

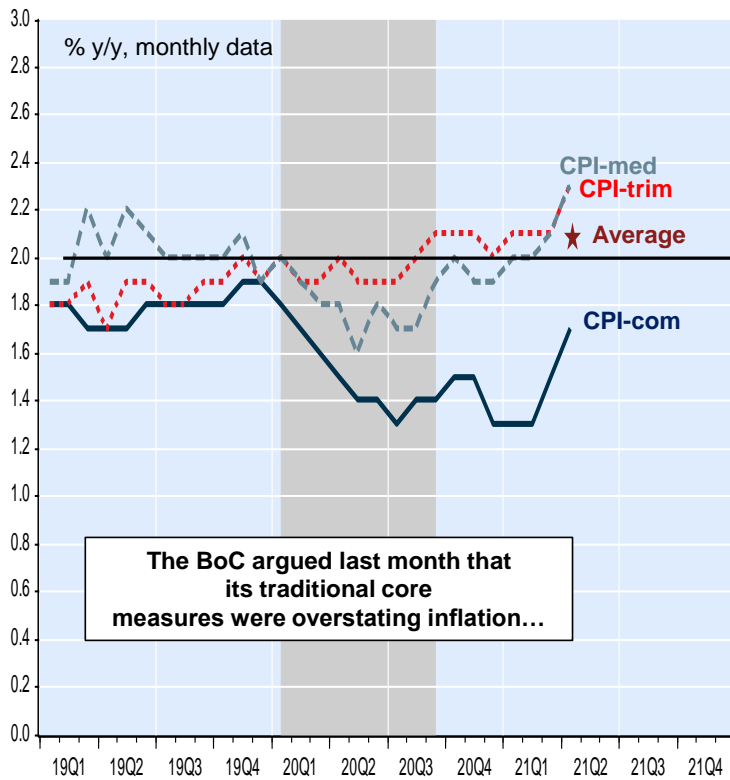
Canada Watch

By Matthieu Arseneau

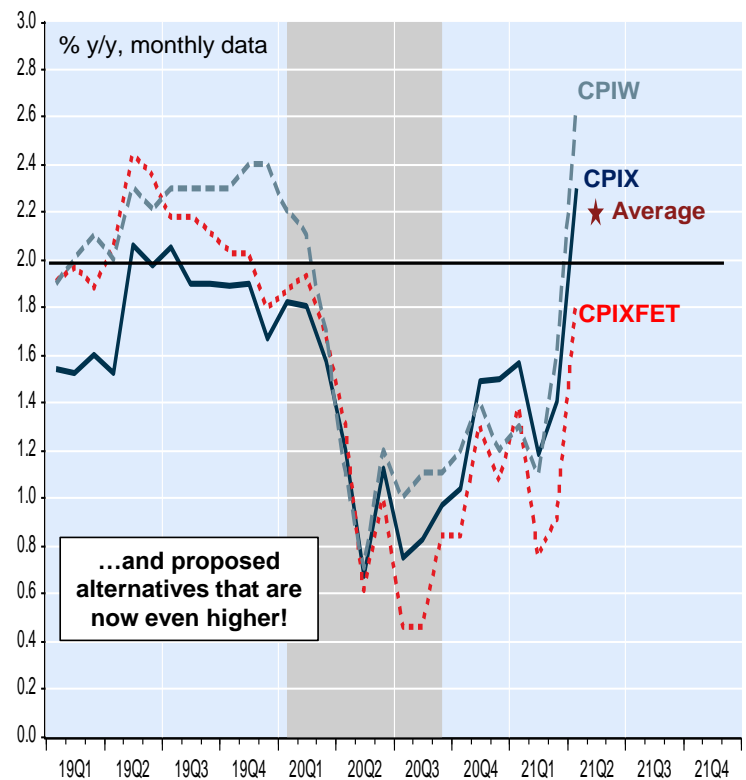
CPI numbers published yesterday for the month of April were above consensus expectations due to widespread monthly gains among categories (see [note](#)). Accordingly, the average of the three measures of core inflation put forward by the Bank of Canada since 2017 rose two ticks to 2.1%, the highest since 2012 and above the central bank's mid-point target. Interestingly, the Bank of Canada recently argued that these three measures of core inflation – CPI-trim, CPI-median and CPI-common – did not provide a faithful picture of trend inflation in the current context and emphasized the need to look at four other measures of inflation to better gauge the situation. We disagreed with the BoC's assessment and argued that it was a mistake to disavow its core measures in favour of a new set of numbers that showed much lower annual inflation as of February (see [note](#)). So how have these new "alternative" measures behaved since the April MPR? As today's Hot charts shows, average annual inflation of CPIXFET/CPIX/CPIW (CPIXSMIP is not available) surged from 1.0% in February to 2.2% in April, even surpassing the average of CPI-med/CPI-trim/CPI-com! It's perhaps time for the central bank to recognize that the output gap is smaller than what is currently assumed.

Canada: The BoC is running out of options for weak core inflation

CPI-trim, CPI-common, CPI-median



Alternative measures of core inflation suggested by the central bank in April MPR



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