CPI: Canadian inflation trends

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The pace of inflation eased in July to 2.7 per cent as increases in the price of gasoline slowed, Statistics Canada said Friday.

The gain compared with a 3.1 per cent increase for the consumer price index in June. It was the first time that inflation was below a pace of three per cent since February.

Energy prices were the main driver of the increase in prices, gaining 12.9 per cent compared with a year ago, however that was down from a 15.7 per cent increase for June. Gasoline prices were up 23.5 per cent compared with a year ago, compared with a 28.5 per cent increase in June.

	Previous Year (July 2010)	Previous Period (June 2011)	**Current Data (July 2011)**
CPI 12 month change	1.8%	3.1%	**2.7%**
Core CPI 12 month change	1.6%	1.3%	**1.6%**

SOURCE: Bank of Canada, Statistics Canada.

Food prices were up 4.3 per cent, matching the increase in June.

Excluding food and energy prices the consumer price index increased at a pace of 1.2 per cent for July, compared with a 1.4 per cent increase for June.

The core index, which is used by the Bank of Canada to help guide its decision on interest rates, gained 1.6 per cent following a 1.3 per cent gain in June. On a month-over-month basis, the core index was up 0.2 per cent in July, in line with economist expectations.

July was the first month to compare prices with a year ago that included the introduction of the harmonized sales tax in Ontario and B.C. as well as a two percentage point increase in the tax in Nova Scotia.

The inflation report comes as Finance Minister Jim Flaherty and Bank of Canada governor Mark Carney prepare to appear before the House of Commons finance committee.

The men were called to testify after more than a week of volatile trading on stock markets around the world due to fears of a sovereign debt crisis in Europe and worries the U.S. may slip back into recession.

Last week, the U.S. Federal Reserve said it would look to keep its key interest rate near zero through the middle of 2013.

The low rates in the United States will put more pressure on the Bank of Canada to keep borrowing costs on hold north of the border as well.

There had been recent speculation that the Canadian central bank would begin raising rates this fall to curb inflationary pressures in the Canadian economy, which has been growing faster than the United States.

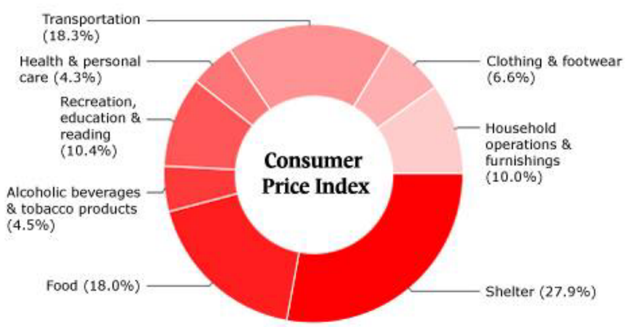
However, economists say the recent stock market turmoil and the fears of a double-dip recession in the United States has made it likely that rates won't rise in Canada until next spring at the earliest.

CPI vs. Core CPI

- **The Consumer Price Index (CPI)** is an indicator of changes in consumer prices experienced by Canadians. It is obtained by comparing through time, the cost of a fixed basket of commodities purchased by consumers. Since the basket contains commodities of unchanging or equivalent quantity and quality, the index reflects only pure price change. The current reference period for CPI, in which the CPI = 100, is 2002.

- **Core CPI** excludes eight of the most volatile components (fruit, vegetables, gasoline, fuel oil, natural gas, mortgage interest, inter-city transportation and tobacco products) as well as the effect of changes in indirect taxes on the remaining components.

The goods and services contained in the CPI basket



For a detailed breakdown, see Statistics Canada's *Weighting Diagram of the Consumer Price Index*.

How the Consumer Price Index (CPI) is calculated

Price movements of the goods and services represented in the CPI are weighted according to the relative importance of commodities in the total expenditures of consumers. These basket shares or expenditure weights (considering each good or service as an item in a consumer basket) ensure that a 10 per cent price increase in rent, for example, would have a greater impact on the All-items CPI than a 10 per cent increase in the price of milk. This is because Canadians as a whole spend a much larger share of their total expenditures on rent than on milk. CPI basket shares are updated at intervals of about four years; they are obtained from household surveys (Survey of Household Spending and Survey of Food Expenditures). The prices for most products are collected during the first three weeks of the reference month. Gasoline prices are collected in four weeks of the month.

The prices of some goods are observed less frequently than monthly since their prices tend to change less often. Prices of cameras are observed five times a year. Bus, train and taxi fares are collected twice a year. University tuition fees, property taxes and automobile registration fees are collected once a year. However, when prices change outside of the scheduled time of collection, a special price collection may be carried out. Prices of seasonal goods (e.g. winter coats), which appear in the market place for only a few months of the year, are observed only in the months in which supplies are judged reasonable.

More than 90 per cent of the price quotes used in the construction of the CPI are collected by personal visits to selected retail outlets. For products such as newspapers, cable television services, men's haircuts, fuel oil, and restaurant meals, prices are collected by telephone and at least once a year, by personal visits. Some types of information are collected via the Internet.