

CANADA

Gas and clothing push inflation down

HIGHLIGHTS

- The total consumer price index (CPI) slipped 0.4% in November.
- The main components contributing to this decline are gas (-7.5%), traveller accommodation (-7.1%), clothing (-2.3%), tour packages (-9.0%) and footwear (-1.7%).
- In contrast, the main components contributing positively to the monthly change in total CPI are fresh vegetables (+12.0%), personal care supplies and equipment (+3.2%), motor vehicle purchases (+0.5%), fresh fruits (+3.9%) and tools and other household items (+2.2 %).
- The total annual inflation rate went from 2.4% to 2.0%.
- The Bank of Canada's core index (CPIX), which excludes eight volatile components, slipped 0.2% in November, while its annual change fell to 2.1% from October's 2.3%.

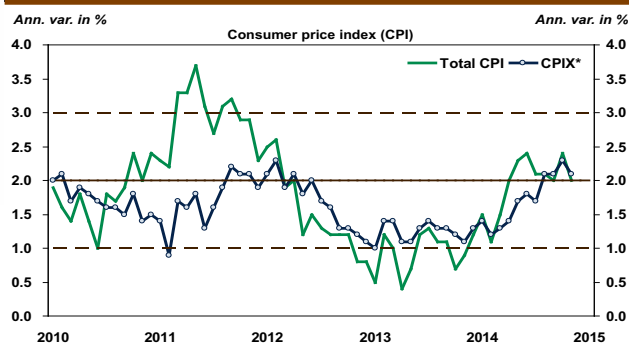
COMMENTS

The CPI's decline in November is not a surprise, although it is a little steeper than anticipated. Falling prices at the pump suggested that this component would make a strong negative contribution to the CPI's total monthly change. Excluding gas, total CPI would only have fallen 0.05% during the month.

The decrease in the CPIX seen in November is rather surprising though. Clearly, certain seasonal price fluctuations were more negative than normal. This was particularly the case with the 2.3% drop in clothing prices, which was a hard hit to CPIX in November. It remains to be seen if certain discounts typically seen in December were pushed up to November, a phenomenon that could be particularly associated with clothing.

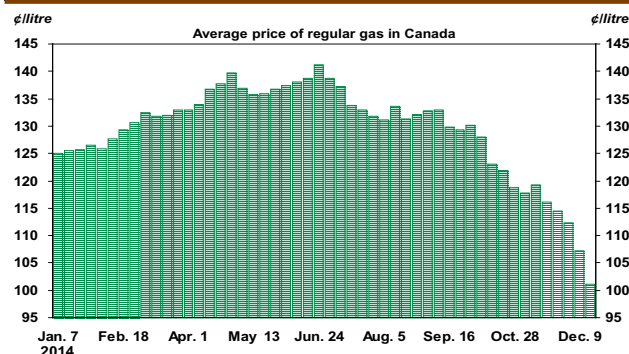
Implications: After inflation surprised with an increase in October, falling gas prices are starting to affect total CPI movement in Canada. This downtrend is not finished, as the preliminary data on prices at the pump signal another 8% or so decrease in gas prices in December. Accordingly, the annual total inflation rate could decrease around 1.5%

Total inflation falls back to the median target... but won't stop there



* Bank of Canada core index.
Sources: Statistics Canada and Desjardins, Economic Studies

The decrease in gas prices has accelerated in recent weeks



Sources: Department of Natural Resources Canada and Desjardins, Economic Studies

as early as next month. However, all signs point to CPIX's annual change staying at around 2%.

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