

ECONOMIC NEWS

Canada: The Annual Inflation Rate Fell in February

COVID-19 Will Cause Major Disruptions in the Coming Months

HIGHLIGHTS

- ▶ The consumer price index (CPI) rose 0.4% in February.
- ▶ The annual variation in total CPI decreased from 2.4% to 2.2%.
- ▶ The main components that helped increase the monthly variation are tour packages (+24.4%), motor vehicles (+1.3%), rents (+0.7%), and clothing (+2.1%).
- ▶ In contrast, the components that helped slow the monthly variation in total CPI in February were gasoline (-2.0%), fresh fruit (-5.1%), computer equipment and digital devices (-3.8%), fuel oil and other fuels (-7.0%) as well as meat (-0.9%).

COMMENTS

Overall, February's results were consistent with expectations. Furthermore, the number of components with lower inflation in the last six months has continued to rise, a sign of the increasingly downward pressure on inflation.

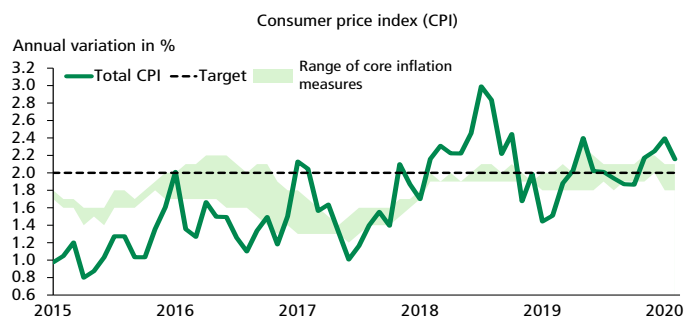
Still, it's difficult to understand exactly where prices are headed. The feeling is that we will continue to see some downward pressure, especially given the sharp drop in gasoline prices. On the other hand, as Statistics Canada has said, COVID-19 will cause major price disruptions in the coming months, especially in the air transportation, oil and travel services industries. Statistics Canada will attempt to adapt to the situation as it evolves, but it's difficult to predict how each jolt will impact inflation overall. We believe that inflation will continue to decline in the coming months, but how far?

IMPLICATIONS

Given the current problems, price variations will not be a significant factor in the Bank of Canada's decision-making in the next few months.

GRAPH 1

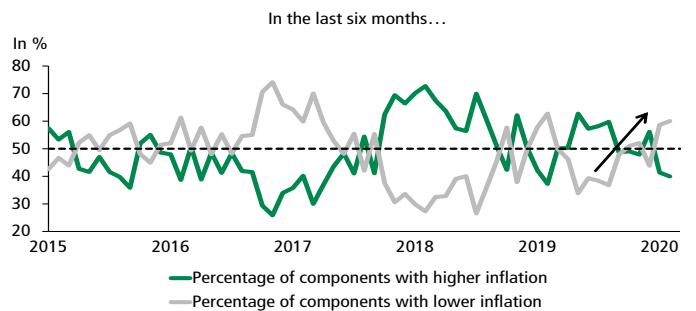
Total inflation is returning toward the median target



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

GRAPH 2

The number of components with declining inflation is growing



Sources: Statistics Canada and Desjardins, Economic Studies

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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