

ECONOMIC NEWS

Canada: Inflation Surpasses the Upper Target

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HIGHLIGHTS

- ▶ The consumer price index (CPI) rose 0.5% in April.
- ▶ The main components that contributed to this increase were telephone services (+5.1%), homeowners' replacement cost (+1.5%), gasoline (+1.8%), women's clothing (+3.4%) and meat (+1.9%).
- ▶ In contrast, the components that contributed the most to the decrease were fresh vegetables (-5.6%), passenger vehicle insurance premiums (-1.4%), mortgage interest costs (-0.8%) and rent (-0.2%).
- ▶ The total annual inflation rate went from 2.2% to 3.4%.
- ▶ The annual variations in the Bank of Canada's (BoC) three benchmark indexes all rose 0.2 percentage points, driving up the average from 1.9% to 2.1%.

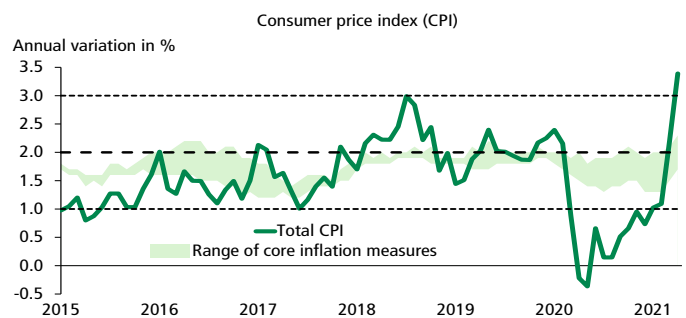
COMMENTS

With gasoline prices compared to the very low levels seen at this time last year, the annual change in the total CPI was expected to increase significantly in April. However, gasoline prices rebounded in May 2020, so we should see their temporary impact on the annual variation in total CPI begin to fade in May 2021's results.

That being said, the rise in inflation noted over the last few months is not solely the result of gasoline price fluctuations. No fewer than 70.3% of the CPI's components are recording annual price increases that are higher than three months ago, a percentage not seen in the last ten years. Without a doubt, the upward pressure on prices reflects the imbalances that currently exist between supply and demand for some goods and services. Furthermore, the average of the annual variations of the BoC's three benchmark indexes also rose in April to its highest level since February 2012.

GRAPH 1

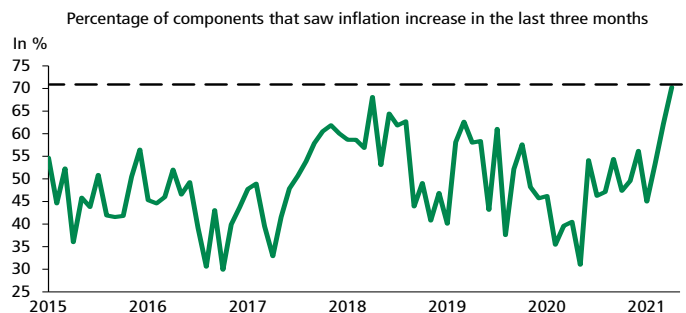
Total inflation exceeds the Bank of Canada's target range



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 the annual inflation rate were to gradually fall in the coming months as the effects linked to gasoline vaporize, the risk remains to the upside because of the pressure caused by the many imbalances. It remains to be seen if the imbalances will fade in the next few months as the lockdown is gradually lifted.