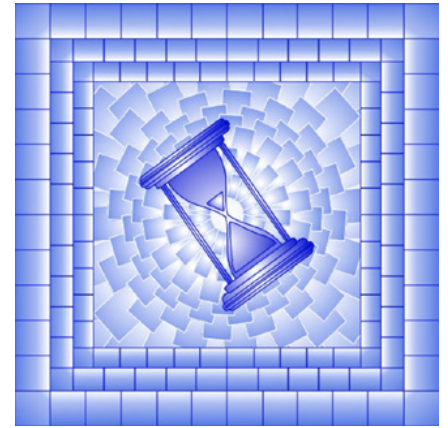


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# The Consumer Price Index and COVID-19: A One-Year Retrospective



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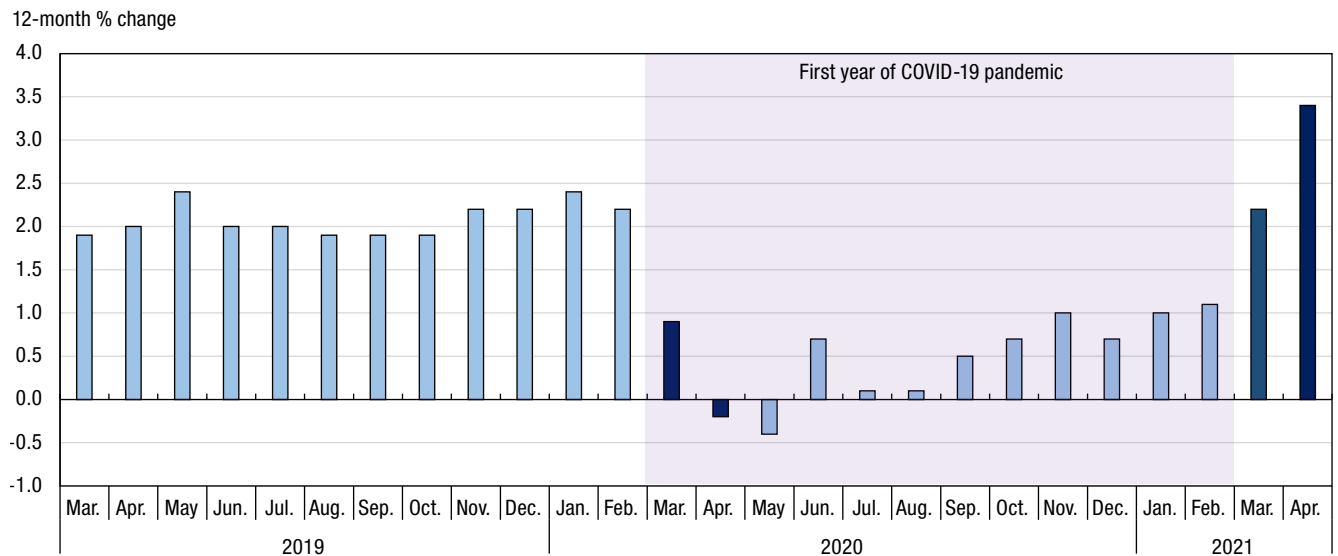
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# The Consumer Price Index and COVID-19: A One-Year Retrospective

The COVID-19 outbreak, declared a pandemic on March 11, 2020, resulted in economic disruptions that continue to affect financial and labour markets across the globe. At the onset of the pandemic, prices shifted significantly as Canadians entered a sustained period of physical distancing and business closures. As Canadians adapted to staying home and travelling less, demand for a number of consumer goods and services shifted, contributing to the first year-over-year decline in the Consumer Price Index (CPI) since 2009. In April and May of 2020, consumer prices were 0.2% and 0.4% lower, respectively, compared with the same months of 2019.

While prices for some commodities, such as energy products, have since recovered to pre-pandemic levels, the impact of COVID-19 and various measures to contain its spread continue to impact the CPI. At the same time, base-year effects from March and April 2020 are temporarily putting upward pressure on headline consumer inflation, which is measured as the percentage change between the CPI in the current month (April 2021) and the CPI in the base month, or, the same calendar month of the previous year (April 2020).

