TD Economics

May 19, 2017

Data Release: Little in the way of inflation in April, prices up 1.6% year-on-year

- Consumer price inflation was unchanged at 1.6% (year-on-year) in April. Prices were up 0.5% month-on-month (seasonally adjusted), following a 0.3% decline in March.

- An acceleration in energy price growth helped pull up the headline number. Energy prices are up 9.6% year-on-year, up from 8.5% in the month prior. Food prices rose 0.5% (month-on-month), but are still negative on a year-on-year basis (-1.1%, up from -1.9% in March).

- Weak goods inflation (+0.8%) is the main thing holding back price growth. Services price growth is stronger at 2.5% (up from 2.2% in March).

- The Bank of Canada's core measures were either flat or down, with CPI-median edging down to 1.6% (from 1.7%), CPI-trim to 1.3% (from 1.4%), and CPI-common unchanged at a feeble 1.3%.

Key Implications

- This was yet another month of soft inflation in Canada. With both weak headline and core measures, there is little to get excited about in terms of price pressures. This stands in contrast to other data which point to even stronger economic growth (we're tracking 4.0% for the first quarter, with a robust handoff at the end of the quarter suggesting the second quarter will not disappoint).

- The easiest way to square this circle is that Canada is operating with a fair degree of economic slack, but absorbing it quickly. Based on our outlook for economic growth, Canada will close its output gap by the end of this year. While the outlook is marked by considerable downside risks (oil, housing, trade with the U.S.), there are also upsides (namely increasing support from public infrastructure spending). As long as growth continues, it will put the Bank of Canada in a position to begin raising interest rates in the spring of next year.

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