

## ECONOMIC NEWS

# Canada: Has Inflation Reached Its Cyclical Peak?

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### HIGHLIGHTS

- ▶ The consumer price index (CPI) was up 0.2% in September.
- ▶ The main components that contributed to this increase are the homeowners' replacement cost (+0.7%), meat (+1.5%), women's clothing (+2.9%), rent (+0.5%) and tour packages (+8.3%).
- ▶ In contrast, the components that contributed the most to the decrease are air transport (-14.8%), fresh vegetables (-2.2%), traveller accommodations (-3.6%), reading materials (-5.3% and electricity (-0.8%).
- ▶ Total annual inflation climbed from 4.1% to 4.4%, marking the highest inflation rate since February 2003.

### COMMENTS

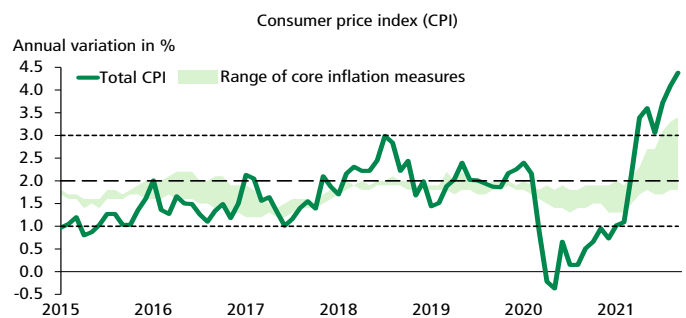
As expected, the annual inflation rate continued its upward trend in September. Inflationary pressures remain numerous, with many imbalances between supply and demand, mainly due to supply chain disruptions. In addition, gas prices have started to go up again in the past few weeks, which could extend the upward pressure from energy.

That said, our estimates show that the annual inflation rate reached a cyclical peak in September and could start to decline slowly in the coming months as temporary factors start to dissipate. In addition, the relative importance of CPI basket components with inflation above 3% decreased slightly in September, which is a step in the right direction.

### IMPLICATIONS

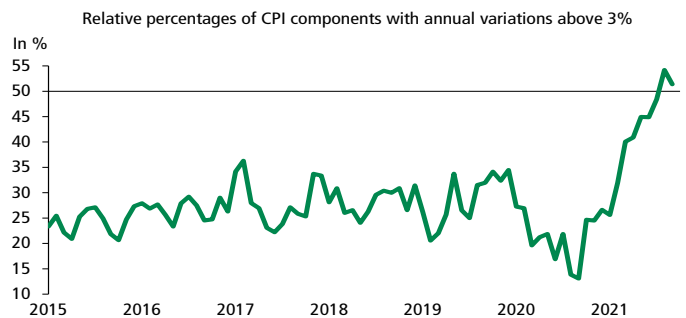
Despite this encouraging prognosis, the risks of inflation continuing to rise in the coming months or remaining at its peak for longer are quite high. The Bank of Canada will need to remain vigilant. Another adjustment to its quantitative purchasing program is expected to be announced next week.

**GRAPH 1**  
Total inflation continues to climb



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

**GRAPH 2**  
The relative importance of CPI components with inflation above 3% decreased slightly in September



Sources: Statistics Canada and Desjardins, Economic Studies