

ECONOMIC NEWS

Canada: Inflation Pushes past the Median Target Again

HIGHLIGHTS

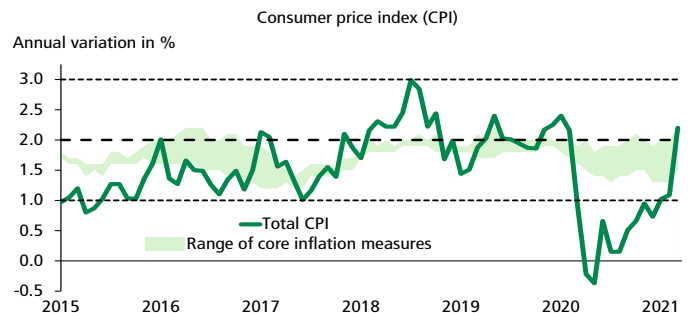
- ▶ The consumer price index (CPI) rose 0.5% in March.
- ▶ The main components that contributed to this increase are gasoline (+5.8%), air transportation (+6.9%), homeowners' replacement cost (+1.4%), electricity (+2.6%) and rent (+0.6%).
- ▶ In contrast, the components that contributed the most to a decrease are telephone services (-7.0%), fresh vegetables (-4.9%), motor vehicle purchases (-0.5%), mortgage interest costs (-0.7%), and computer and digital equipment and devices (-3.6%).
- ▶ The total annual inflation rate climbed from 1.1% to 2.2%.

COMMENTS

As expected, arithmetic effects played a major role in driving up the total inflation rate. This is due in large part to gasoline prices being compared with those of March 2020, when they plunged because of the first wave of COVID-19. Still, the drop in gasoline prices was temporary, with prices beginning their ascent once again as early as May 2020. As Statistics Canada explained, the impact of lower gasoline prices in the spring of 2020 on the annual variation in total CPI will gradually come to an end in a few months. Even if the annual inflation rate were to hit the upper target (3%) in April, expectations are that it would quickly drop back to the 2% median target.

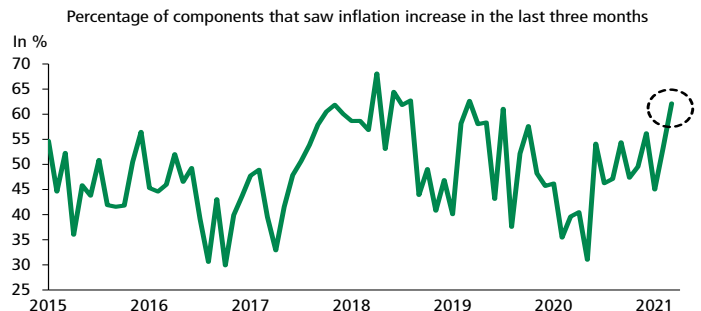
However, aside from the gasoline price fluctuations, the upward pressure on prices seems to have spread in recent months. More than 62% of the CPI's components are recording annual price increases that are higher than three months ago. This may be the result of the current imbalances noted in terms of supply and demand for some goods and services.

GRAPH 1
Total inflation is climbing faster



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

GRAPH 2
Upward pressure on prices is widespread



Sources: Statistics Canada and Desjardins, Economic Studies

IMPLICATIONS

Even if inflation remains under control, the threat of inflationary pressures increasing is higher. The Bank of Canada is expected to closely monitor the situation over the coming months.

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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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