

ECONOMIC NEWS

Canada: Inflation Dropped Sharply in March

HIGHLIGHTS

- ▶ The harmful effects of COVID-19 had a greater than expected impact on the consumer price index (CPI).
- ▶ Total CPI dropped 0.6% in March, with its annual variation dropping from 2.2% to 0.9%.
- ▶ Seasonally adjusted total CPI plunged 0.9% in March, its largest monthly decrease since this index was created in 1992.
- ▶ The annual average variation in the Bank of Canada's three benchmark indexes fell to 1.8% from 2.0% in February.

COMMENTS

To fully grasp the impact of COVID-19 on CPI, we can analyze the change in prices in March 2020 compared to the same period last year. Instead of dropping 0.6%, total CPI was up 0.7% in March 2019. This significant difference is obviously the reason for the sharp drop in the annual variation of total CPI.

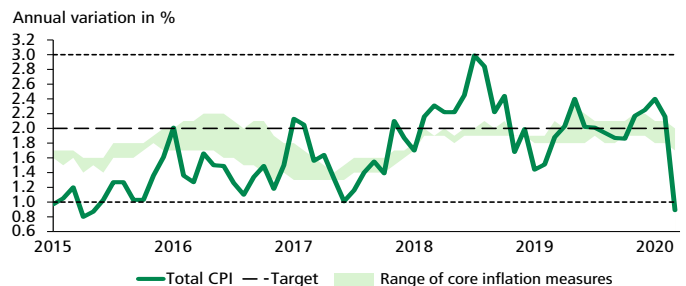
As suggested by prices at the pump, the biggest reduction comes from gas prices, which plunged 17.8% in March 2020. Nevertheless, COVID-19 is affecting a number of other components. Electricity, natural gas and oil prices pulled back significantly during the month, as demand was hampered by the confinement measures. Intercity transportation prices also dropped in March, for train and bus travel in particular. Unsurprisingly, the price of travel services also fell sharply during the month, as did the price of recreational vehicles.

IMPLICATIONS

Beyond the direct effects of COVID-19, the low total CPI also reflects an increasingly generalized softening in prices. In March, just over 63% of the components in the CPI basket posted an annual variation lower than six months ago. Under these conditions, we have to expect the total annual inflation rate to continue to plummet over the coming months. We could get closer to zero and even briefly dip into negative territory.

GRAPH 1

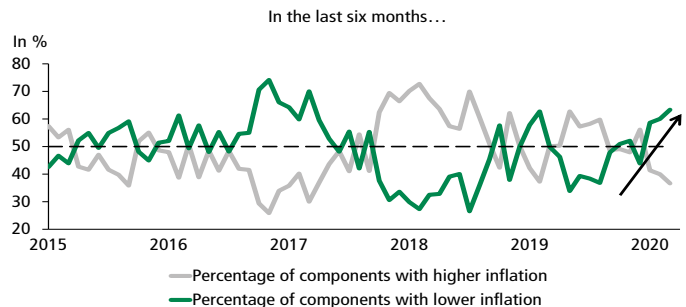
Total inflation drops below the lower target of 1%



CPI: Consumer price index
Sources: Statistics Canada, Bank of Canada and Desjardins, Economic Studies

GRAPH 2

The number of components in the CPI basket with declining inflation is growing



CPI: Consumer price index
Sources: Statistics Canada and Desjardins, Economic Studies

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