

ECONOMIC NEWS

Canada: Final Month with Inflation Close to the Lower Target

HIGHLIGHTS

- ▶ The consumer price index (CPI) rose 0.5% in February, slightly below expectations.
- ▶ The components that contributed the most to this increase are gasoline (+6.5%), purchase of passenger vehicles (+1.3%), homeowners' replacement cost (+1.0%), electricity (+1.7%) and bakery products (+3.4%).
- ▶ Conversely, the components that contributed the most to the decrease are telephone services (-4.8%), mortgage-interest costs (-0.9%), meat (-1.4%), sporting and exercise equipment (-14.1%) and non-alcoholic beverages (-2.0%).
- ▶ The total annual inflation rate climbed from 1.0% to 1.1%.
- ▶ The annual average variation in the three Bank of Canada (BoC) benchmark indexes held at 1.7%.

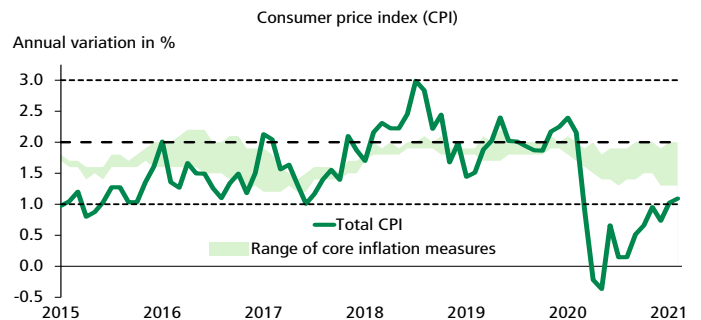
COMMENTS

Once again, total annual inflation remained close to the BoC lower target (1%). However, the situation should change next month when the annual variation in total CPI will increase significantly. This upswing will be mainly due to gas prices, which will be compared to the very low levels noted in spring 2020 during the first wave of COVID-19. Under these conditions, total annual inflation could exceed the BoC higher target (3%) in April and May.

This should nevertheless be temporary and will fade fairly quickly, as total inflation is expected to converge toward the median target (2%). That said, even though the BoC benchmark indexes are relatively stable for the time being, we will need to keep an eye on emerging inflationary pressures in the coming months. Canada's continued economic recovery should help reduce excess production capacity faster than expected. In addition, a little over half of the CPI basket posted a higher annual inflation rate in February than three months ago. Clearly, price increases are not limited to just gasoline.

GRAPH

Total inflation is holding close to the lower target... for now



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

IMPLICATIONS

Despite some blips, the price trend should stay under control over the next few months. However, the risks seem to have a more upward orientation. This is nothing overly concerning for the BoC, but it will certainly take this into account in the upcoming adjustment to its monetary policy, particularly its quantitative purchase program.

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