

ECONOMIC NEWS

Canada: The Annual Inflation Rate Falls into Negative Territory

HIGHLIGHTS

- ▶ The total consumer price index (CPI) slipped 0.7% between March and April, mostly due to another major monthly drop in gas prices (-15.2%). The prices for clothing (-7.3%), electricity (-4.5%), and traveller accommodation (-7.2%) also declined significantly.
- ▶ Still, other components recorded relatively hefty increases during the month. These included, in particular, fresh fruit (+6.1%), restaurant meals (+0.7%), dairy products (+1.4%), air transportation (+3.4%), and paper, plastic and aluminum items (+5.4%).
- ▶ The total annual inflation rate fell from +0.9% to -0.2%. As a result, the total annual inflation rate entered negative territory for the first time since the 2008–2009 recession.

COMMENTS

As was the case in the 2008–2009 recession, the sharp drop in gas prices is mostly behind the disinflation the country is currently experiencing. As for the other CPI components, the measures implemented to stop the spread of COVID-19 have produced different outcomes. For example, clothing and recreation saw prices drop, whereas some food items became more expensive.

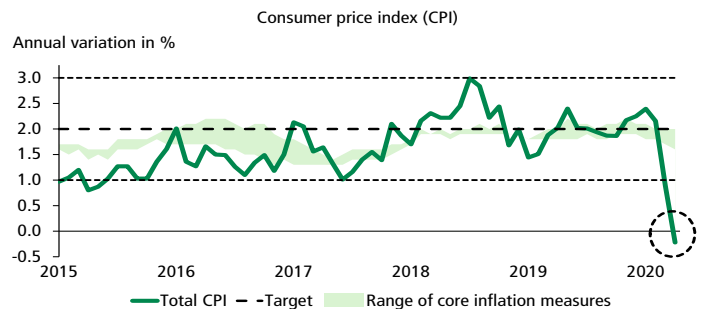
In the end, the overall rise in prices remains in positive territory. As a result, the annual variations of the Bank of Canada's (BoC) three benchmark indexes remain within the 1.6% to 2.0% range, or near the median target. Additionally, in April, the prices of roughly 66% of the components in the CPI's basket posted annual growth above 1%.

IMPLICATIONS

With key rates already at their effective floors, a drop in inflation won't really have an impact on the BoC's monetary policy. Furthermore, everything seems to suggest that the drop in inflation will stabilize soon. What's more, higher crude oil prices

GRAPH

Total inflation drops below zero



Sources: Statistics Canada, Bank of Canada and Desjardins, Economic Studies

on the international markets have already led to gas prices in Canada rising roughly 13% in May.

That said, it will undoubtedly take several months for the effects of the oil price shock to disappear completely. Under these circumstances, the annual variation in total CPI is expected to remain near zero for many months to come.

Benoit P. Durocher, Senior Economist

François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist
Hélène Bégin, Senior Economist • Benoit P. Durocher, Senior Economist • Francis Généreux, Senior Economist

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2020, Desjardins Group. All rights reserved.