HIGHLIGHTS

- The total consumer price index (CPI) fell 0.2% in April, coming in well below expectations.
- The main factors contributing to the decline are gas (-2.8%), clothing (-1.7%), food purchased in restaurants (-0.8%), furniture (-2.4%) and mortgage interest costs (-0.7%).
- The components that played the biggest role in increasing the CPI in April are electricity (+1.5%), air transport (+2.6%), footwear (+2.3%), maintenance and repairs by homeowners (+1.7%), and alcoholic beverages (+3.7%).
- The annual inflation rate went from 1.0% to just 0.4%, below the bottom of the target range.
- The Bank of Canada’s (BoC) core index, which excludes eight volatile components and the effect of changes to indirect taxes, rose 0.1% for that month, while its annual change fell to 1.1% from March’s 1.4%.

COMMENTS

As expected, April’s gas prices drop brought the CPI down substantially. The index’s decline was steepened, however, by a bigger-than-forecast drop by clothing prices and the cost of food purchased in restaurants. The CPI’s monthly change is thus back in negative territory, once again taking the annual inflation rate below the BoC’s bottom target (1.0%). This is not an unheard of situation: inflation remained below the lower target for three straight months at the end of 2012 and the start of 2013.

It is also reassuring to note that the risks of seeing inflation drop further in the next few months are slight. To date, gas prices at the pump have risen 1.1% in May. Combined with upside seasonal effects, this should help push the annual inflation rate up as of next month.

Implications: Beyond the volatility in the monthly results, the weak price growth phenomenon is evidently persisting in Canada. The core index has now been around 1.2% for several months. Clearly, there is no need to hasten key rate increases in Canada.