

Canada: Inflation climbs again in April, but the Bank of Canada can afford to wait

By Alexandra Ducharme and Matthieu Arseneau

Highlights:

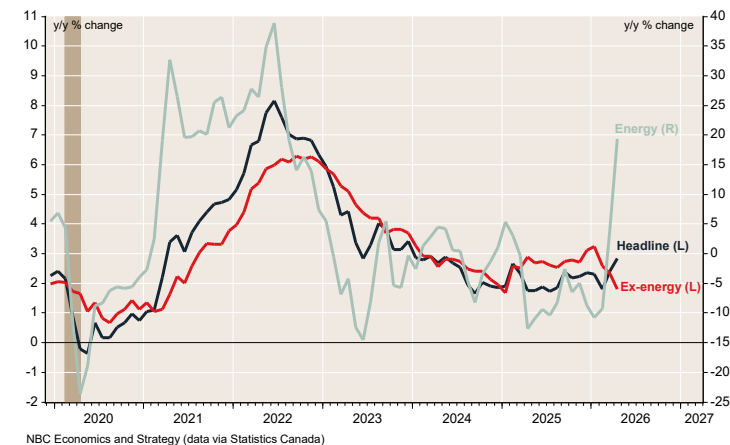
- The Canadian Consumer Price Index rose 0.36% in April in non-seasonally adjusted terms, following a 0.90% increase in March. This was lower than the consensus' expectations for a 0.7% gain.
- In seasonally adjusted terms, prices increased 0.30% in April, following +0.48% in March. Five of the eight major categories posted price increases in the month, led by transportation (+1.79%), clothing/footwear (+0.96%), health/personal care (+0.06%), shelter (+0.05%), food (+0.05%). Recreation/education (-0.69%), household operations (-0.08%) and alcohol/tobacco/cannabis (-0.05%) experienced declines.
- On an annual basis, headline inflation accelerated from 2.4% in March to 2.8% in April, three ticks below the median economist forecast. Excluding indirect taxes, inflation remained unchanged at 3.0%.
- Regionally, Manitoba (+4.3%), Nova Scotia (+4.3%) and New Brunswick (+4.2%) posted the strongest annual increases, while inflation remained below the national average in Ontario (+2.4%) and British Columbia (+2.5%).
- Bank of Canada's preferred core measures: On an annual basis, CPI-median rose 2.1%, down from 2.3% last month, while CPI-trim rose 2.0%, down from 2.2%.
- The more traditional core measure—CPI excluding food, energy and taxes, advanced 1.5% over the last year, down from 2.0% in March. Meanwhile, CPI excluding the eight most volatile components declined from 2.5% to 2.1%.

Inflation edged higher again in April, as the annual increase in prices climbed from 2.4% in March to 2.8%. However, the increase was well below economists' consensus forecast of 3.1%. As in March, the month-over-month increase in consumer prices was largely driven by higher energy prices amid the conflict in the Middle East. Part of the monthly increase in gasoline prices was offset by the temporary suspension of the federal fuel excise tax introduced mid-April, but energy prices still surged 19% annually, as the April 2025 removal of the carbon tax was pushed out of the year-over-year calculations. Excluding energy, CPI fell from 2.3% in March to 1.8% in April (top chart). Meanwhile, food inflation, which is another closely watched category amid ongoing global supply chain disruptions, rose by just 0.05% month over month, a sharp slowdown from the 0.40% increase recorded in March. That said, food prices could still feel the delayed effects of the ongoing Middle East crisis, meaning it would be premature to conclude that inflationary pressures in this category have fully subsided. Excluding food and energy, prices were also surprisingly low, as they remained unchanged monthly, resulting in only a 0.3% gain on a three-month annualized basis. As for the measures favored by the Central Bank, they rose at a slightly faster pace—though not to an alarming extent—to 0.18% for the CPI-Median and 0.14% for the CPI-Trim. On an annualized three-month basis, they are growing at rates that are comfortable for the Central Bank, at 2.2% and 1.5%, respectively (bottom chart).

