Canada: Price Growth Becoming Widespread

In addition to the monthly data on changes to the consumer price index (CPI), Statistics Canada compiles and breaks down the annual change of the different components of the consumption basket. This makes it possible to separate the components of the CPI into three categories: annual price growth below the Bank of Canada’s (BoC) lower target of 1%, annual price growth above the upper target of 3% and annual price growth within the target range of 1% to 3%.

While the number of components with annual price changes below the 1% target was relatively high in 2017, a substantial decline was recently recorded. The percentage of CPI components showing annual price growth below 1% fell to just 22.3% in April, its lowest level since October 2015. In contrast, the percentage of components with an inflation rate between 1% and 3% rose sharply. This shows that upside pressure on inflation is becoming widespread.

The recent changes in the BoC’s benchmark indexes also point to faster price growth. The annual change has accelerated since mid-May 2017, reaching 2.0% on average in April. While some one-time factors contributed to pushing up the total annual inflation rate, these results show that the acceleration in the annual inflation rate seen in the last few months is also due to fairly widespread upside pressure, driven in large part by the disappearing excess production capacity.

**IMPLICATIONS**

At 1.25%, the target for the overnight rate is still consistent with a highly expansionary monetary policy. Considering the widespread increase in inflation, it is clear that Canada’s economy no longer needs this type of monetary easing. Further key rate increases are expected to be announced gradually over the next few quarters. In the short term, the BoC should nevertheless decide to be patient for a while longer and opt for the status quo next Wednesday, mostly due to uncertainty in the housing market.

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