This caused the annual change to increase more rapidly and surpass the target median (2%).

All signs appear to indicate that the inflation rate will continue to rise over the next few months. On the one hand, the downward impact of previous electricity rate reductions in Ontario will continue to diminish. On the other hand, the upward pressure on prices is expected to increase gradually as excess production capacity disappears. Under these circumstances, the total annual inflation rate may soon exceed 2.5%. Moreover, this projection has been confirmed by the rise in the core inflation rate, while the average of the last three indexes went from 1.5% last September to 2.0% in February.

IMPlications
The accelerated increase in prices will obviously be the focus of the monetary authorities’ attention over the next few months. Even if it remains cautious, the BoC is expected to continue to gradually increase its key rate as soon as the risks diminish and the economic data improve. Our scenario includes an increase in July, but the possibility of tightening before then cannot be completely discounted.

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