Canada: Lower Energy Prices Reined in Consumer Price Index Growth in May

HIGHLIGHTS

- The total consumer price index (CPI) rose by 0.1% in May, which was lower than expected.
- The increase in the total CPI was slowed by lower energy prices (-3.4%), including gas (-4.0%), electricity (-3.3%), natural gas (-1.5%), and other residential heating fuels (-3.0%).
- The cost of tour packages (-4.2%), motor vehicles (-0.6%) and Internet access services (-3.1%) also kept the monthly change in the total CPI in check.
- In contrast, the rise in the cost of traveller accommodation (+11.6%), telephone services (+2.1%), air transportation (+3.5%), and fresh fruit (+4.8%), as well as the rise in homeowners’ replacement cost (+0.9%) contributed significantly to the increase in the total monthly CPI.
- The total annual inflation rate declined from 1.6% to 1.3%.
- The average annual change in the Bank of Canada’s (BoC) three new core indexes fell once again. It now lies at 1.3% compared with 1.4% in April. Note that the average was 2.0% for the same period last year.

COMMENTS

Seasonally adjusted total CPI was down by 0.15% in May, clearly below expectations. This decline was especially evident in the transportation sector, as gas prices moved in the opposite direction than they normally do in May, when prices usually rise. With an average of -0.08%, it must be noted that the increase in the monthly seasonally adjusted CPI slowed significantly during the last four months. In comparison, the average was 0.12% in 2016. This shows a weaker inflation trend, which is confirmed by the continuous decline of the BoC’s core indexes.

IMPLICATIONS

Low inflation significantly reduces the likelihood of a hike in key interest rates as early as July. In all probability, the first hike will not occur until October, in reaction to improved economic conditions.

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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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