

Core inflation slowed in May

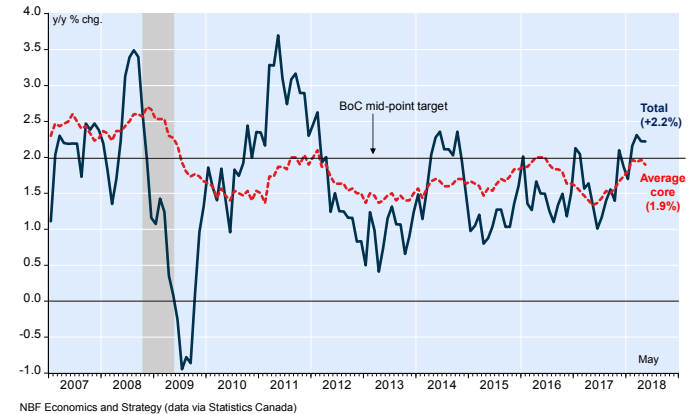
Total CPI: Latest (y/y): 2.2% (actual); 2.6% (consensus expectations); 2.2% (previous)
CPI-Common: Latest (y/y): 1.9%; 1.9% (previous)
CPI-Median: Latest (y/y): 1.9%; 1.9% (previous)
CPI-Trim: Latest (y/y): 1.9%; 2.1% (previous)

FACTS: Canada's consumer price index rose 0.1% (m/m) in May in seasonally adjusted terms causing the year-on-year inflation rate to remain unchanged at 2.2% (top chart). This was well below consensus expectations calling for a 2.6% annual rate. On a month-to-month basis, among the eight major categories only three categories were rising: Recreation (+1.7%), transportation (+0.1%) and shelter (+0.1%). Household operations (-1.0%), food (-0.1%), and clothing (-0.2%) posted declines. Healthcare and alcohol/tobacco were flat. CPI excluding food and energy was down 0.1% in seasonally adjusted terms and the year-on-year inflation rate declined one tick to 1.7%. On an annual basis, the CPI-trim stood at 1.9% (down two ticks from 2.1%), CPI-Median at 1.9% (unchanged from a two tenths downwardly revised print) and CPI-Common at 1.9% (unchanged). On a regional basis, total annual CPI was well above the national average in Saskatchewan (+3.0%), British Columbia (2.7%), Manitoba (+2.7%) and Alberta (+2.6%) but trailed in Newfoundland/Labrador (+1.8%) and Quebec (+1.7%). Price hikes in Ontario (+2.3%) were close to the average.

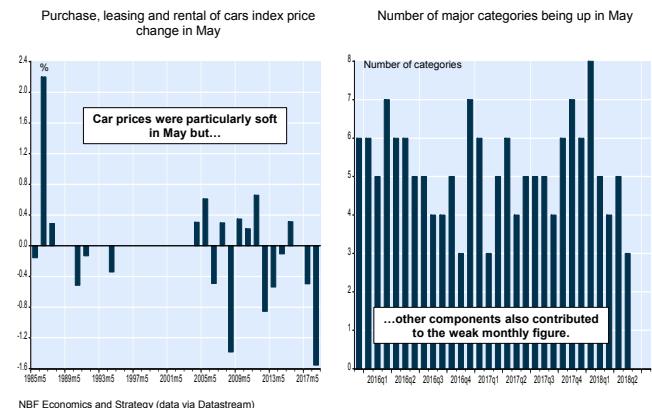
OPINION: Headline inflation was significantly below expectations in May. The rise in gasoline prices was offset by weaknesses elsewhere as shown by CPI excluding food and energy being down in the month, a first since 2012. True, some specific weaknesses could be highlighted for example car prices which registered their sharpest May drop on record. But other components also contributed to May's weakness, as shown by only 3 major categories being up on the month, the worst diffusion in 15 months (middle chart). Not surprisingly, the Bank of Canada's preferred gauges which filter extreme price movements did not exhibit strength in the month as shown by our in-house replication of CPI-Trim and CPI-median respectively registering a flat and a 0.1% rise. Looking at 3-month annualized changes, we observe inflation running at 0.8% for CPI-trim and 1.4% for CPI-median a deceleration compared to the pace registered earlier this year (bottom chart). We expect this lack of inflation to be temporary as tight labour market should continue to support wages and the weakness of the Canadian dollar combined with potential tariffs could mean stronger import prices down the road. All in all, we expect trend inflation to get back to the Bank of Canada target sooner rather than later.

Canada: Annual core inflation essentially on target

Consumer price index: Total and average of the three core measures preferred by the Bank of Canada

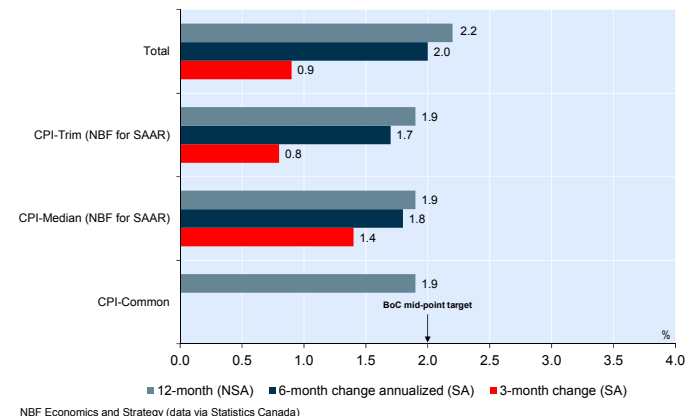


Specific declines can be highlighted but weakness was widespread



Canada: Recent momentum of different inflation measures

CPI inflation (%)



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