

ECONOMIC NEWS

Canada: Inflation Hits a Ten-Year High

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HIGHLIGHTS

- ▶ The consumer price index (CPI) rose 0.6% in July.
- ▶ The main components contributing to this increase are gasoline (+3.5%), other owned accommodation expenses (+1.4%), meat (+2.4%), homeowners' replacement cost (+0.9%) and telephone services (+3.4%).
- ▶ In contrast, the biggest downward contributors were mortgage interest costs (-0.6%), fresh fruit (-2.1%), passenger vehicle insurance premiums (-1.1%), non-alcoholic beverages (-2.6%), and preserved fruit and fruit preparations (-2.9%).
- ▶ The total annual inflation rate increased from 3.1% to 3.7%.
- ▶ The annual average variation in the Bank of Canada's (BoC) three benchmark indexes rose to 2.5% from 2.3% the previous month.

COMMENTS

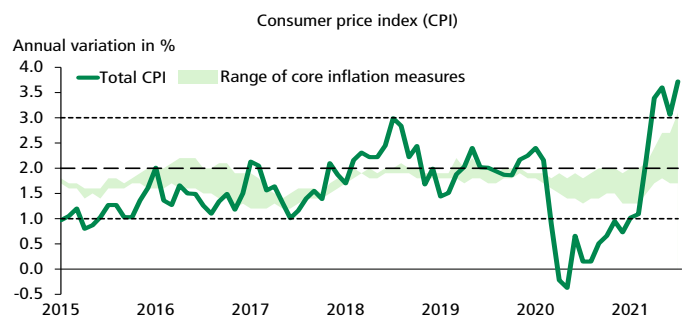
The pickup in inflation in July was greater than expected. At 3.7%, the annual variation in the total CPI has just reached a peak not seen since May 2011. With a 30.9% increase over a year, gasoline prices continue to weigh heavily in the balance. In theory, this effect should gradually dissipate over the next few months.

However, several other factors are also significantly contributing to higher price growth. The recent sharp rise in property prices is causing the homeowners' replacement cost component to rise sharply. However, keeping interest rates very low, which reduces the mortgage interest cost component, is not enough to reverse the upward trend in housing prices.

In addition, imbalances between supply and demand are causing some prices to accelerate. For example, motor vehicle prices are up 5.5% over the past year. After several months in negative territory, the annual variation in traveller accommodation prices

GRAPH

Total inflation continues to rise



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

has just rebounded with a 7.4% increase. Upward pressure on prices is clearly becoming more widespread. Just over 50% of the components of the CPI basket showed annual price growth above 3% in July.

IMPLICATIONS

Fears about exaggerated inflation are far from over. Several temporary factors are at play here, however, and are expected to gradually fade over the coming months. If this does not happen, the BoC may be forced to speed up the normalization of its monetary policy.