Data Release: Canadian headline inflation decelerates in April

- The Canadian headline consumer price index rose by 0.8% year-over-year in April, following a 1.2% showing in March. The April reading was the weakest since October 2013. The Bank of Canada’s core measure (which excludes the eight most volatile components) rose 2.3%, following a 2.4% increase in March.
- Lower energy prices contributed significantly to the deceleration in CPI inflation in April. The gasoline (-21%), natural gas (-14.6%) and fuel oil (-20%) price indices all recorded notable declines.
- Across major subcomponents, seven of eight recorded year-over-year price increases. Food prices increased 3.6%, led by higher meat prices (+11.2%). Prices for tobacco products and alcoholic beverages (+4.3%) and household operations, furnishing and equipment (+3.6%) also recorded notable year-over-year increases. Shelter costs advanced a tepid 0.5%, weighed down by the decline in natural gas and fuel oil prices. The transportation index (-4.2%) was the only subcomponent to record a decrease, reflecting lower gasoline prices. The April decline marks the sixth consecutive monthly decrease in the index.
- On a regional basis, the inflation picture varied but almost all provinces recorded lower rates of inflation in April relative to March. Saskatchewan (+1.2%) and Quebec (+1.1%) recorded the strongest April readings. Prices declined in Prince Edward Island (-1.2%), Newfoundland and Labrador (-0.4%) and New Brunswick (-0.1%). Statistics Canada noted that the steep decline in fuel oils had a larger impact in the Atlantic region as it is used extensively for home heating in the region. Ontario (+0.8%) and B.C. (+0.5%) posted CPI increases at half the rate recorded in March, as natural gas prices fell sharply in both provinces. Alberta's CPI increased 0.7% in April, after decreasing 0.1% in March.

Key Implications

- Headline inflation remained weak in April as lower energy prices weighed on overall CPI inflation. We expect to see further softness in inflation over the next two quarters until the base effect from lower oil prices runs its course. That said, core inflation is expected to remain above the 2% mark, partially buoyed by a lower Canadian dollar. While the Loonie has gained ground in recent weeks, it still remains well below year ago levels and it typically takes four to eight quarters for pass-through effects from higher import prices to be felt.
- Despite core inflation operating above the Bank's 2% target rate, earlier this week Governor Poloz highlighted that underlying inflation is likely hovering around the 1.6%-1.8% range pointing to an economy operating below full capacity. Indeed, while we expect to see an uptick in real GDP growth in Q2, it is still forecast to remain below 2% annualized in Q2, signifying a lack of inflationary pressure from the economy. All told, we expect the Bank of Canada to remain on hold at next week's fixed announcement date.

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