Economic News

Desjardins Economic Studies
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CANADA

Price advances are weaker than expected

HIGHLIGHTS

- The total consumer price index (CPI) fell 0.2% in August while the consensus forecast had expected a 0.1% increase for the month.
- The main components that contributed to shaving the CPI were fresh vegetables (-5.3%), fresh fruit (-5.7%), new automobile purchases (-0.9%), telephony services (2.0%) and organized tours (-4.3%).
- In contrast, the components that lifted the CPI the most are women's clothing (+2.2%), homeowners' replacement costs (+0.6%), traveller accommodations (+1.6%), natural gas (+2.1%), and tools and other household items (+2.2%).
- The total annual inflation rate slipped from 1.3% to 1.1%.
- The Bank of Canada's core index (CPIX), which excludes eight volatile components, remained unchanged for the third straight month. Its annual change fell to 1.8% vs. 2.0% in July.

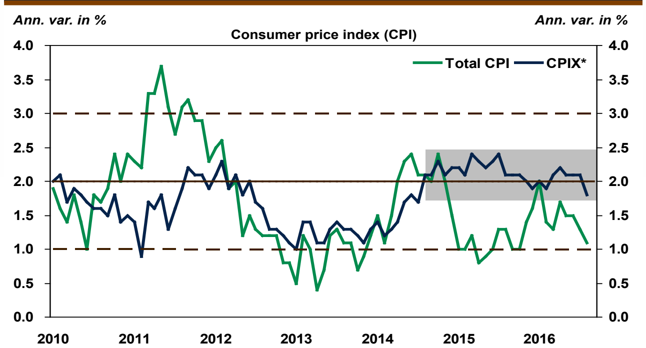
COMMENTS

Generally speaking, the seasonal price fluctuations in August were mostly in line with expectations. The arrival of local products in markets brought down the prices for fresh fruits and vegetables while automobile prices posted seasonal discounts. On the flip side, clothing prices rose as the stores unveiled their fall collections.

The fluctuations that are not related to seasonal effects were the real surprise. As such, the seasonally adjusted CPI dipped by 0.1% in August, a result that contrasts with the trend in recent months, which hovered closer to 0.2%. That said, this weakness is not a concern. A temporary blip in the monthly change of the seasonally adjusted total CPI is not unusual. In fact, the seasonally adjusted CPI slipped temporarily last February, which did not prevent the uptrend from getting back on track by March.

Implications: The drop in the total CPI in August nevertheless contributed to the decline in the annual total inflation rate. At 1.1% in August, this rate is much weaker than what the forecasts had called for. This confirms the Bank of Canada's concerns, as its leaders have mentioned recently that "the risks to the profile for inflation have tilted somewhat to the downside since July."

Underlying inflation has been very stable for several months



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

That said, despite the decline in August, core inflation remains very stable. For the past two years, it has oscillated between 1.8% and 2.4%. This advance toward the 2% target should reassure the monetary authorities. In such conditions, all indications suggest that key interest rates will remain the same for an extended period of time. In fact, we will have to wait until at least the spring of 2018 to see the first change to the overnight rate—an increase of 25 basis points.

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