**Chart 1**  
**Consumer Price Index, March 2019 to April 2021**

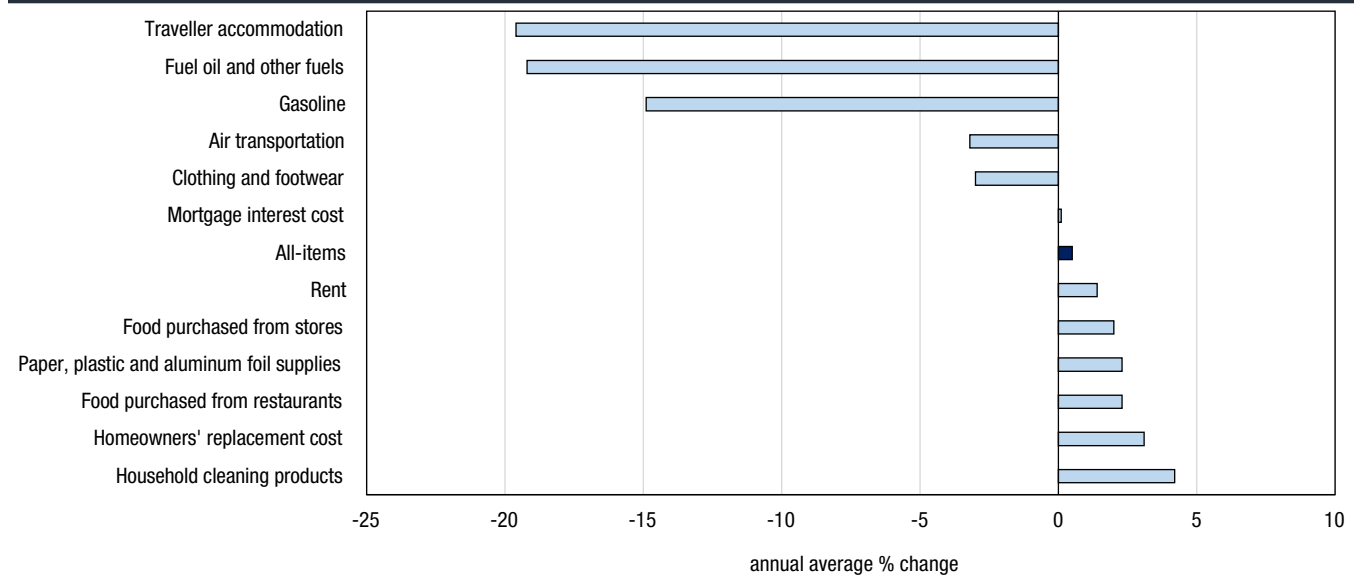


Source: Statistics Canada. Table 18-10-0004-01 Consumer Price Index, monthly, not seasonally adjusted.

## Impact of COVID-19 on the CPI

During the first year of the COVID-19 pandemic, record price movements were observed for a number of goods and services, particularly for energy products and travel services. Prices for traveller accommodation fell 19.6% over the 12 months ending in February 2021, while consumers paid 19.2% less for fuel oil and other fuels, and 14.9% less for gasoline (Chart 2).

**Chart 2**  
**Price change for the 12 months ending February 2021, select components, Canada**



**Note:** This chart shows the percentage change between the annual average Consumer Price Index (CPI) during the first year of the pandemic (March 2020 to February 2021) and the same period one year prior. Annual average indexes are obtained by calculating the average of the 12 monthly index values over a 12-month period. Annual average percent change should not be confused with the 12-month percent change that is published every month with the release of the CPI. Unlike annual average change, 12-month change compares the monthly index level with the level from the same month a year earlier.  
**Source:** Statistics Canada. Table 18-10-0004-01 Consumer Price Index, monthly, not seasonally adjusted.

## Energy

In the early months of the pandemic, Canadians paid significantly less for gasoline. Consumer prices at the pumps plummeted more than 30% between February and April of 2020, as a combination of lower demand and increased supply affected global oil prices. Around the world, demand for oil fell as industrial activity slowed, nonessential travel came to a halt and widespread measures were introduced to limit the spread of COVID-19 through physical distancing. At the same time, supply was affected by tensions among oil-producing countries, resulting in a price war that flooded the global market with cheap oil. Gasoline prices fell to a low of 77.8 cents in April 2020, the lowest average monthly price observed since December 2008.<sup>1</sup> Gasoline prices gradually recovered in subsequent months as lockdown measures were eased and the Organization of the Petroleum Exporting Countries (OPEC) production cuts reduced the supply of crude oil in the global market, reaching pre-pandemic levels in February 2021 and sustaining through March and April.

Global oil dynamics had an additional impact in the Atlantic region, where furnace oil is more commonly used for home heating.<sup>2</sup> Significantly lower prices for furnace fuel oil and other fuels contributed to lower year-over-year price growth in all four Atlantic provinces, where consumer inflation continued to lag behind the national average through the end of 2020.

