

## ECONOMIC NEWS

# Canada: One Last Uptick in the Annual Inflation Rate?

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### HIGHLIGHTS

- ▶ The consumer price index (CPI) rose 0.5% in May, driven primarily by motor vehicle purchases (+1.5%), gasoline (+3.2%), homeowners' replacement cost (+2.0%), rent (+0.7%) and traveller accommodations (+6.7%).
- ▶ In contrast, the biggest detractors were motor vehicle insurance premiums (-2.7%), air transportation (-3.5%), mortgage interest costs (-1.1%), telephone services (-1.8%) and women's clothing (-1.2%).
- ▶ The total annual inflation rate rose from 3.4% to 3.6%.
- ▶ The annual variations in the Bank of Canada's (BoC) three benchmarks all reflected increases in May, lifting the average from 2.1% to 2.3%. This marks the highest level since May 2009.

### COMMENTS

The annual inflation rate was expected to keep rising, while gasoline prices are still compared to the exceptionally low levels observed at this time last year. In theory, this base effect should begin to erode as early as June, kicking off a gradual pullback in the annual inflation rate.

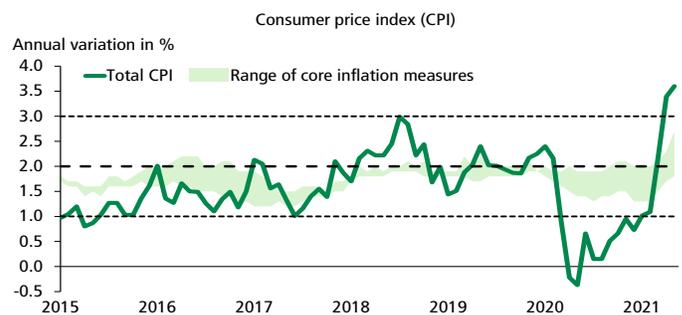
However, high inflation may be more resilient than expected in the months ahead. This is because the recent rally is not fuelled by gasoline alone. The annual variation in nearly 41.9% of CPI basket components exceeded the 3% upper target in May, a percentage not seen since March 2010. Annual price growth is relatively high in housing (+4.2%), clothing (+3.9%), motor vehicle purchases (+4.9%) and health and personal care (+3.1%).

### IMPLICATIONS

With many imbalances putting upward pressure on some prices, upside inflation risks remain. Yet, most of these factors are expected to be temporary with lockdowns being lifted gradually

### GRAPH 1

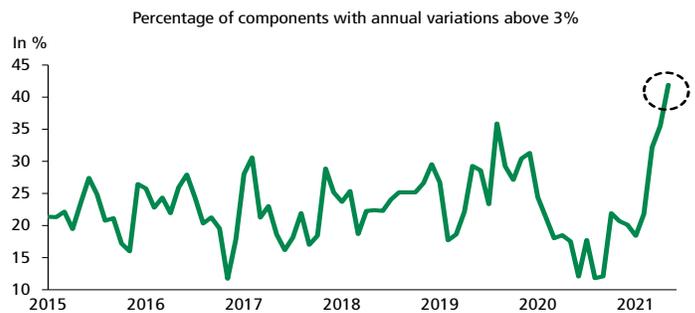
Total inflation continued to rise in May



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

nationwide. Therefore, the BoC should have a free hand to extend the status quo on its key rates for several more months.