

ECONOMIC NEWS

Canada: Air Transportation Skews Inflation Results

HIGHLIGHTS

- ▶ The consumer price index (CPI) fell 0.4% in September, more than expected.
- ▶ The biggest contributors to that decline were: air transportation (-19.5%), tuition fees (-3.6%), tour packages (-5.7%), fresh vegetables (-5.3%) and motor vehicles (-0.8%).
- ▶ The total annual inflation rate stayed at 1.9%.
- ▶ The annual average variation in the Bank of Canada's (BoC) three benchmark indexes rose from 2.0% to 2.1%.

COMMENTS

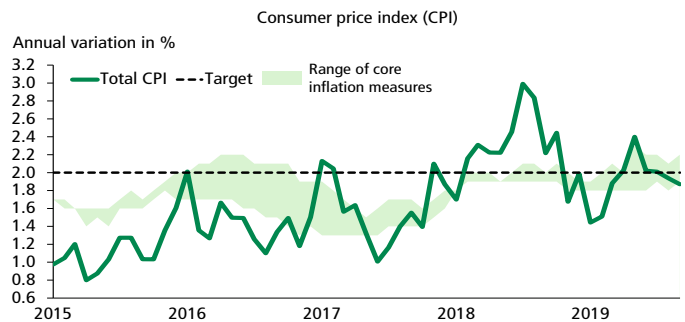
This is clearly becoming a pattern. A significant tumble in air transportation prices affected the inflation results in September. Since mid-2018, the standard deviation in the monthly variations of this component has been twice as high as before. That may be due to either a recent change in the way air transportation prices are set or a change in the way Statistics Canada measures that component. It is hard to say for the time being. One thing is certain, however: air transportation has been shaking up the CPI results for some time. Not including the plunge in air transportation prices, the monthly variation in total CPI would have been a mere -0.2 % in September, in line with expectations.

IMPLICATIONS

The fluctuations in air transportation prices will not affect the BoC overmuch. The annual variations of the three benchmark indexes are still close to the median target of 2%, pointing to stability among most prices. That gives the BoC flexibility in managing its monetary policy.

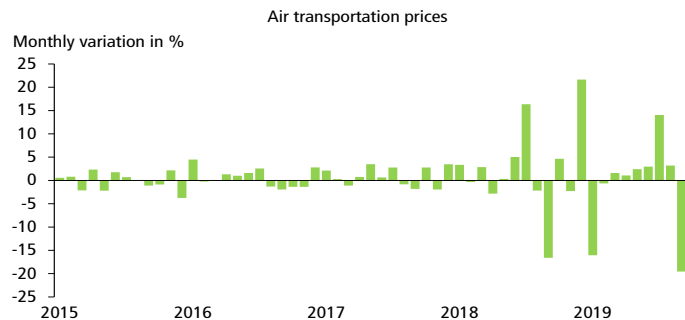
Benoit P. Durocher, Senior Economist

GRAPH 1
Inflation holds near the median target



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

GRAPH 2
Air transportation prices have fluctuated wildly since mid-2018



Sources: Statistics Canada and Desjardins, Economic Studies

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