

ECONOMIC NEWS

Canada: Inflation Remains Slightly above 3%

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HIGHLIGHTS

- ▶ The consumer price index (CPI) rose 0.3% in June.
- ▶ The main components contributing to this increase are other owned accommodation expenses (+2.2%), homeowners' replacement cost (+1.6%), gasoline (+1.6%), homeowners' home and mortgage insurance (+2.8%) and household appliances (+2.2%).
- ▶ Conversely, the components that contributed the most to the decrease are telephone services (-4.3%), women's clothing (-3.0%), mortgage interest cost (-0.7%), digital media purchases (-11.1%) and men's clothing (-2.7%).
- ▶ The total annual inflation rate dropped from 3.6% to 3.1%.
- ▶ The annual average variation in the three Bank of Canada (BoC) benchmark indexes held at 2.2%.

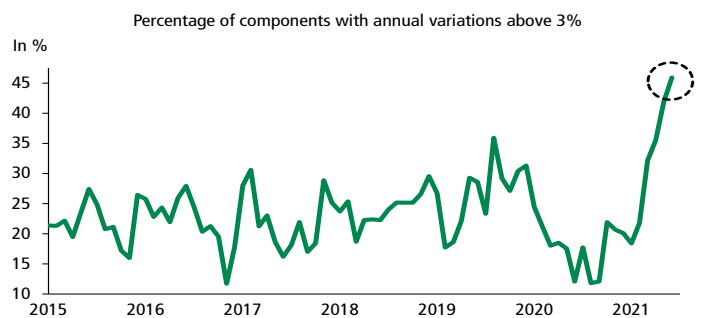
COMMENTS

Overall, the CPI results for June are consistent with our expectations. The annual variation slowed somewhat and is now slightly above the top of the BoC target range (3%). The upward pressure from gasoline is lessening, meaning that the annual variation in this component declined from 62.5% in April to 32.0% in June.

That said, imbalances remain between supply and demand for some goods and services, which continues to put upward pressure on prices. Close to 46% of the CPI basket thus posted an annual variation above 3%, a peak not seen since June 2009. Homeowners' replacement cost, other owned accommodation expenses, other household goods and services, motor vehicle purchases and gasoline are contributing heavily to the increase in total CPI. Statistics Canada's recent revision resulted in a weight increase for some of these components. These five components alone account for close to 25% of the total CPI basket.

GRAPH

Upward pressure on prices is significant



Sources: Statistics Canada and Desjardins, Economic Studies

IMPLICATIONS

Despite the slight decrease in the annual variation in total CPI in June, inflationary risks are still high. However, everything suggests that the situation will remain under control for the time being. This should allow the BoC to take its time in normalizing its monetary policy.