

ECONOMIC NEWS

Canada: Low Prices Continue

HIGHLIGHTS

- ▶ The consumer price index (CPI) rose 0.3% between April and May.
- ▶ The main components that contributed to this increase are gas (+16.9%), meat (+2.1%), motor vehicle insurance premiums (+1.4%), the purchase of recreational vehicles (+3.1%) and cereal products (+2.8%).
- ▶ In contrast, the components that did the most to rein in total CPI growth are women's clothing (-3.9%), telephone services (-2.4%), rent (-0.8%), furniture (-3.3%) and shoes (-2.9%).
- ▶ The total annual inflation rate went from -0.2% to -0.4%.
- ▶ The average annual variation in all three benchmark indexes fell to 1.7% from 1.8% the previous month.

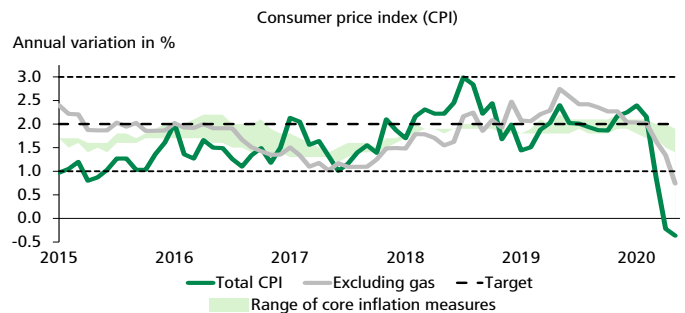
COMMENTS

Total CPI growth is less than what forecasters, who were expecting an increase of 0.7% in May, had predicted. The gap is mainly due to the basket excluding gas, whose prices have dropped for a second month in a row. The annual variation in the total CPI excluding gas dropped to 0.7% in May, its lowest level since January 2013. At first glance, this is a sign of widespread weakness in price growth. Is this really true though?

COVID-19 and social distancing measures have turned Canadian household consumption habits upside down. For instance, Canadians are eating more food bought in stores and food services spending has tumbled. Demand for air transportation, public transit, accommodation and most recreation services has also changed dramatically. However, Statistics Canada's current methodology does not capture such quick changes in consumption habits, which has a major impact on current inflation results.

GRAPH

Total inflation is still below zero



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

The price of goods and services that consumers abandoned to a greater extent generally posted a bigger drop. Conversely, the price of goods and services that are more in demand is growing more quickly. Furthermore, the annual variation in the price of food bought in stores was +3.5% in May, which is considerably higher than the growth of the entire CPI basket. These distortions probably mean that the current growth of official inflation is a little lower than the reality perceived by consumers. Statistics Canada should be publishing work on this soon.

IMPLICATIONS

With all these disruptions, caution is in order in analyzing inflation. That said, price changes will not be a major issue for monetary policy in the short term, as the Bank of Canada is more concerned about the effects of COVID-19 on economic growth and the financial markets.

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