Stagnation of consumer prices in June

HIGHLIGHTS

- The total consumer price index (CPI) remained flat in June, after rising by 0.2% in May.
- Just as in previous months of June, seasonal factors weighed down the CPI; but that effect was offset by a 2.8% increase in gasoline prices. Prices of furniture, fresh vegetables, air transportation and traveller accommodation also made a positive contribution to the monthly variation of the CPI.
- The main components that posted a drop in prices were clothing, footwear and purchases of passenger vehicles.
- Despite June’s stagnation in prices, the total annual inflation rate is up, from 0.7% to 1.2%.
- The Bank of Canada’s core index (CPIX), which excludes eight volatile components, fell by 0.2% in June after a 0.2% gain in May. Meanwhile, its annual variation rose, from 1.1% to 1.3%.

COMMENTS

The monthly variations in the total CPI and the CPIX are pretty much in line with expectations. First of all, it was clear that seasonal effects would have a marked downwards effect on the variations recorded in June; the difference between the adjusted growth and the non-adjusted growth of the CPIX was -0.4% in June, identical to that of the same month in the two previous years. On the other hand, the weekly data on national gasoline prices suggested a fairly strong contribution from that component in June, even though prices at the pump rose by a lesser degree than they did in May. The other categories showed fairly modest growth in prices.

Standing at 1.2% in June, inflation is clearly still very weak. We do note, however, that the annual variation in the total CPI is once again over 1%, which is the low end of the Bank of Canada’s (BoC) target range. Thus the June inflation rate is moving away from the 0.4% trough that was recorded in April. The same trend holds true for the CPIX. In both cases, the annual rates of price growth are still well below the mid-point of the target range, 2%.

Implications: The price variations in June are fairly close to what the consensus was expecting. Moreover, the weakness of inflation, despite the increases in annual variations of the CPI and the CPIX in June, is also consistent with the BoC’s vision, which calls for little pressure on prices in 2013 and in 2014.

Francis Généreux
Senior Economist