Canada: Inflation and Retail Sales Jump

HIGHLIGHTS

- The total consumer price index (CPI) was up 0.1% in June, slightly above expectations.
- The total annual inflation rate rose from 2.2% to 2.5%. This marks its highest level since February 2012.
- The average annual change in all three benchmark indexes reached 2.0%, compared with 1.9% the previous month.
- Retail sales jumped 2.0% in May, after declining 0.9% in April.
- In real terms, sales also posted a monthly increase of 2.0%. As such, consumer spending should see more sustained growth in the second quarter.

COMMENTS

Unlike May’s results, the consumer price index was higher than expected advances in June. On one hand, seasonal adjustments pushed prices up somewhat. Although prices usually come in a bit lower in June. What’s more, the seasonal decline in clothing prices was not nearly as steep as it usually is. Once seasonally adjusted, total CPI, which spots trends better, was up 0.08% in June, mirroring the advance recorded three months prior.

The annual change in total CPI resumed its upward trend. At 2.5%, it is at the upper band of the Bank of Canada’s (BoC) target range, and all signs suggest that’s where it will stay for the next few months. In such conditions, the risks appear somewhat tilted to the upside. The introduction of new customs tariffs could also be eventually a game-changer for certain components.

IMPLICATIONS

The higher inflation rate and signs of a rebound in consumption highlight the need to tighten monetary conditions to a less expansionist level. As the BoC indicated last week, gradual key rate increases will be ordered over the next few quarters. If the good news keeps rolling in, another hike in the target for the overnight rate could be ordered this fall.

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