1. Source: Statistics Canada. No date. Table 18-10-0002-01 Monthly Average Retail Prices for Food and Other Selected Products.  
 2. The fuel oil and other fuels index, which includes furnace oil for home heating, comprises 1.32% of the CPI basket in Newfoundland and Labrador, 2.86% in Prince Edward Island, 2.15% in Nova Scotia and 0.79% in New Brunswick, compared with 0.29% at the national level. Source: Statistics Canada. No date. Table 18-10-0007-01 Basket Weights for the Consumer Price Index.

## Travel

Consumer prices for traveller accommodation fell sharply following the onset of the COVID-19 pandemic, reaching the lowest level since 1987 and the largest year-over-year declines ever recorded. With the United States border closed to non-essential travel and physical distancing measures keeping Canadians close to home, prices fell most strongly at hotels near airports and near tourist destinations, such as Niagara Falls and the Rocky Mountains. Between July 2020 and February 2021, fares declined, on a year-over-year basis, for eight consecutive months, reflecting significantly reduced demand for air travel.<sup>3</sup>

## Clothing and Footwear

During the pandemic, prices for clothing and footwear recorded the largest year-over-year decline on record. With nonessential retail stores closed for a large part of the year, clothing sales fell significantly.<sup>4</sup> In the early days of the pandemic, retailers discounted prices online to reduce inventories. Since then, clothing and footwear prices have yet to recover to pre-pandemic levels, which may reflect an increase in the number of Canadians working from home, where they may enjoy different standards of dress or less wear-and-tear on their clothing.

## Shelter

At the onset of the pandemic, interest rates fell to historically low levels to limit the deflationary impact of disruptions to financial and labour markets. Interest rates remained low throughout the first year of the pandemic and Canadians paid increasingly less in mortgage interest compared with the year before, as they renewed or initiated mortgages at record-low rates. Those low mortgage rates, coupled with higher building costs and consumer preferences shifting toward larger homes, contributed to significant gains in the homeowners' replacement cost index, which is related to the price of new homes.<sup>5</sup> As Canadians entered the second year of the COVID-19 pandemic, the mortgage interest and homeowners' replacement cost indices continued to trend in opposite directions. On a year-over-year basis, mortgage interest cost fell at the fastest rate since 1997 in March 2021, while homeowners' replacement cost rose at the fastest pace since 2006.

Renters also experienced price change as a result of the pandemic. Year-over-year growth in rent prices trended downward throughout 2020 and rents were only 0.1% higher in February 2021 compared with the same month of 2020. With international borders closed, there was a reduction in rental demand from immigrants and non-permanent residents, while post-secondary education moved online, causing a number of students to exit the rental market. These factors contributed to higher vacancy rates, which limited growth in rent prices.<sup>6</sup>

## Supply Shortages

Consumer prices were also affected by various supply shortages during the pandemic, mostly in the short term. In the earliest days of the pandemic, demand rose sharply for a number of household goods, including household cleaning products, household paper supplies and various frozen and non-perishable foods.<sup>7</sup> Prices temporarily rose in response to higher demand, but the effects were short-lived and after the first few months of the pandemic, prices for these items rose at a similar pace as in previous years.

After COVID-19 outbreaks at meat processing plants, prices for meat, particularly beef and pork products, rose significantly due to supply constraints, as the plants were temporarily closed or operating at reduced capacity. Prices for beef and pork products returned to pre-pandemic levels by September 2020.

3. Monthly civil aviation statistics reveal that passenger volumes were down 93.1% (and passenger-kilometers were down 94.0%) in February 2021 compared with February 2020. Source: Statistics Canada. No date. Table 23-10-0079-01 Operating and financial statistics for major Canadian airlines, monthly.

4. Data from the Monthly Retail Trade Survey reveal that sales at clothing stores fell 27.2%, on a year-over-year basis, in February 2021. Sales at shoe stores fell 25.2%. Source: Statistics Canada. No date. Table 20-10-0078-01 Retail sales, price and volume, seasonally adjusted.

5. There are a number of internationally recognized approaches to measure owned accommodation. The Canadian CPI uses a variant of the user cost approach, which means that the CPI does not include the purchase price of property because a house is not considered a consumer good, rather a house is considered a capital good, which is an asset. The CPI measures the ongoing costs of home ownership, including property taxes, mortgage interest cost, homeowners' replacement cost and homeowners' insurance, among others.

