

ECONOMIC NEWS

Canada: Inflation Remains above the Median Target

HIGHLIGHTS

- ▶ Monthly growth by the total consumer price index (CPI) edged above expectations to gain 0.3% in January.
- ▶ The components making the biggest contributions to the gain are fresh vegetables (+5.6%), motor vehicle purchases (+2.4%), meat (+2.4%), motor vehicle insurance premiums (+1.1%) and non-alcoholic beverages (+6.7%).
- ▶ The components that did the most to rein in January's total CPI growth are air transportation (-13.8%), tour packages (-6.9%), fresh fruit (-4.1%), furnishings (-2.6%) and footwear (-1.4%).
- ▶ The total annual inflation rate went from 2.2% to 2.4%.
- ▶ The annual average variation in the three Bank of Canada (BoC) benchmark indexes fell to 2.0% in January from 2.1% in the previous month.

COMMENTS

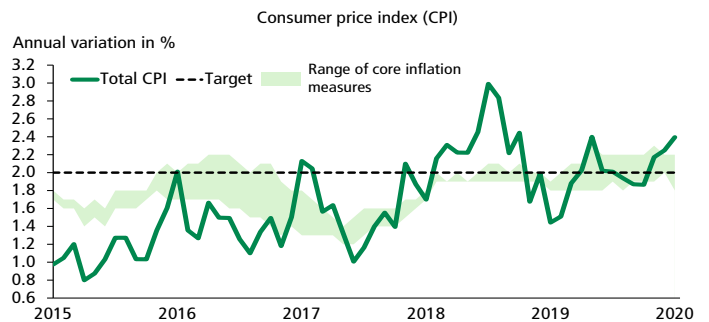
The faster-than-anticipated growth by January's total CPI is mainly due to two factors. Air transportation prices were expected to drop more steeply following December's spike. January's pullback trimmed only three quarters of the ground gained. At the same time, prices for motor vehicles and certain foods went up much than usual in January.

IMPLICATIONS

As the total annual inflation rate has been holding above the median target for three months, it must be concluded that Canadian price growth is showing no signs of slowing. Under these conditions, even though the monetary authorities opened the door to a potential key interest rate cut, it would take a major deterioration in economic conditions for the BoC to lower the target for the overnight rate in the next few months. Because

GRAPH 1

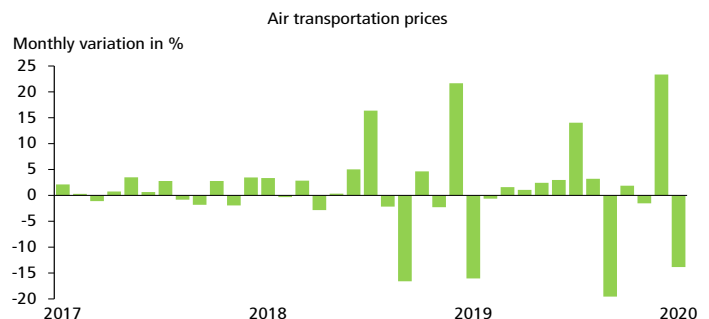
Total inflation is holding above the median target



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

GRAPH 2

Air transportation prices remain highly volatile



Sources: Statistics Canada and Desjardins, Economic Studies

most of the current economic difficulties are temporary, the BoC is more likely to decide to maintain the status quo with regard to its 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

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