Since inflation in Canada was already well under control before the recent oil shock, we have argued that the Bank of Canada should look through the rise in energy prices and leave interest rates unchanged. This morning's report reinforces that view. Core inflation remains contained, pointing to an economy still operating with excess supply. It also reflects the continued easing in shelter costs. Indeed, a declining population combined with higher interest rates has triggered a correction in housing prices, particularly in the country's least affordable markets. With vacancy rates increasing amid recent demographic trends, rent prices have been the biggest driver of this slowdown. In this context, and given that the labour market registered its worst start of the year since 2009 (excluding the pandemic), we believe that the risk of second-round effects (wage-push inflation) from the surge in energy prices is limited. True, the conflict is still not resolved, and energy prices are on track to rise again in May, meaning that annual inflation has likely not peaked yet. But interest rates already appear far from accommodative in an environment characterized by geopolitical uncertainty and ongoing trade tensions with Washington. Overall, current conditions argue for a patient approach from the Bank of Canada.

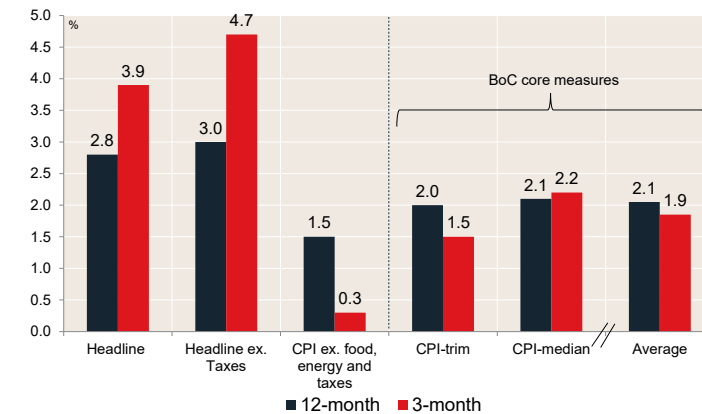
Canada: Energy prices drove inflation higher again in April

Consumer price index (year over year % change)



Canada: Core inflation pressures are moving towards the target

3-month annualized change and 12-month change in the main measures of core inflation



NBC Economics and Strategy (data via Statistics Canada)



	Year over year					3-m annualized change, seasonally adj.				1-m change, seasonally adj.			
	20-year average	12 months ago	Apr-26	Mar-26	1-month trend	12 months ago	Apr-26	Mar-26	1-month trend	12 months ago	Apr-26	Mar-26	1-month trend
Headline	2.2	1.7	2.8	2.4	▲	1.5	3.9	2.9	▲	-0.24	0.30	0.48	▼
Food	3.2	3.8	3.5	4.0	▼	18.5	2.8	2.6	▲	0.46	0.05	0.40	▼
Shelter	2.7	3.4	1.8	1.7	▲	1.1	1.3	0.8	▲	-0.05	0.05	0.32	▼
Household operations, furnishings and equip.	1.3	1.1	0.4	0.6	▼	2.8	-4.1	-5.2	▲	0.30	-0.08	-0.38	▲
Clothing and footwear	0.0	-0.8	2.0	-0.4	▲	-0.4	2.6	1.3	▲	-0.64	0.96	-0.42	▲
Transportation	2.2	-1.9	7.6	3.7	▲	-10.3	24.5	13.6	▲	-1.68	1.79	2.65	▼
Health and personal care	2.0	1.9	3.3	3.3	▲	1.3	2.1	2.8	▼	-0.26	0.06	0.25	▼
Recreation, education and reading	1.3	1.4	1.0	2.6	▼	1.9	1.2	6.7	▼	0.23	-0.69	0.00	▼
Alcoholic beverages and tobacco products	2.6	2.1	1.1	1.3	▼	16.1	0.2	0.6	▼	0.10	-0.05	-0.05	▼
CPI-median	2.3	3.1	2.1	2.3	▼	3.7	2.2	2.0	▲	0.41	0.18	0.23	▼
CPI-trimmed	2.3	3.1	2.0	2.2	▼	3.2	1.5	1.3	▲	0.37	0.14	0.18	▼
All-items excluding food	2.0	1.3	2.7	2.0	▲	-1.3	4.6	3.6	▲	-0.44	0.25	0.56	▼
All-items excluding food and energy	1.9	2.6	1.5	1.9	▼	3.2	0.3	0.5	▼	0.33	0.00	-0.06	▲
All-items ex. 8 most volatile and indirect taxes	2.1	2.5	2.1	2.5	▼	2.8	1.0	1.5	▼	0.44	0.06	0.00	▲
All-items excluding MIC	2.1	1.4	3.1	2.5	▲	-	-	-	-	-	-	-	-
Energy	2.4	-12.7	19.2	3.9	▲	-	-	-	-	-	-	-	-
Electricity	2.5	0.9	3.4	4.0	▼	-	-	-	-	-	-	-	-
Natural gas	-0.6	-14.1	-2.4	-18.1	▲	-	-	-	-	-	-	-	-
Fuel oil and other fuels	4.9	-6.0	41.3	26.1	▲	-	-	-	-	-	-	-	-
Gasoline	2.7	-18.1	28.6	5.9	▲	-	-	-	-	-	-	-	-
Fuel, parts and accessories for recreational vehicles	3.3	-15.7	24.6	5.6	▲	-	-	-	-	-	-	-	-

