

## Lackluster headline CPI hides strengthening core measures

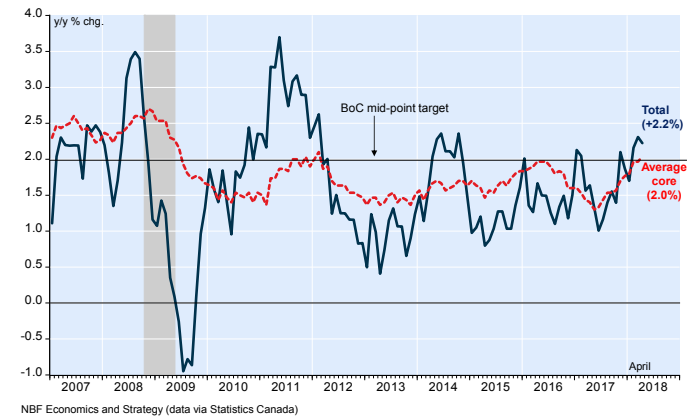
**Total CPI: Latest (y/y): 2.2% (actual); 2.3% (consensus expectations); 2.3% (previous)**  
**CPI-Common: Latest (y/y): 1.9%; 1.9% (previous)**  
**CPI-Median: Latest (y/y): 2.1%; 2.0% (previous)**  
**CPI-Trim: Latest (y/y): 2.1%; 2.0% (previous)**

**FACTS:** Canada's consumer price index rose 0.1% m/m in April in seasonally adjusted terms causing the year-on-year inflation rate to decline one tick to 2.2%. This was below consensus expectations calling for a 2.3% annual rate. On a month-to-month basis, five categories were rising with alcohol/tobacco (+1.0%), clothing (+1.2%), and household operations (+0.7%) experiencing the strongest increases while recreation (+-1.5%), healthcare (-0.5%) and transportation (-0.2%) posted declines. CPI excluding food and energy was flat in seasonally adjusted terms and the year-on-year inflation rate declined one tick to 1.8%. On an annual basis, the CPI-trim stood at 2.1% (up one tick from 2.0%), CPI-Median at 2.1% (up one tick from 2.0%) and CPI-Common at 1.9% (unchanged). On a regional basis, total CPI was well above the national average in Saskatchewan (+2.9%), Nova Scotia (+2.8%) and British Columbia (2.7% year-on-year), but trailed in Newfoundland/Labrador (+1.5%) and Quebec (+1.7%). Price hikes in Alberta (2.3%) and Ontario (2.1%) were close to the average.

**OPINION:** Headline inflation was slightly below expectations in April. The strong rise in gasoline prices was offset by weaknesses elsewhere as shown by a flat reading for CPI excluding food and energy. Despite the lackluster monthly result, the Bank of Canada's preferred gauges continued on their upward trends. Indeed, our in-house replication of CPI-Trim (+0.17%) and CPI-median (+0.16%) were running at annual paces close the midpoint target of the central bank (top chart). Looking at 6-month annualized changes, we observe inflation running at 2.2% for CPI-trim and 2.1% for CPI-median which are in line with their respective annual rates (middle chart). This is essentially the pace we expect this year in a context of full-employment that has already generated the strongest wage inflation since 2012 (3.6%, y/y). Also noteworthy was the recent acceleration in the price of core goods. The latter rose at a 1.5% annual rate in April after having been flat on average over the past ten years. This is not surprising given that the deflationary pressures stemming from import prices have lessened lately (bottom chart). All in all, inflation has accelerated since the last Bank of Canada's rate hike in January, meaning that real policy rate has turned more accommodative. We continue to think that a next rate hike will occur in July as we see the economy accelerating in Q2.

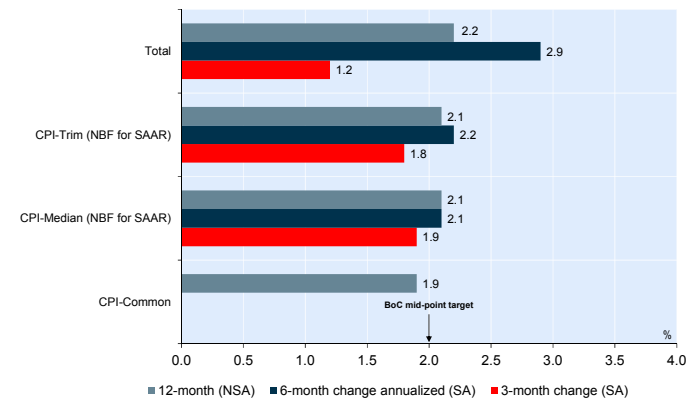
### Canada: Underlying inflation running on target

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



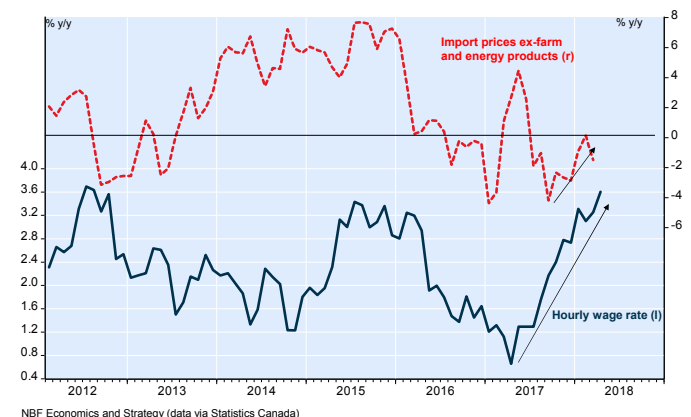
### Canada: Recent momentum of different inflation measures

CPI inflation (%)



### Canada: Tighter labour market and less deflation in import prices

Import prices ex-farm and energy products and hourly wage rate



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