

ECONOMIC NEWS

Canada: Inflation Surpasses the Median Target

HIGHLIGHTS

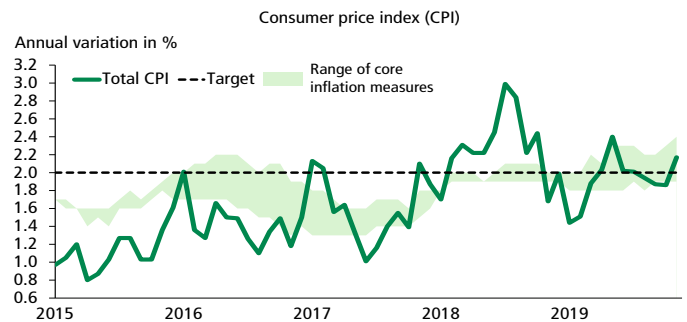
- ▶ The total consumer price index (CPI) fell 0.1% in November, in line with expectations.
- ▶ The main components that contributed to this drop are four packages (-11.0%), traveller accommodation (-9.6%), gas (-2.0%), computer equipment and digital devices (-3.6%), and telephone services (-1.2%).
- ▶ In contrast, the components that raised the total CPI the most are fresh vegetables (+8.0%), motor vehicle purchases (+1.3%), fresh fruit (+2.5%), electricity (+0.9%) and dairy products (+1.4%).
- ▶ The total annual inflation rate climbed from 1.9% to 2.2%.
- ▶ The average of the annual variations in the three core inflation indexes increased to 2.2%. This marks the highest level since June 2009.

COMMENTS

Drawing the most attention in today's results is the increase in core inflation. Moreover, the annual variation in the index associated with the weighted median was 2.4% in November. This means that the upper half of the CPI basket has inflation equal to or above 2.4%. In short, core inflation seems to be slowly moving further away from the mid-point of the target range (2%), a situation that will have to be watched closely in the coming months.

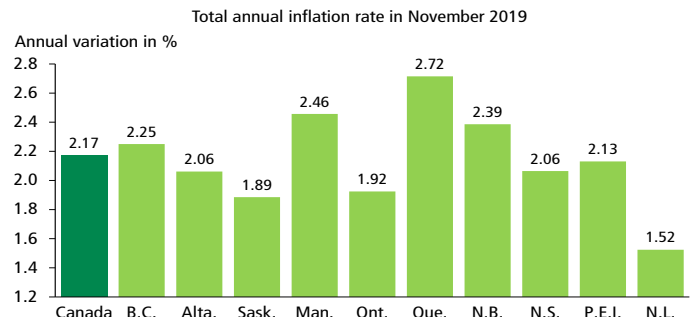
It is worth noting that the country's highest inflation was in Quebec in November. However, this result should be regarded with caution. Quebec had one of the lowest inflation rates at the same time last year. Temporary base effects are therefore probably playing a part in the recent increase in prices. That said, attention will have to be paid to upside pressure on inflation in the province, especially in light of the recent acceleration in wages.

GRAPH 1
Core inflation picks up



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

GRAPH 2
Quebec posts the country's highest inflation



Sources: Statistics Canada and Desjardins, Economic Studies

IMPLICATIONS

Faster growth in core inflation further closes the door to a key interest rate cut. This confirms our scenario calling for a continuation of the status quo in monetary policy.

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

NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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