Canada: Declining Gas Prices Bring Down Inflation

HIGHLIGHTS

- The total consumer price index (CPI) slipped 0.4% in November.
- The main components that contributed to this dip were gasoline (-9.4%), traveller accommodations (-9.4%), tour packages (-3.6%), women’s clothing (-1.9%) and personal care supplies and equipment (-2.8%).
- In contrast, the components that contributed the most to the increase in total CPI were fresh vegetables (+8.4%), motor vehicle insurance premiums (+1.7%), fresh fruit (+3.4%), mortgage interest costs (+0.6%) and the purchase of motor vehicles (+0.3%).
- The total annual inflation rate fell from 2.4% to 1.7%.
- The annual change for two of the three benchmark indexes was down for the month. Their average is now 1.9% compared with 2.0% in October.

COMMENTS

As expected, the sharp decrease in gasoline prices noted in November, combined with negative seasonal effects, led the total CPI to drop considerably. The slump is clearly not over. According to the data currently available for December, the average price for regular gasoline plunged 6.2% during the month. This is expected to result in a -0.2% contribution to the monthly change in total CPI for December. In addition, other seasonal price reductions, in particular in clothing and recreation, are expected.

Under these circumstances, the total annual inflation rate could close in on 1.5% as early as the next time the results are released. Furthermore, the low prices seem to be more widespread, as 45.7% of the total CPI components recorded an annual change lower than 1% in November. This is the highest proportion in over a year.

IMPLICATIONS

Once again, the inflation results were affected by the high volatility caused primarily by the blips in the energy sector. It can be difficult to know where to turn under these circumstances, hence the need to focus on the benchmark indexes. While the average of the three indexes used by the Bank of Canada has edged down in November, it has remained around 2% over the past ten months or so. Even if the recent results offer another good reason to maintain the status quo on key rates for a few more months, the door is expected to remain open next spring for further monetary tightening.

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