

ECONOMIC NEWS

Canada: Inflation Back in Positive Territory in June

HIGHLIGHTS

- ▶ The consumer price index (CPI) rose 0.8% between May and June.
- ▶ The components that contributed the most to this increase are gas (+10.5%), electricity (+5.1%), motor vehicle purchases (+1.0%), air transportation (+4.3%) and fresh vegetables (+4.4%).
- ▶ Conversely, the main factors that reined in total CPI growth in June are grains (-2.1%), personal care supplies and equipment (-1.2%), non-alcoholic beverages (-2.3%) and mortgage interest costs (-0.3%).
- ▶ The total annual inflation rate went from -0.4% in May to +0.7% in June.
- ▶ The average annual variation in the Bank of Canada's (BoC) three benchmark indexes ticked up from 1.6% to 1.7%.

COMMENTS

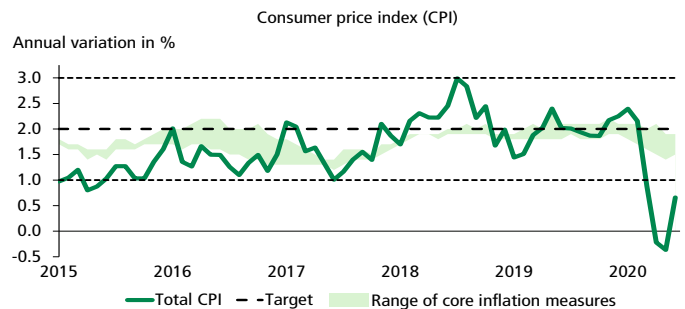
The CPI rose more than expected in June as the gradual easing of lockdown measures is starting to have a positive impact on some prices. After seasonal adjustments, the transportation component posted the highest monthly increase in June. Not only did gas prices continue to recover the ground lost between February and April, but the price of air transportation also increased substantially in June. Furthermore, electricity prices rose sharply in June in Ontario when the consumer discounts granted by the provincial government in March to combat the negative effects of COVID-19 were cancelled with the gradual reopening of the economy.

IMPLICATIONS

Despite the annual variation in total CPI increase in June, the annual inflation rate is still below the BoC's target range. Inflation will clearly not be a big concern for monetary policy for several

GRAPH 1

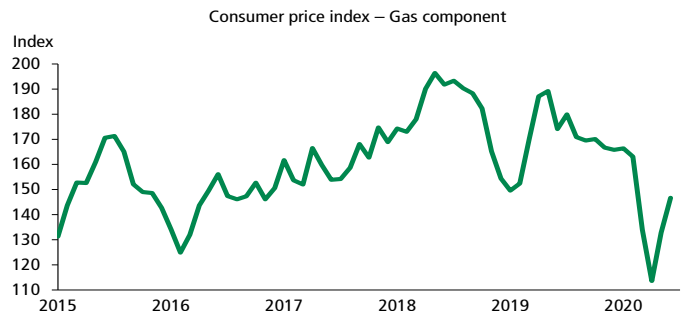
Total inflation is climbing back up to the target range threshold



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

GRAPH 2

Despite the increases in May and June, gas prices are still lower than their pre-COVID-19 levels



Sources: Statistics Canada and Desjardins, Economic Studies

more quarters yet, especially given that the benchmark index variations are relatively stable. In this context, key rates are expected to be maintained at their floor for many more quarters.

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