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TD Economics

Data Release: Price pressures pick up in April, but inflation remains benign overall

- Canadian inflation picked up to 1.7% y/y in April, a slight pick up from 1.3% pace in March. The Bank of Canada's core inflation measure, which excludes the eight most volatile items, was up 2.2% y/y, slightly above the 2.1% y/y pace recorded the month prior.
- The waning impact from lower energy prices is a big part of the inflation story these days. Energy prices were still 3.2% lower than a year ago in April, but were up 3.8% on a month over month basis (non-seasonally adjusted). Gasoline prices rose 8.9% (m/m) in April.
- In an opposing trend, previously strong food price inflation has been cooling. While food prices were 3.2% higher than year ago levels, this decelerated from 3.6% in March.

Key Implications

- Inflation edged up on a year-over-year basis, but the month-on-month dynamics show a softer footing, especially for core inflation. This is due to weaker price growth for things like clothing, recreation and education and household operations. Inflation for services remains soft at 1.8% y/y (compared to 2.7% in the United States).
- The bottom line is that inflation in Canada remains benign. Core inflation is essentially on the Bank of Canada's target, and the slight uptick in April is unlikely to keep Poloz and company up at night. Canada's economy continues to work through the difficult adjustment to the oil price collapse, and the current stimulative stance of monetary policy remains warranted.

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