Rising Oil Prices Should Boost Inflation

After a surge last year, oil prices had a disappointing first half of 2017. The West Texas Intermediate (WTI) price dropped from US$54 per barrel at the end of 2016 to around US$45 in June 2017. This decline in oil prices is one of the factors that limited inflationary pressures around the world despite strong economic growth.

However, in the last few weeks, oil prices have risen significantly. This is due to several factors, including favourable economic conditions, a drop in U.S. crude inventories and growing tensions in the Middle East. The WTI price recently climbed to $US58 per barrel while the Brent price per barrel got close to the US$65 mark. These increases suggest that gasoline prices will remain higher than those observed over the summer. The recent upsurge in prices seems quick, and an additional increase would be surprising as it could spur a response by oil producers. However, given the favourable economic climate, it seems reasonable to expect oil prices to hover near current levels in the coming months.

**IMPLICATIONS**

The recent rise in oil prices is one more reason to count on inflation picking up. If oil prices remain at their current level, they will post an annual change of about 30% by the middle of next year. The gasoline component of the consumer price index will likely push up inflation rates in several economies in the next few months. This may reassure central bankers, who are concerned about inflation having remained below their target level for too long, and encourage them to pursue normalization of their monetary policy.

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**NOTE TO READERS:** The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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