

ECONOMIC NEWS

Canada: Inflation Holds near Median Target... but Upward Pressures Are Stronger

HIGHLIGHTS

- ▶ The total consumer price index (CPI) slipped 0.1% in August.
- ▶ The main components that contributed to this drop are gasoline (-5.0%), fresh vegetables (-6.5%), tour packages (-4.2%), computer equipment and digital devices (-3.0%) and traveller accommodation (-1.3%).
- ▶ Conversely, the components that made the biggest positive contribution are air transportation (+3.2%), rent (+0.7%), women's clothing (+1.5%), restaurant food (+0.3%) and mortgage interest costs (+0.3%).
- ▶ The total annual inflation rate fell from 2.0% to 1.9%.
- ▶ The average annual variation in the three benchmark indexes remained unchanged at 2.0%.

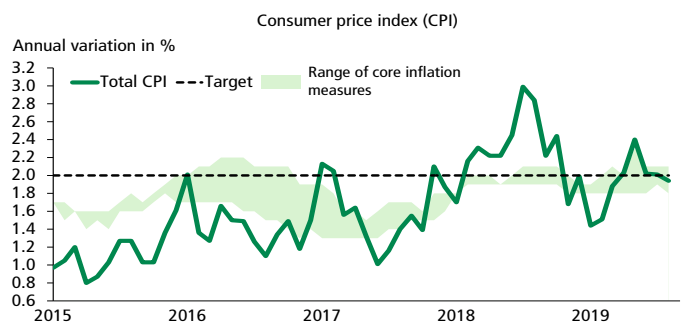
COMMENTS

Overall, CPI growth in August is consistent with expectations. While total inflation and the benchmark indexes continue to be close to the Bank of Canada median target (2%), rising prices are still not a major issue for the country. However, the situation could change in the coming months. The relative number of total CPI components with inflation above the target range (greater than 3%) increased to 35.9% in August. This is the highest level since April 2012, a reflection of stronger upward pressures on prices. In contrast, the proportion of components with inflation within the target range (between 1% and 3%) has decreased in recent months.

IMPLICATIONS

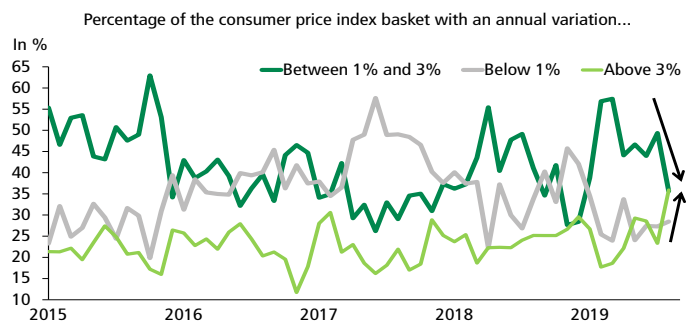
In these circumstances, the monetary authorities will have to remain watchful. Clearly, the situation will not be conducive to key rate cuts in the months ahead. Rather, the status quo is expected to continue.

GRAPH 1
Inflation holds near the median target



Sources: Statistics Canada, Bank of Canada and Desjardins, Economic Studies

GRAPH 2
The number of components with inflation above 3% is rising



Sources: Statistics Canada and Desjardins, Economic Studies

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