

ECONOMIC NEWS

Canada: Prices Rising More than Anticipated

HIGHLIGHTS

- ▶ The total consumer price index (CPI) rose 0.5% in July. Forecaster consensus expected instead a gain of only 0.2%.
- ▶ The main components that contributed to this hike were air transportation (+14.0%), tour packages (+10.3%), gasoline (+3.3%), computer equipment and digital devices (+14.5%), and meat (+2.2%).
- ▶ In contrast, the components that slowed down the rise in total CPI the most were motor vehicle sales (-1.4%), telephone services (-2.5%), women's clothing (-2.1%), fresh fruit (-3.5%) and other food preparations (-1.5%).
- ▶ The total annual inflation rate stayed at 2.0%.
- ▶ The annual average variation in the Bank of Canada's (BoC) three benchmark indexes remained unchanged at 2.0%.

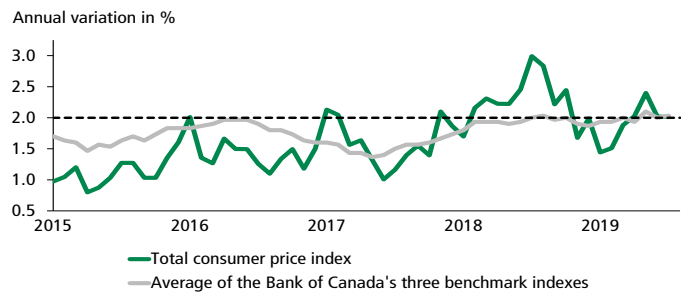
COMMENTS

Two factors contributed the most to faster-than-anticipated growth in consumer prices in July. On the one hand, the price of tablets and smartphones soared 42.5% in July, adding 0.1% to the monthly variation in total CPI. Statistics Canada explains that this hike is the result of unlimited data plans now offered on the market, leading to a drop in the subsidies for wireless devices. This, in turn, shifted a bigger portion of the cost of the devices to consumers.

Furthermore, the month of July usually ends with seasonal fluctuations around -0.1%. This year, the variation in prices due to seasonal effects was +0.1%. The biggest spread was in transportation due to the monthly rise in gasoline prices being higher in July of this year than in previous years and another monthly jump in the cost of air transportation.

GRAPH

Total inflation and the benchmark indexes remain at the 2% median target



Sources: Statistics Canada and Desjardins, Economic Studies

IMPLICATIONS

Our forecasts indicated that total inflation would dip below the BoC's 2% median target for a few months; July's results just changed all that. In all likelihood, inflation will now sit tight at the median target, or even slightly above it, over the next few months.

Given this situation, it may be difficult for the BoC to justify possibly reducing its key rates and following the actions taken by several central banks around the world. Therefore, the mostly likely option is for Canadian monetary policy to remain unchanged.

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