Economic News

August 22, 2014

CANADA

Consumer prices retreated from June to July

HIGHLIGHTS

• The total consumer price index (CPI) fell 0.2% from June to July.
• The components that played the biggest role in this slide were motor vehicles (-2.1%), gas (-1.9%), women's clothing (-2.4%), fresh vegetables (-3.0%) and motor vehicle insurance premiums (-0.5%).
• In contrast, the components that played the biggest role in total monthly CPI growth were traveller accommodations (+3.7%), home insurance and mortgage insurance (+2.5%), electricity (+1.2%), tour packages (+3.6%) and men's clothing (+1.1%).
• The total annual inflation rate tumbled from 2.4% to 2.1%.
• The Bank of Canada's core index (CPIX) slipped 0.1% from June to July. Its annual change stands at 1.7% from 1.8% in June.
• Statistics Canada released data on retail trade. Retail sales were up 1.1% in June, performance that is above expectations.

COMMENTS

Seasonally adjusted total CPI edged down 0.08% in July. This is a much lower change than the trend of recent months (around +0.25%). This divergence is largely due to a one-off drop in certain components, particularly in transportation. July saw motor vehicle prices experience the strongest monthly decrease in nearly two years. Seasonal fluctuations also intensified total CPI's monthly contraction in July. There were sharper-than-normal price drops in women's clothing due to seasonal effects.

Implications: The negative one-off factors impacting July’s results should disappear in August. The monthly change in seasonally-adjusted total CPI should therefore return to its trend of recent months. Under these circumstances, the total annual inflation rate should hold steady at around 2% in the coming months. This stabilization should reassure monetary authorities and allow the status quo for key interest rates to continue until fall 2015. Lastly, the surprise jump in retail sales in June is good news, suggesting a return to positive territory by domestic demand in the second quarter.

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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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