Canada: Inflation Rate Continues to Climb

**HIGHLIGHTS**

- The total consumer price index (CPI) rose 0.3% in March.
- The components that contributed the most to this increase are tour packages (+13.0%), gasoline (+2.9%), air transportation (+2.9%), women’s clothing (+2.2%) and men’s clothing (+2.4%).
- On the other hand, the components that slowed the increase in the total CPI the most are telecommunication services (-2.5%), motor vehicle purchases (-1.5%), fresh vegetables (-2.1%), fresh fruit (-2.6%) and natural gas (-2.3%).
- The total annual inflation rate went from 2.2% to 2.3%.
- The annual average change in the Bank of Canada’s (BoC) three benchmark indexes remained unchanged in March at 2.0%.

**COMMENTS**

Although the total annual inflation rate went up again in March, most forecasters expected a much faster advance. This gap can be largely explained by a seasonal price increase that was slightly lower than forecast, particularly for clothing. At 2.3%, the annual change in total CPI is nevertheless continuing on an upward trend and is still above the BoC’s target median (2%).

There is every indication that the rise in the total inflation rate is not over. Furthermore, gas prices were up by an average of 5% in April according to preliminary data, which should give a significant boost to the monthly change in total CPI. Accordingly, the annual total inflation rate could approach the upper target (3%) by the summer.

**IMPLICATIONS**

Even though today’s results are a little weaker than expected, they do not alter the recently observed substantial shift in inflation. After several years of inflation remaining below the median target (2%) most of the time, the annual change in total CPI appears to have settled in the upper end of the range. The most recent BoC forecasts confirm this projection. Under these conditions, it is clear that further increases in key interest rates will be needed in the coming quarters to reduce the degree of monetary stimulus. That said, there is no urgency to take action as the rise in inflation is more gradual than expected. Thus, the BoC will probably wait until July before ordering another increase to the target for the overnight rate.

**GRAPH**

Inflation could remain above the target median in the coming months

Desjardins forecasts

Sources: Statistics Canada and Desjardins, Economic Studies

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