FINANCIAL POST

ECONOMY

Bank of Canada refocusing on inflation picture: 'Different times call for different CPI measures'

GORDON ISFELD | October 28, 2015 | Last Updated: Oct 29 7:23 AM ET
More from Gordon Isfeld

Is the core index an accurate snapshot of the marketplace than regular CPI? Maybe not — but they're working on it. Joe Raedle/Getty Images

OTTAWA — Over the past year, Canadians' obsession with the rate of inflation, and its impact on everyday goods, has been slipping a bit off the radar.

And, perhaps, that's where the Bank of Canada would like it to remain. Moderate price movements, in the right direction, could help policymakers meet that objective.

Thanks, in part, to cheap gasoline — falling under the weight of the global oil-price collapse and lingering on as the country struggles to climb out of recession — consumers have had fewer major price increases to contend with. At least, that's what government number crunchers have been telling us.

Statistics Canada, the main collector of monthly price data, said its consumer price index — the big basket of goods that we purchase on a regular basis — rose by just one per cent in September from the same month a year earlier. And there's not much variance in the overall CPI level since the start of 2015, when the energy crunch began to do its damage.

But there's another formula for tracking price movements — and that's the Bank of Canada's so-called "core" inflation measure. It uses the same data as StatsCan, but strips out eight of the most volatile categories: fruit, nuts, vegetables; natural gas; fuel oil; gasoline; mortgage rates; inter-city transportation; and tobacco and smoking supplies.

The central bank uses the results of this measure to shape monetary policy by adjusting their trend-setting interest rate — currently at 0.5 per cent and affecting how much consumers pay for most things — to help nudge the annual inflation rate toward their target of two per cent.

If having two measures for what seems like essentially the same thing seems confusing, well, it is (for anyone outside of the BoC's Ottawa headquarters, anyway). Is the core index an accurate snapshot of the marketplace than regular CPI? Maybe not — but they're working on it. Every five years, policymakers undertake the process of reassessing their options to improve the core inflation index, referred to as CPIX.

"We are examining the properties of these measures of core inflation to determine whether the bank should continue the practice of identifying one pre-eminent measure as its operational guide and, if so, whether CPIX should continue to play that role," said Timothy Lane, one of four deputy governors at the Bank of Canada, led by Stephen Poloz.

"Our periodic renewals are important opportunities to make sure it continues to serve its purpose and to suggest improvements," Lane said in a speech Tuesday in Halifax. At the same time, the bank released a paper outlining other possible measures that could improve its price-tracking methods.

A decision on whether to alter the inflation-targeting policy — enshrined in monetary policy since 1991 — will be reached between the bank and the federal government in 2016.

"The two-per-cent inflation target has worked quite nicely, historically, for Canada. So, they're not tinkering with that," said Benjamin Reitzes, senior economist at BMO Capital Markets.

"They're just tinkering with what to use as an indicator to where the overall inflation is going," Reitzes said. "They're very strongly looking at changing to a number of different core measures. I don't think they want to use just one … because different times call for different core CPI measures."

But Reitzes said it is important “to send a consistent message.” Recently, he added, policymakers have “taken the emphasis off ‘core’ CPI and they’ve changed it to ‘underlying inflation’ — and they’ve tended to put that in their past few (interest-rate) statements.”

Wording and overall messages from the Bank of Canada are not what most consumers would be concerned with.

Bruce Crane, president of the Consumers’ Association of Canada, points to the ongoing uncertainty in the economy and fluctuations in prices overall.

“I think we’d all be suspicious of anything they (policymakers) come out with to present the news in a better form because they’re changing the means of calculation,” Crane said.

“I don’t think anything that they can do to change the way they represent it (inflation) changes the realities of what we’re all feeling at the moment in all sorts of areas.”

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