

ECONOMIC NEWS

Canada: Inflation Continues to Climb

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HIGHLIGHTS

- ▶ The consumer price index (CPI) rose 0.7% in October.
- ▶ The main components that contributed to this hike are gasoline (+5.0%), natural gas (+9.0%), telephone services (+4.5%), property taxes and other special charges (+1.5%) and digital media purchases (+25.3%).
- ▶ In contrast, the components that contributed the most to a drop are traveller accommodations (-8.3%), dairy products (-1.2%), air transportation (-5.9%), tools and other household items (-1.1%) and mortgage interest costs (-0.3%).
- ▶ Total annual inflation climbed from 4.4% to 4.7%.

COMMENTS

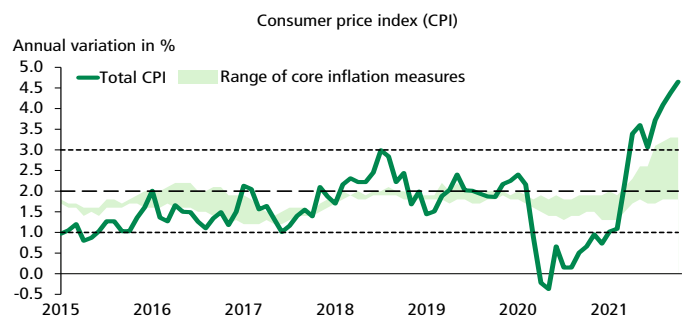
The much-anticipated plateau in Canadian inflation didn't materialize in October, as total annual inflation continued to climb. Gasoline prices rose again, and natural gas prices shot up on global disruptions. Monthly price growth was also exacerbated by larger than expected seasonal effects.

That said, inflation remains broad based. Components with inflation over 3% now account for about 55.1% of the CPI basket. Upward price pressures will likely continue in the months ahead. Preliminary data is already showing gasoline prices spiking again in November. Under these conditions, it will probably be a few more months before inflation starts to trend downward. In the meantime, total annual inflation should stay around where it is or increase lightly.

IMPLICATIONS

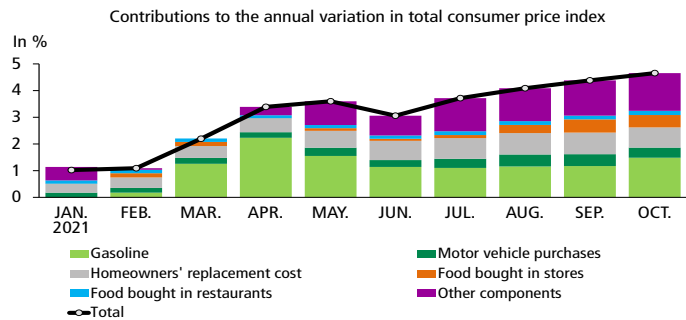
Ongoing inflationary pressure is worrying, and the risks continue to be strongly tilted toward the upside. In this environment, keeping key rates at the lower bound is increasingly untenable. We now therefore believe the Bank of Canada may raise the target for the overnight rate in April.

GRAPH 1
A further rise in total inflation



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

GRAPH 2
Gasoline, motor vehicles, housing and food are mostly driving the rise in inflation



Sources: Statistics Canada and Desjardins, Economic Studies