6. Canadian Mortgage and Housing Corporation. January 2021. Rental Market Report.

7. G. O'Donnell and R. Taves. April 8, 2020. Canadian Consumers Prepare for COVID-19.

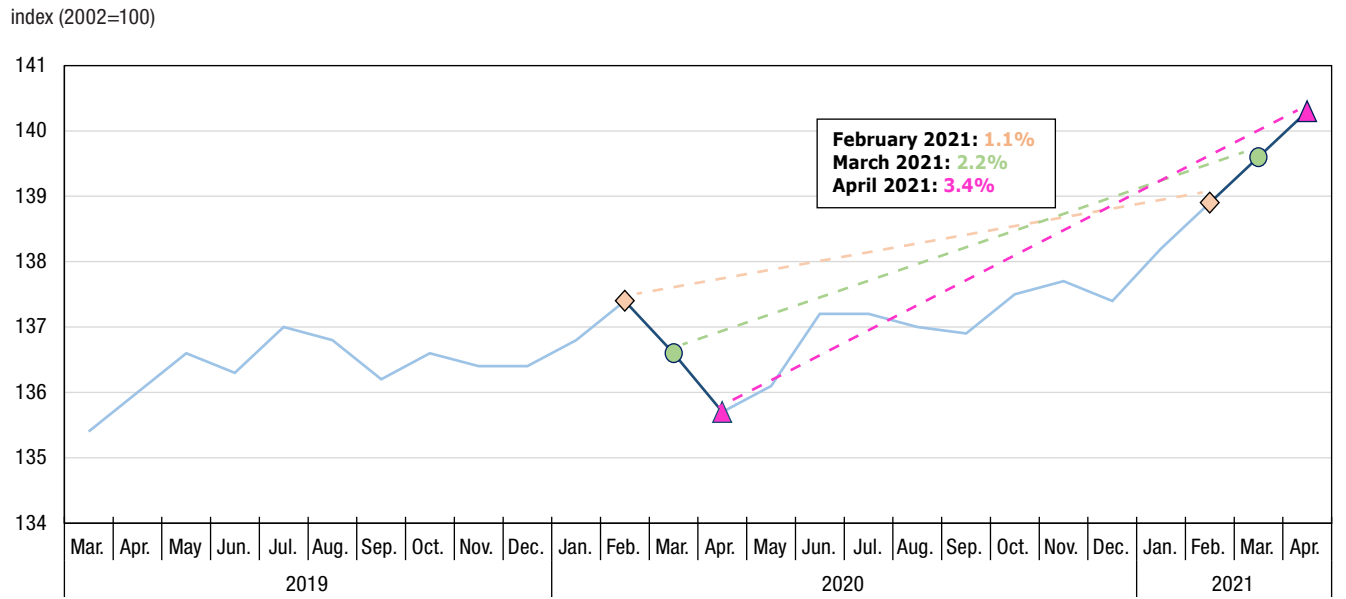
As demand for new homes with more space has increased across North America, combined with more people renovating their homes, the resulting lumber shortage<sup>8</sup> has contributed to higher prices in Canada, particularly for new homes but also for wooden furniture.

Consumer prices for jewellery rose in the last half of 2020 and into early 2021, reflecting higher commodity prices for gold. Investors often hedge against uncertainty by investing in gold as a safe haven during economic shocks.<sup>9</sup> Jewellery prices, which were up 11.8% at the end of 2020, responded similarly during the 2008-2009 economic downturn, peaking at a 13.6% year-over-year gain.

### Impact of base-year effects on 12-month CPI indicator

A base-year effect refers to the impact that price movements from 12 months ago have on the current month's headline consumer inflation. When a large downward price change in the base month stops influencing—or falls out—of the 12-month price movement, this has an upward effect on the headline CPI in the current month (Chart 3). Conversely, a large upward price change in the base month creates downward pressure on the current month's measure.

**Chart 3**  
Consumer Price Index, March 2019 to April 2021



Source: Statistics Canada. Table 18-10-0004-01 Consumer Price Index, monthly, not seasonally adjusted.

Headline consumer inflation slowed from +2.2% in February 2020 to +0.9% in March 2020 to -0.2% in April 2020, the largest two-month slowdown in year-over-year CPI growth since 1992. The broad decline in prices at the onset of the pandemic, led by energy products, clothing and footwear, and travel, has an upward impact on the year-over-year rate of consumer inflation in March and April 2021 because significantly lower prices from 2020 are used as the basis for year-over-year comparison.

The upward impact of these base-year effects will be temporary as the price declines observed in March and April 2020 will fall out of the 12-month price movement.

8. Data from the Industrial Product Price Index (IPPI) reveals that prices for lumber and other wood products increased 56.2%, on a year-over-year basis, in February 2021. Source: Statistics Canada. No date. Table 18-10-0265-01 Industrial Product Price Index, by major product group, monthly.  
 9. N. Huang and C. Li. May 7, 2020. Gold and Silver Prices Amid Pandemic.