Economic News
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CANADA

Low gas prices still dragging down inflation

HIGHLIGHTS

- The total consumer price index (CPI) slipped 0.2% in September.
- The components that played the biggest role in this decrease are gas (-7.9%), electricity (-1.0%), motor vehicle purchases (-0.3%), traveller accommodation (-1.5%) and fresh vegetables (-1.6%).
- In contrast, the components that played the biggest role in increasing the total CPI are women's clothing (+4.9%), tuition fees (+2.8%), footwear (+2.8%), men's clothing (+1.3%) and video and audio service subscriptions (+1.4%).
- The total annual inflation rate went from 1.3% to 1.0%.
- The Bank of Canada's core index (CPIX), which excludes eight volatile components (including gas), advanced 0.2% in September. Its annual change remained at 2.1%.

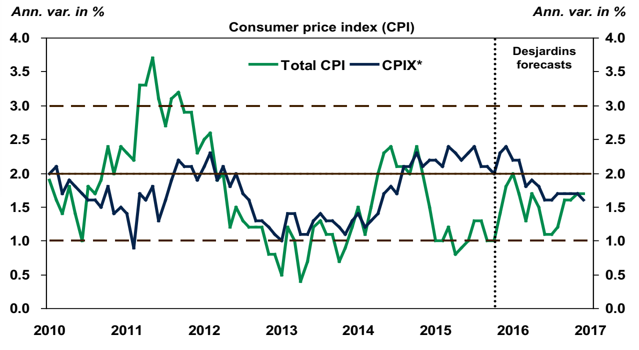
COMMENTS

The total CPI fell a bit more than expected in September. It must be said that the drop in gas prices was slightly steeper than what preliminary data suggested. If not for falling gas prices, the total CPI would have risen 0.2% for the month. Gas price fluctuations therefore continue to give rise to much volatility in the total CPI.

Under these conditions, it is important to look at the CPIX to have a better idea of the trend in prices. The annual change in core inflation is very stable and has been holding steady between 2.1% and 2.4% for 14 months. According to our projections, this stability should also prevail for the coming months. That said, core inflation may dip slightly below the median target (2%) sometime next year, as the upside effects of the Canadian dollar's depreciation slowly disappear.

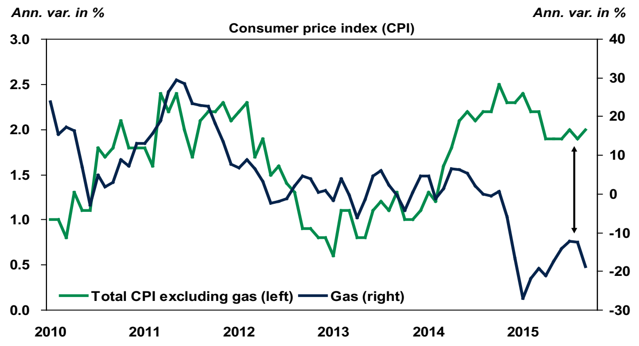
Implications: Today's results will not have much impact on the Bank of Canada's future actions. Despite weak total inflation stemming from falling gas prices, the strong stability of core inflation argues for a status quo on Canada's key interest rates for several more quarters.

Total inflation and core inflation should converge in the coming months



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

Gas price movement diverges from movement in other prices in the consumption basket



Sources: Statistics Canada and Desjardins, Economic Studies

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