

## November's CPI data posts huge drop

**I**nflation in Canada came tumbling down in November. Month-to-month the all-items Consumer Price Index dropped 0.9%, which was the largest monthly decline in more than 42 years. This left the annual inflation rate at a very mild 0.7%, a huge drop from October's 1.9%. Some of the decrease was due to seasonal factors, such as a lower clothing and footwear prices. Still even after adjusting for these patterns the index fell by a whopping 0.6%.

Although steep, the drop in the price level does not mean deflation (a sustained decline in the level of all consumer prices) is lurking around the corner. Most importantly, energy prices were the main driver of the decrease in the index. The energy component of the index fell 8.8%, reflecting a 10% and 22% drop in gasoline and natural gas prices respectively. And in large measure the drop in natural gas prices was due to another provincial government rebate for Alberta households.

After energy prices (along with seven other volatile components) of the index are stripped away, the core inflation rate fell by a more moderate 0.3%, moving the annual rate down to 1.7%, down from 2.2% in October.

As a result of the slowing economy the core rate of inflation will remain low and may even slip to the lower end of the Bank of Canada's 1% to 3% target range. With prices so well behaved, we expect the Bank to cut its trend setting rate by another 25 basis point on January 15th.

In B.C. the story was much the same. The all-index CPI dropped 0.8% from the previous month. However, in B.C.'s case this was equivalent to October's decline. The annual inflation rate retreated to a mere 0.3%. Excluding food and energy, inflation in B.C. was just 0.2%.

## Commodity Exports Still Trending Down

International commodity exports edged up slightly in October, but not by enough to alter the downward trend that has been in place for most of the year. In spite of the slight gain the year-to-date increase over last year fell to just 1%, compared to 3% in September. The reason for the decline is because total exports were at very high levels this time last year due to the huge surge in energy prices.

When energy is excluded for the total, the year-to-date value of the remaining commodity exports has fallen by more than 7%. This provides a better picture of conditions in the export sector. Much of this decrease can be traced to the 21% drop in pulp and paper products. Although metallic minerals accounts for only 5% of all exports, their 23% decline in shipment is also pulling down the total.

Lumber exports are down by just 3% so far this year. But the cumulative decrease is tempered by the fact that lumber prices shot up in the in the first part of the year. Still the decrease is not as large as it might have been because housing starts in the U.S. have been generally resilient and boosted by the unusually warm weather across the country.

Commodity prices are expected to remain relatively weak in the first half of 2002. As a result, B.C.'s exports will not see much of a recovery until the second half of the year.

## Retail activity bounces back in October

B.C. retail sales advance by 0.5% in October, more than offsetting the 0.4% monthly decrease registered in October. Much of the gain came in the automotive sector, which reported a healthy gain in new vehicle sales. However, general merchandise and clothing also saw strong gains during the month. In spite of softening sales for a few months prior to October, the upward trend in retail activity is still in place.

On a year-to-date basis, retail activity is up 6% over the same period last year. This is one of the strongest showings of all provinces, exceeded only by Alberta (9.1%) and Newfoundland (8.0%).