Canada: Inflation Decrease Slightly

HIGHLIGHTS

- The total consumer price index (CPI) slipped 0.1% in August.
- The components that contributed most to that decline were gas (-1.6%), tour packages (-3.5%), telephone services (-2.0%), air transportation (-2.2%) and fresh vegetables (-3.2%).
- In contrast, the main increases were in women’s clothing (+1.5%), mortgage interest (+0.6%), home and mortgage insurance (+1.1%), traveller accommodation (+1.1%) and meat (+0.6%).
- The total annual inflation rate went from 3.0% to 2.8%.
- The Bank of Canada’s (BoC) three benchmark indexes all rose 0.1 percentage point from their annual changes. Their average was 2.1%, compared to 2.0% the month before.

COMMENTS

Inflation results are a bit weaker than expected. The main discrepancy comes from the monthly change in the seasonally adjusted version. At 0.1% in August, it is astonishingly low in view of the elimination of excess capacity. However, there are more tangible signs of upward pressure in the progress of the BoC benchmark indexes. The average in August was the highest it has been since February 2012. With an annual variation of 2.8%, the total CPI is still above the BoC’s target range. In short, today’s results have had little change on the snapshot or the trend of inflation.

IMPLICATIONS

For the BoC, today’s results change nothing at all. The annual inflation rate is close to the higher target, of course, but everything seems to be under control. We also believe the total annual rate is not likely to veer off course and go way over the target range (i.e. over 3%) in the coming months. Our estimates indicate that it will gradually slip back to the median target (2%).