

Economics

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Canadian CPI (April): All clear on the inflation front

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Consumer price index (% chg)	23:Q4	24:Q1	Feb	Mar	Apr
Year/year rate (unadjusted)	3.2	2.8	2.8	2.9	2.7
Monthly rate (unadjusted)	-	-	0.3	0.6	0.5
Monthly rate (SA)	-	-	0.1	0.3	0.2
Three-month rate (SAAR)	-	-	1.3	1.0	2.3
CPI-trim (year/year rate)	3.5	3.3	3.2	3.2	2.9
CPI-median (year/year rate)	3.4	3.1	3.1	2.9	2.6

Source: Statistics Canada

- Today's data should have provided the all clear on the inflation front that the Bank of Canada needed to start cutting interest rates in June. While headline CPI was in line with consensus expectations, rising 0.5% NSA on the month for an annual rate of 2.7%, we saw continued softness in most core measures of inflation including CPI-Trim and CPI-median which should be enough to bring a first interest rate cut in June.
- While gasoline prices rose during the month, the continued easing in food price inflation meant that headline annual CPI increased 2.7% on a year-over-year basis, down from 2.9% in the prior month. On a seasonally adjusted monthly basis, food prices actually fell by 0.2%, and the annual inflation rate in that category now stands below the overall pace of CPI inflation at 2.3%.
- We have previously noted that food prices also appear to have a big impact on the Bank of Canada's preferred core measures of CPI-trim and CPI-median, and so it was little surprise that both continued to show softness on a monthly basis and a deceleration in their year-over-year rates in April. The annual rates of inflation eased to 2.9% and 2.6% respectively (from 3.2% and 2.9%), with the latter one tick below consensus expectations. Seasonally adjusted monthly increases remained muted, at 0.1%. The monthly increases in CPI-Trim and Median have now been in line or weaker than what would be consistent with a 2% inflation target for four consecutive months.
- Exclusionary measures of core inflation were also tame in April. CPI excluding food/energy posted a 0.1% seasonally adjusted monthly increase, even though that included further upward pressure from mortgage interest costs. Excluding MIC as well, core inflation is only 1.6% on a year-over-year basis. While rents continued to increase, the 0.5% rise was the weakest since November. Telephone services and internet services continued to place the most downward pressure on CPI on a year-over-year basis.

Implications & actions

Re: Economic forecast —At the time of the April interest rate decision, the Bank of Canada Governor stated that policymakers were encouraged by recent subdued inflation readings, but needed those to persist for longer before cutting interest rates. Since then we have received two more months of data pointing to tame underlying inflation, for a total of four in a row, and as such there doesn't appear to be a good reason not to cut interest rates at the next meeting in June. We continue to forecast a first reduction at that meeting, with a total of four 25bp cuts before the end of the year.

Re: Markets — The Canadian dollar weakened and bond yields fell as financial markets placed a greater probability on a first interest rate cut in June.

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