



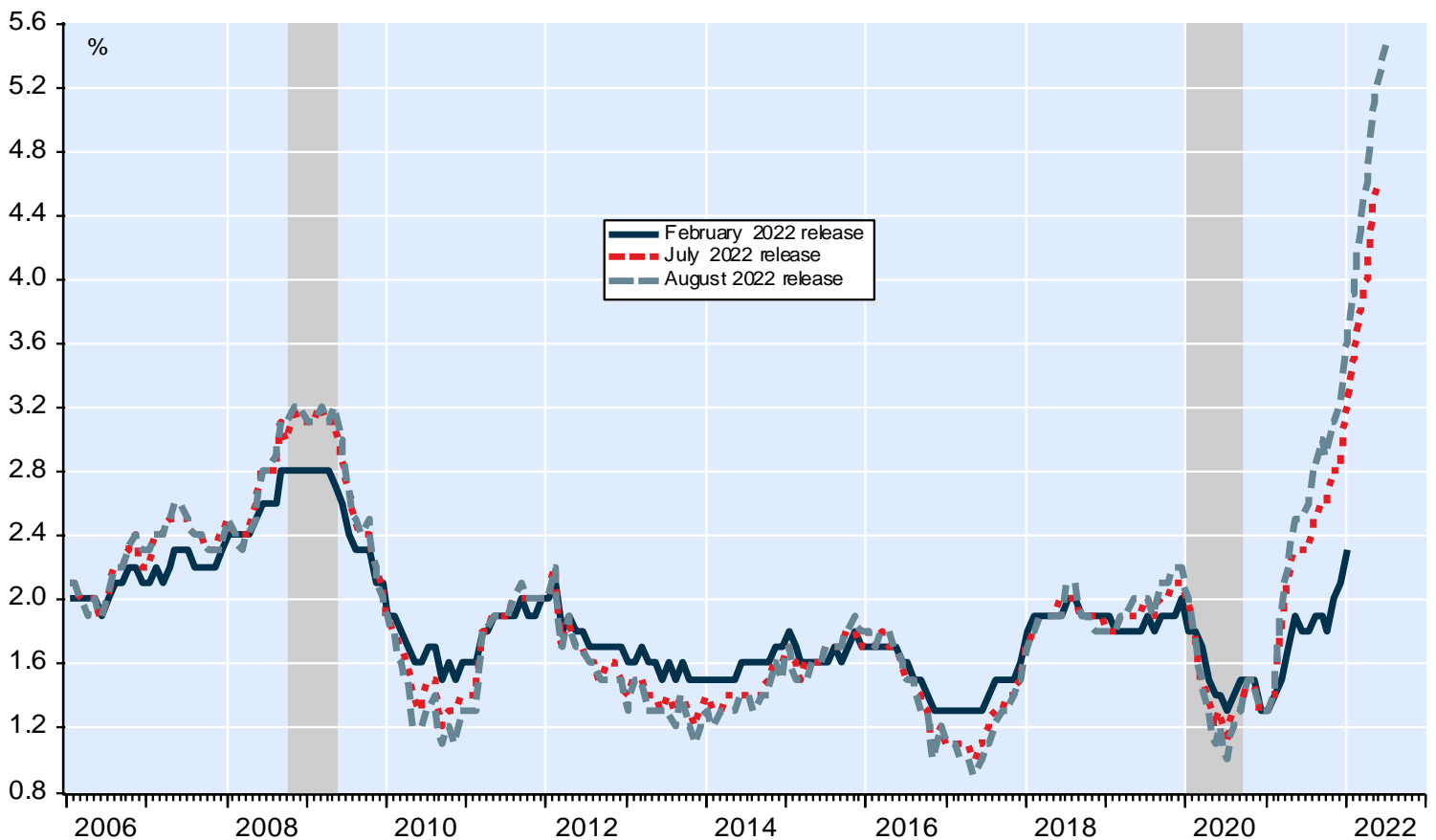
Canada Watch

By Stéfane Marion

Headline CPI inflation is falling, but core inflation is not. The average of the Bank of Canada's (BoC's) three core measures continued to rise in July, reaching 5.3% annually, the highest level in over 32 years. This increase, however, was due to yet another important revision to CPI-common. The measure the BoC has tended to favour saw its June print revised from 4.6% to 5.3%. The cumulative revisions since the beginning of the year are nothing short of dramatic. Recall that the January CPI report originally pegged the common CPI at 2.3%. Last month we were told that this reading had been revised to 3.2% and this month we are now told it was 3.6%! Is core inflation out of control in Canada? We don't think so. In one of our most recent special report, Taylor Schleich, Alexandra Ducharme and Matthieu Arseneau highlighted important shortfalls in the methodology used to calculate CPI-common ([see here](#)). Without going into details, suffice to say that the recent upward deviation of inflation has challenged the statistical method the CPI-common is based on and made it a lot more volatile and less correlated with other measures of core inflation. Given this inherent weakness, we recommend focusing on CPI-Trim and CPI-median, which have proved better at capturing underlying inflation trends. Encouragingly, our in-house replication of these measures showed signs of a slowdown recently, with 3-month annualized progressions dropping significantly below 6-month gains.

Canada: There is something really wrong with CPI-common

Historical revisions to the CPI-common



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