



## CANADA

### Low gas prices drag down inflation

#### HIGHLIGHTS

- The total consumer price index (CPI) slipped 0.7% in December.
- The main factors contributing to the decline are gas (-9.8%), clothing (-4.7%), traveller accommodation (-4.0%), footwear (-3.7%) and tools and other household items (-2.0%).
- In contrast, the main factors contributing to the increase in total CPI are fresh vegetables (+3.9%), home insurance and mortgage insurance (+2.2%), baked goods (+1.6%), food purchased from restaurants (+0.3%) and electricity (+0.4%).
- The total CPI's annual change from December 2013 to December 2014 is 1.5%, while the same measure was 2.0% last month.
- The Bank of Canada's core index (CPIX), which excludes volatile components, slipped 0.3% in December. Its annual change goes from 2.1% to 2.2%.
- **The total annual inflation rate for 2014 was 2.0 %.**
- This morning, Statistics Canada also released November's retail sales data. While most forecasters expected a slight decrease, retail sales instead rose 0.4%.

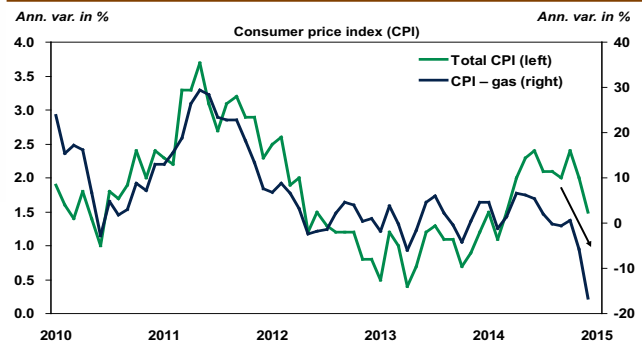
#### COMMENTS

Consumer prices changed as expected in December. As forecast, the major decrease in gas prices was the main reason for the monthly reduction in total CPI. In addition, seasonal effects are usually fairly negative in December, particularly with lowered prices for clothing.

These seasonal blips are also behind the drop in CPIX's monthly change. Once seasonally adjusted, CPIX's monthly change was 0.2%, identical to the average for the previous 12 months. The CPIX is maintaining good stability, and its annual change has held steady between 2.1% and 2.3% since August 2014.

For retail sales, the increase recorded in November was surprising given the major drop in gas prices for the month and the decrease in automobile sales. That said, we are seeing increasingly early holiday shopping, which may

#### Gas prices strongly influence total inflation



Sources: Statistics Canada and Desjardins, Economic Studies

have contributed to inflating November's sales. As a result, December sales could turn out to be disappointing.

**Implications:** Gas prices will continue to be the most determining factor in the inflation in the coming months. As such, it is likely that the CPI's annual change will fall below the lower target (1%) for a good part of 2015. However, CPIX's annual change will be more stable, staying within the Bank of Canada's target range. This inflation profile will give monetary authorities the leeway to cut their key interest rates a second time in March, unless oil prices rise significantly by then, which would be rather surprising.

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