

ECONOMIC NEWS

Canada: Inflation Remains Anemic

HIGHLIGHTS

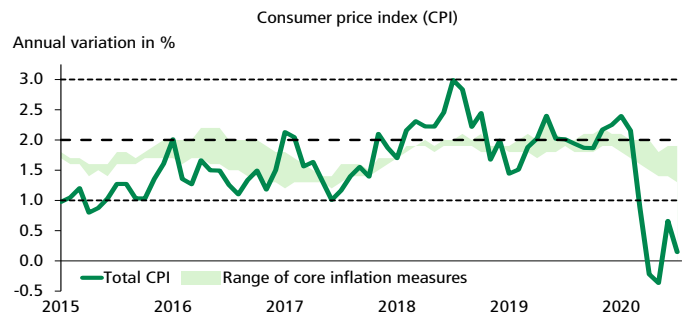
- ▶ The consumer price index (CPI) saw no monthly variation in July.
- ▶ The components that contributed the most positively to the CPI's monthly variation were gasoline (+4.4%), furniture (+3.5%), fresh fruit (+3.1%), electricity (+1.1%) and restaurant meals (+0.4%).
- ▶ Conversely, the components that contributed the most negatively were motor vehicles (-1.0%), women's clothing (-3.1%), air transportation (-3.6%), rent (-0.3%) and meat (-0.8%).
- ▶ The total annual inflation rate fell from 0.7% to 0.1%.
- ▶ The average of annual variation in the three Bank of Canada (BoC) benchmark indexes fell to 1.6% in July from 1.7% in June.

COMMENTS

The rise in consumer prices was less than expected, with the consensus forecast anticipating a 0.4% increase for the month. As expected, gasoline prices rose 4.4% in July, contributing 0.15% to the total CPI's monthly variation. Still, the increase in prices for other components was clearly less with a decline of 0.1% for the month, proof that lower inflation is more or less widespread. Furthermore, nearly 34% of the CPI basket's components posted annual increases below 1%, the BoC's bottom target.

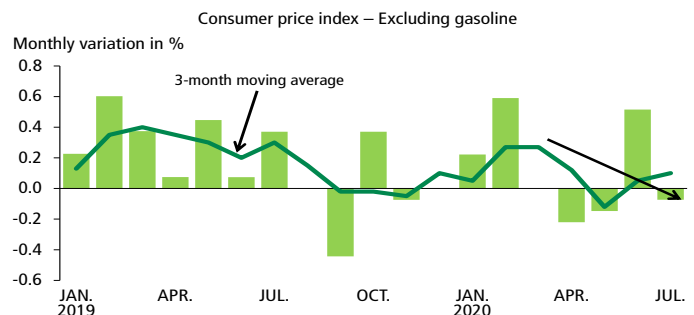
The anemic rise in inflation is clearly a reflection of the historic recession that hit the Canadian economy during the spring lockdown. This caused an increase in surplus production capacity in many sectors, which led to lower price increases in some cases.

GRAPH 1
Total inflation remains very low



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

GRAPH 2
Price increases, except for gasoline, were fairly low



Sources: Statistics Canada and Desjardins, Economic Studies

IMPLICATIONS

Given that the BoC has already mentioned its intention to leave key rates at their lower bound for several quarters, short-term price fluctuations play a minor role in managing 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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