	Year-over-year percentage change												
	All prices			All items excluding food and energy		Goods		Goods excluding food and energy*		Services		Services excluding food and shelter*	
	20-year average	Latest	Prior month	20-year average	Latest	20-year average	Latest	20-year average	Latest	20-year average	Latest	20-year average	Latest
Canada	2.2	2.8	2.4	1.9	1.5	1.7	4.4	0.9	1.6	2.6	1.7	2.3	1.5
Ontario	2.2	2.4	1.9	2.0	0.8	1.6	4.7	0.9	2.1	2.7	0.8	2.3	1.4
Québec	2.1	3.0	2.9	1.8	1.9	1.6	3.7	1.0	1.1	2.6	2.3	2.2	0.5
British Columbia	2.0	2.5	2.5	1.7	1.3	1.8	4.3	0.9	0.5	2.3	1.2	2.2	1.0
Alberta	2.3	3.2	2.3	2.1	2.1	1.7	3.9	1.0	2.1	2.9	2.6	2.4	3.2
Manitoba	2.3	4.3	3.0	2.1	2.8	1.7	5.2	1.1	1.1	2.9	3.3	2.2	2.1
Saskatchewan	2.3	3.8	2.9	2.0	2.4	1.8	4.9	1.0	1.2	2.9	2.8	2.1	0.5
Nova Scotia	2.3	4.3	3.0	1.9	2.5	2.0	5.6	1.3	3.2	2.6	3.1	2.1	1.1
New Brunswick	2.2	4.2	2.9	1.8	2.1	2.0	5.7	1.2	1.0	2.4	2.5	2.1	2.1
Newfoundland and Labrador	2.2	3.6	2.6	1.7	1.5	2.0	5.2	1.0	1.7	2.4	1.6	1.9	1.2
Prince Edward Island	2.2	3.4	2.3	1.7	0.7	2.2	5.8	1.3	1.6	2.1	1.0	1.9	1.1

*In-house calculation

NBC Economics and Strategy (data via Statistics Canada)



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NBC.EconomicsStrategy@nbc.ca

To contact us: 514-879-2529

Stéfane Marion

Chief Economist and Strategist

stefane.marion@nbc.ca

Matthieu Arseneau

Deputy Chief Economist

matthieu.arseneau@nbc.ca

Jocelyn Paquet

Senior Economist

jocelyn.paquet@nbc.ca

Kyle Dahms

Senior Economist

kyle.dahms@nbc.ca

Alexandra Ducharme

Senior Economist

alexandra.ducharme@nbc.ca

Daren King, CFA

Senior Economist

daren.king@nbc.ca

Warren Lovely

Chief Rates and Public Sector Strategist

warren.lovely@nbc.ca

Taylor Schleich

Rates Strategist

taylor.schleich@nbc.ca

Ethan Currie

Strategist

ethan.currie@nbc.ca

Angelo Katsoras

Geopolitical Analyst

angelo.katsoras@nbc.ca

Nathalie Girard

Senior Coordinator

n.girard@nbc.ca

Giuseppe Saltarelli

Desktop Publisher

giuseppe.saltarelli@nbc.ca

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