

## Underlying inflation picking up in June

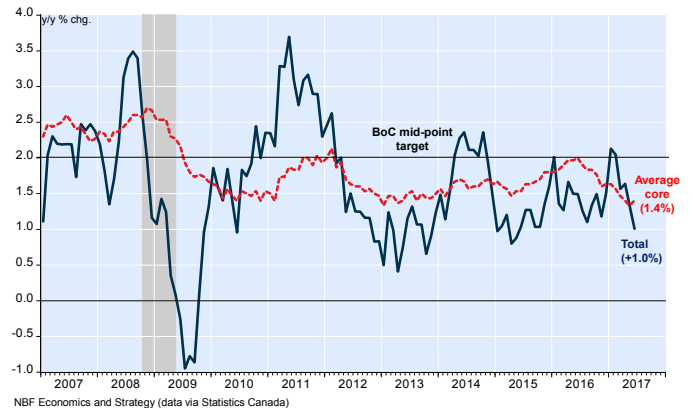
**Total CPI: Latest (y/y): +1.0% (actual); +1.1% (consensus expectations); +1.3% (previous)**  
**CPI-Common: Latest (y/y): +1.4%; +1.3% (previous)**  
**CPI-Median: Latest (y/y): +1.6%; +1.5% (previous)**  
**CPI-Trim: Latest (y/y): +1.2%; +1.2% (previous)**

**FACTS:** Canada's consumer price index was flat in June in seasonally adjusted terms allowing the year-on-year inflation rate to drop three ticks to 1.0% (top chart). The price increases in food (+0.4%), healthcare (+0.3%), alcohol/tobacco (+0.4%), household operations (+0.1%), recreation (+0.1%) and shelter (+0.1%) were offset by the decline in transportation (-0.5%). Clothing prices were flat. On a regional basis, nine provinces experienced a decline in their annual inflation rate. The biggest drops were in Newfoundland & Labrador (1.5% from 3.0%), Manitoba (0.2% from 1.0%) and Alberta (0.4% from 1.2%). Alternatively, inflation remained unchanged in Nova Scotia and disinflation was less pronounced in Quebec (0.6% from 0.7%) and Ontario (1.3% from 1.4%). CPI excluding food and energy rose 0.2% in seasonally adjusted terms but due to base effects, the year-on-year rate remained unchanged at 1.4%. On an annual basis, the CPI-trim stands at 1.2% (unchanged), CPI-Median at 1.6% (up from 1.5%) and CPI-Common at 1.4% (up from 1.3%).

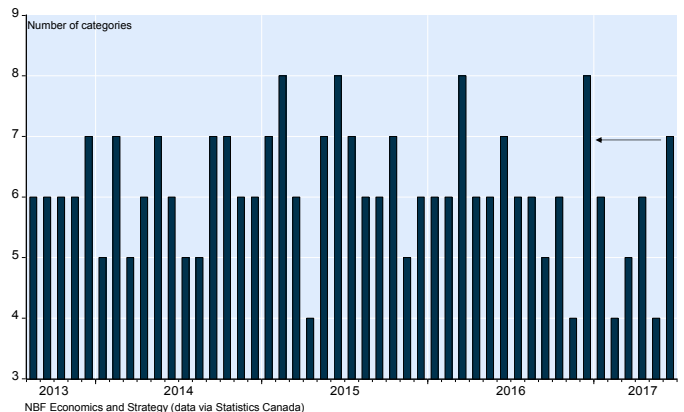
**OPINION:** Inflation in Canada was below expectations for a fifth month in a row. Declining gasoline prices contributed to the decline in the headline rate. As a result, the year over year growth now stands at 1.0%, its lowest level in 20 months. However due to a positive base effect we expect the annual inflation to bounce back in July despite gasoline prices being flat in the month. However, transportation was the only category showing a decline indicating that the weakness was far from being widespread (middle chart). Underlying inflation picked up in June, with CPI ex-food and energy rising 0.2%, its strongest performance in 5 months. Turning to the measures used by the Bank of Canada to gauge underlying inflation, they were also stronger compared to prior months. According to our in-house replication, both CPI-Trim and CPI-median rose 0.2% (bottom chart). As a result, the average of the three measures edged up one tenth from a 17-year low in the prior month. All in all, this report supports our view that the central bank will raise the overnight rate on more time by year end especially since the Bank of Canada blamed temporary factors for the recent weakness in inflation.

Matthieu Arseneau

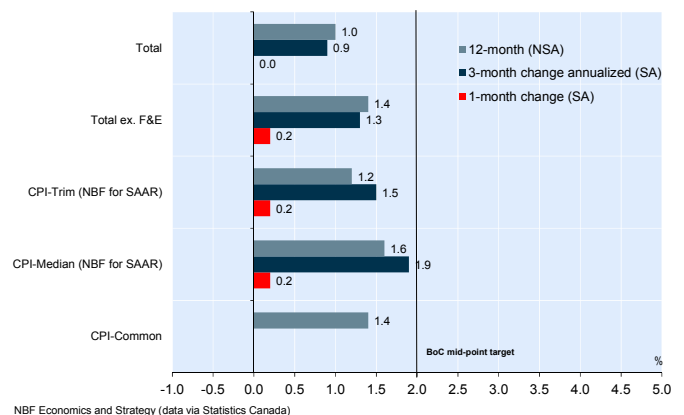
**Canada: Perspective on the consumer price index**  
Total and average of the three core measures preferred by the Bank of Canada



**Canada: Best diffusion in 2017**  
Number of major categories not declining in the month



**Canada: Recent momentum of different inflation measures**  
CPI inflation (%)



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