

ECONOMIC NEWS

Canada: Inflation Returns to the Target Median

HIGHLIGHTS

- ▶ The total consumer price index (CPI) fell 0.2% in June, in line with our forecast.
- ▶ As suggested by prices at the pump, gas prices fell sharply (-8.0%) during the month.
- ▶ The other components that contributed the most to the monthly drop in total CPI were tour packages (-6.1%), natural gas (-6.4%), women's clothing (-2.1%) and men's clothing (-2.8%).
- ▶ Conversely, the components that contributed the most positively to the monthly change in total CPI were traveller accommodation (+8.2%), fresh vegetables (+4.9%), motor vehicle insurance premiums (+1.4%), air transportation (+3.0%) and meat (+1.8%).
- ▶ The total annual inflation rate dropped from 2.4% to 2.0%.
- ▶ The annual average variation in the three Bank of Canada (BoC) benchmark indexes fell to 2.0% in June from 2.1% in the previous month.

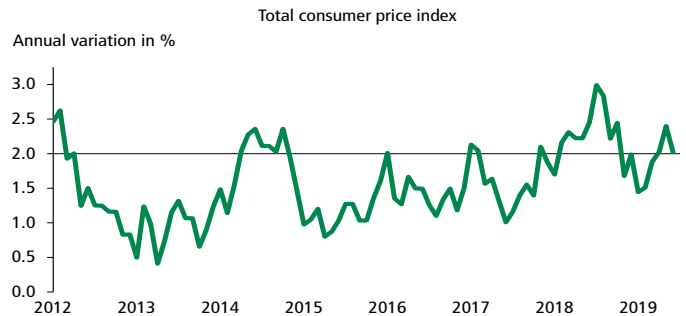
COMMENTS

While the low price increases has raised some concerns in the United States, total inflation continues to fluctuate around the 2% target median in Canada. Moreover, the BoC's benchmark indexes continue to be extremely stable. Since early 2018, their average annual variation has been 1.9% for the CPI-common and 2.0% for the CPI-median and the CPI-trim, with the standard deviation for all three remaining very low at about $\pm 0.1\%$.

Furthermore, the price increases have been fairly evenly spread in Canada. Nearly 40% of the CPI components are posting annual increases inside the target range (between 1% and 3%). Roughly 30% of the components are rising less than 1%, and another 30% are posting annual price increases of above 3%.

GRAPH 1

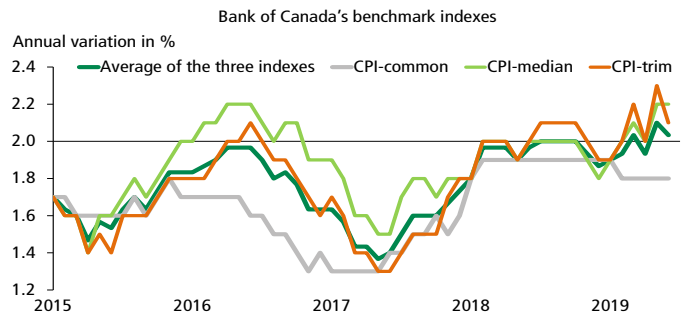
Total inflation dropped back to the 2% target median



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 2

The benchmark indexes have been very stable for several months



CPI-common: Common component; CPI-median: Weighted median; CPI-trim: Truncated average
Sources: Statistics Canada and Desjardins, Economic Studies

IMPLICATIONS

With inflation stable and around the median target, the BoC should be able to resist pressure caused by the anticipated drop in key rates in the United States. Therefore, the status quo should continue for several more quarters.

Benoit P. Durocher, Senior Economist

François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist
Hélène Bégin, Senior Economist • Benoit P. Durocher, Senior Economist • Francis Généreux, Senior Economist

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

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