

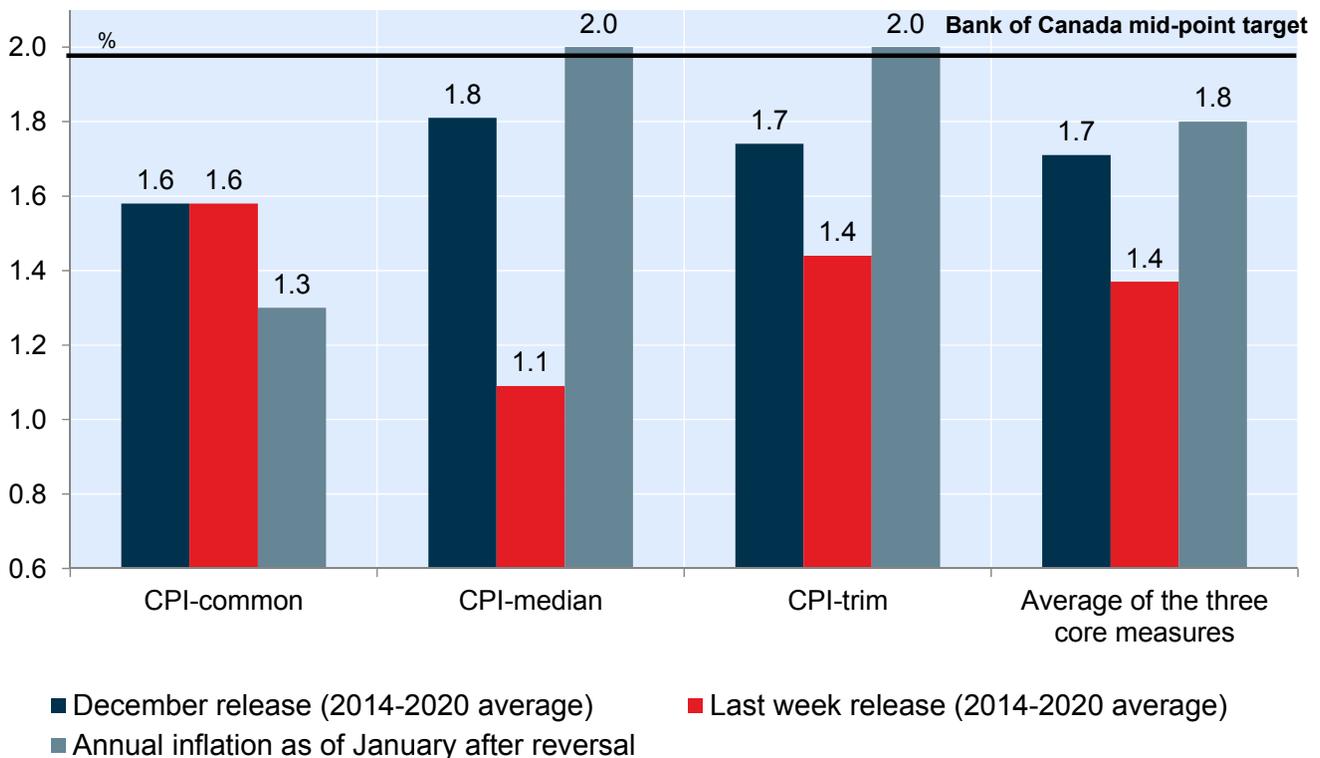
## Canada Watch

By Matthieu Arseneau and Stéfane Marion

A number of investors and economists were stunned when Statistics Canada released its January consumer price index (CPI) report last week. While headline inflation was above consensus expectations, the annual rate of CPI-median (one of the key measure of core inflation) was showing an outsized and totally unexpected deceleration of four ticks from the 1.8% estimated a month ago for December. We rapidly noted that CPI-Median was now accelerating from a downwardly revised number suggesting weaker underlying inflation than previously thought. As it turns out, Statcan had revised both CPI-median and CPI-trim since 2014. As today's Hot chart shows, the revisions were drastic with annual CPI-median running between January 2014 and December 2020 a full seven ticks below what was previously estimated and CPI-trim being revised down by no less than three ticks. Statistics Canada informed its users the following day that they had stopped making seasonal adjustments on components jumping in step during the year (16 components are not collected on a monthly basis). While Statistics Canada wanted to improve their methodology, they did not fully assess its impact on CPI-median and CPI-trim. For a component price changing once a year, it will be flat for 11 months and in the bottom of the distribution of components monthly changes (i.e. driving down mechanically CPI-median and to a lesser extent CPI-trim). This morning, Statistics Canada decided that more time was required to properly assess the impacts of methodological changes made last week and reverted to the previous methodology. This reversal was the good decision. A couple of years ago, Statistics Canada inherited the production of the three core measures originally developed by the Bank of Canada. The statistical agency does not appear comfortable with certain technical choices made originally at the central bank. Important discussions should take place in the coming weeks between the organizations to fix this issue. They need to reconcile the fact that a significant number of CPI components move in step and the central bank's desire to have appropriate indicators of underlying inflation such as CPI-median and CPI-Trim. A potential solution that could emerge from these deliberations would be to make calculations for CPI-Median and CPI-trim with annual variations rather than with monthly changes (the reason why seasonal adjustment is needed). Let's stop talking about the nitty-gritty here and now focus on the recent momentum of core inflation in Canada. Given this morning's reversal, the average of the three core measures is running at 1.8% in January, a bit shy of the central bank mid-point target but a fair bit steamier than the tepid 1.5% initially unveiled last week.

### Canada: Statcan reverses course on core CPI revisions

Annual inflation





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