

ECONOMIC NEWS

Canada: The Inflation Rate Takes a Break, but It Will Be Brief

HIGHLIGHTS

- ▶ The total consumer price index (CPI) rose 0.3% in April.
- ▶ The components that contributed the most to this increase were gasoline (+6.8%), telephone services (+4.1%), traveller accommodation (+4.1%), electricity (+1.6%) and meat (+1.4%).
- ▶ In contrast, the components that most reined in CPI advances were tour packages (-20.4%), air transportation (-2.8%), natural gas (-3.2%), motor vehicles (-0.4%) and personal care supplies and equipment (-1.5%).
- ▶ The total annual inflation rate went from 2.3% to 2.2%.
- ▶ The annual average change in the Bank of Canada's three benchmark indexes remained unchanged in April at 2.0%.

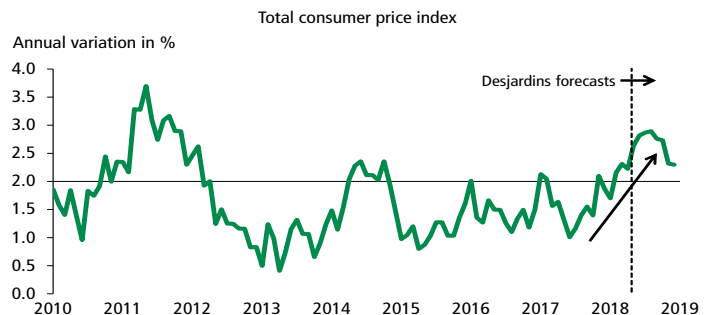
COMMENTS

The slight decline in the total annual inflation rate recorded in April breaks with the uptrend seen in recent months. Certain one-off factors were a significant barrier to the total CPI's monthly advance in April. Moreover, travel service prices have fallen more sharply than usual for this time of the year. As a result, the contribution of travel service prices to the monthly change in the total CPI for April was about -0.2%. If not for this component, the monthly change in the total CPI would have been about 0.5%.

Under these conditions, we have to expect the total annual inflation rate to resume its uptrend as of May. Not only did gas prices continue to climb, the vanishing excess production output is exerting more upside pressures on prices. According to our forecasts, the total annual inflation rate could move closer to its upper target (3%) over the summer.

GRAPH

Inflation should maintain its uptrend in the coming months



Sources: Statistics Canada and Desjardins, Economic Studies

IMPLICATIONS

With the total annual inflation rate posting somewhat weaker than expected growth in April, there is no rush to increase Canadian key rates at the meeting on May 30. That said, sooner or later, the authorities will have to reduce the degree of monetary stimulus, given the relatively favourable economic backdrop. The 0.6% increase in retail sales in March published this morning by Statistics Canada is a good example of this. We still believe that the next increase in the target for the overnight rate will be ordered in July.

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