

ECONOMIC NEWS

Canada: Inflation Drops Back below Lower Target

HIGHLIGHTS

- ▶ The consumer price index (CPI) fell 0.2% in December.
- ▶ The main components that contributed to this decline are clothing (-5.7%), telephone services (-3.3%), motor vehicle purchases (-0.6%) as well as mortgage interest costs (-1.0%).
- ▶ In contrast, the components that contributed the most to the increase are gas (+3.3%), air transportation (+7.4%), homeowners' replacement cost (+0.7%), Internet access services (+2.2%) and reading materials (+7.9%).
- ▶ The annual variation went from 1.0% (November 2020 compared with November 2019) to 0.7% (December 2020 compared with December 2019).
- ▶ **The total annual inflation rate for 2020 was 0.7% on average.**

COMMENTS

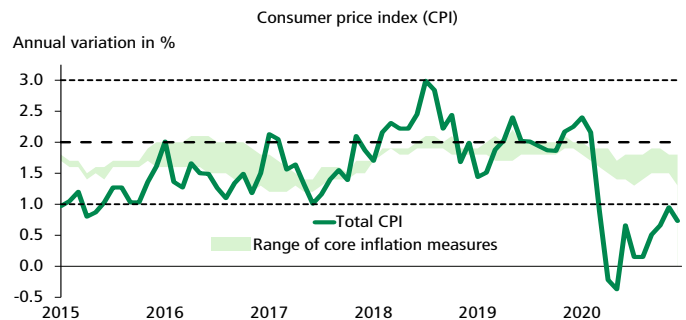
After initially rising to the Bank of Canada's lower target, the annual variation in total CPI dropped back below 1% in December. In fact, total inflation was below the lower target nine times in the last ten months. The pressure on prices has clearly been very weak in Canada as the pandemic caused a significant surplus in production capacity. Once again, air transportation prices played a major role in the variation in total CPI in December. Recent years have seen air transportation prices tend to steadily rise in December. The increase was clearly not as significant in December 2020 because of the weak demand due to COVID-19, which was a contributing factor in slowing down the annual variation in total CPI.

IMPLICATIONS

Our projections indicate that the annual inflation rate should remain extremely low for a few more months. Still, a temporary rise is expected between March and June when the effects of the

GRAPH 1

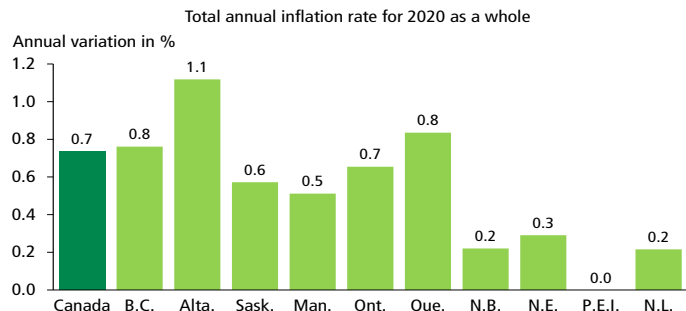
Total inflation remains relatively low



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

GRAPH 2

Inflation remained below 1% in most provinces in 2020



Sources: Statistics Canada and Desjardins, Economic Studies

major fluctuations in gas prices noted during this period in 2020 will be felt.

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