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Economic News
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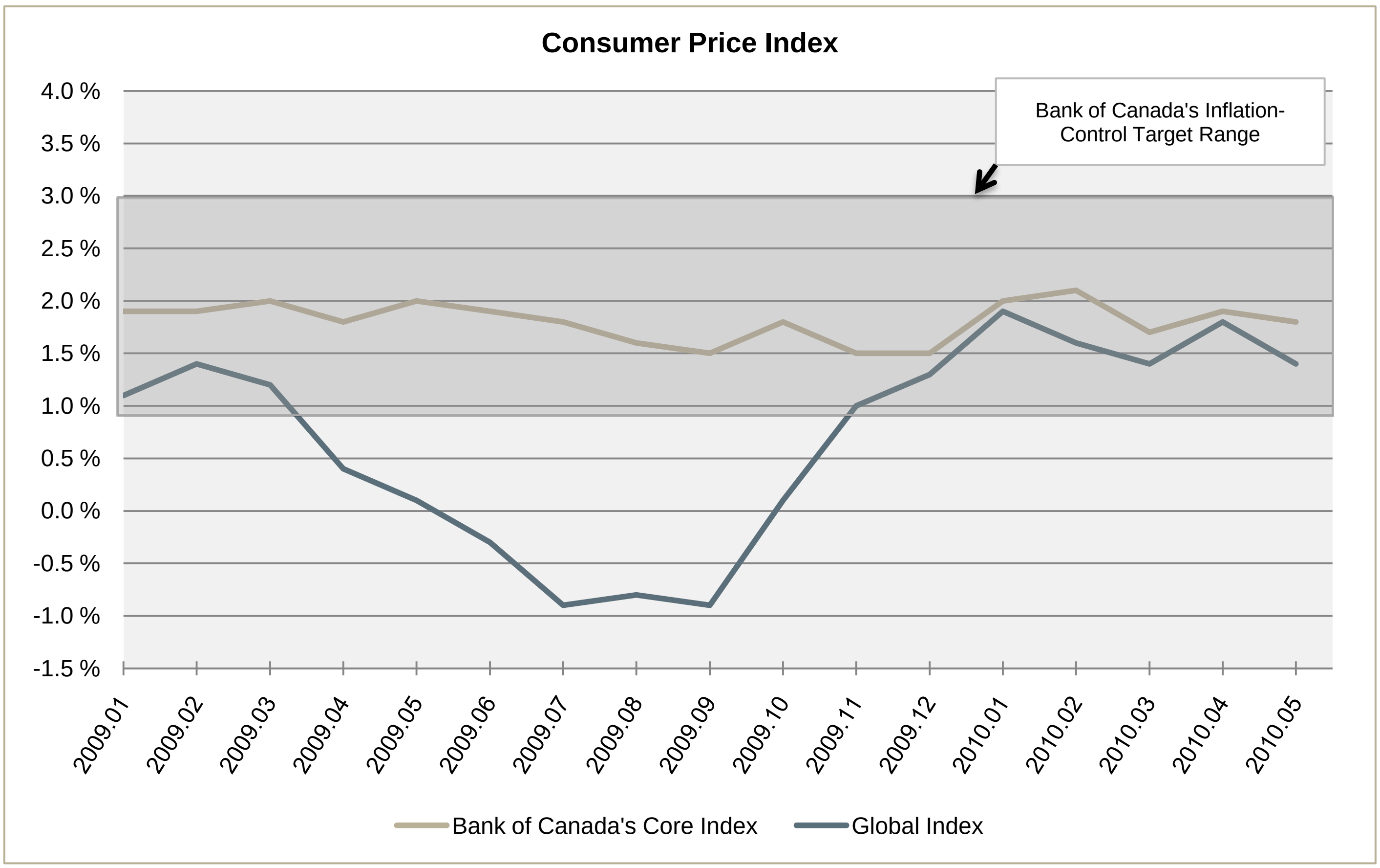
The Increase in Consumer Prices in Canada Slows in May

According to Statistics Canada, consumer prices rose by 1.4 per cent in Canada over the 12-month period ending May 2010, following an increase of 1.8 per cent in April.

As was the case for the past seven months, the significant increase in energy prices (+6.2 per cent in May), including gasoline prices (+6.9 percent), were important factors in Canada's inflation rate.



Source : Statistique Canada

The Bank of Canada's core consumer price index, which excludes energy prices among others, advanced 1.8 per cent over the one-year period ending in May 2010 and therefore remains within the Bank of Canada's target range (between 1 and 3 per cent). This increase occurred at a slightly slower pace than the previous month, when the core consumer price index increased by 1.9 per cent.

To view the official Statistics Canada release, click here.

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Details About the Consumer Price Index

The total Consumer Price Index (CPI) measures the evolution of the cost of living in Canada and in each of the provinces. This estimate, which is released monthly by Statistics Canada, is based on the price movement of a fixed basket of goods and services, using 2005 as a base year.

In addition to this total index, Statistics Canada publishes the Bank of Canada's Core CPI, which excludes the eight most volatile components by, among other things, removing the evolution of certain energy and food prices. The Bank of Canada, which aims to keep inflation within a range of 1 to 3 per cent, uses the evolution of this index to adjust its monetary policy.

The analysis of price movements uses a very specific vocabulary. We refer to inflation when consumer prices rise, and we refer to deflation when they fall. In contrast, when there's a slowdown in the rate of increase of consumer prices, this is known as disinflation.

The Consumer Price Index and the Resale Market in Québec

The evolution of the CPI can be used as a comparison with the evolution of property prices. However, this comparison is only relevant in the long term.

Because changes in the consumer price index directly influence monetary policy decisions and, thus, short-term interest rates, they may also have an indirect impact on resale market activity. As we saw above, the Bank of Canada closely monitors the evolution of the core CPI, which influences its decisions on monetary policy. All things being equal, the central bank tends to increase its key interest rate when it foresees a trend movement in the core CPI that is greater than 3 per cent, and to decrease its key interest rate when it foresees a trend movement in the core CPI that is less than 1 per cent.

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