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Canadian CPI (April): Diverging signals

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Consumer price index (% chg)	24:Q4	25:Q1	Feb	Mar	**Apr**
Year/year rate (unadjusted)	1.9	2.3	2.6	2.3	1.7
Monthly rate (unadjusted)	-	-	1.1	0.3	-0.1
Monthly rate (SA)	-	-	0.6	-0.1	-0.2
Three-month rate (SAAR)	-	-	4.0	3.0	1.2
CPI-trim (year/year rate)	2.7	2.9	3.0	2.9	3.1
CPI-median (year/year rate)	2.7	2.7	2.8	2.8	3.2

Source: Statistics Canada

- Diverging signals within today's inflation data produces a real dilemma for the Bank of Canada. Headline inflation suddenly looks less taxing, albeit mainly due to the elimination of the consumer carbon tax and the downward impact of that on gasoline prices. However, at the same time core measures of inflation generally accelerated, with some (CPI-Trim and Median) moving back above 3% on a year-over-year basis. While we previously expected that a renewed weakening within the labour market would bring a 25bp cut from the Bank of Canada at its June meeting, that call now relies on next week's GDP data suggesting that the economy is tracking towards contraction in Q2.
- Headline CPI fell by 0.1% NSA in April (-0.2% SA) and the year-over-year rate decelerated to 1.7%, from 2.3%. Both of these results were a tick stronger than the consensus expectation (-0.2% and 1.6% y/y) but in line with our forecast. Gasoline prices were down 18% y/y, due to a combination of the consumer carbon tax removal and lower global oil prices. Excluding the effects of indirect taxes, headline inflation would have risen 0.4% SA on the month and 2.4% y/y.
- The deceleration in energy prices was partly offset by a slight reacceleration in food prices, which rose by 0.5% SA in April and 3.7% year-over-year (up from 3%). Canada's retaliatory tariffs imposed on US goods likely played a part in this reacceleration, as the list of goods targeted included many food items, and we expect to see some further acceleration in the months head.
- Excluding food/energy, prices increased by 0.3% SA in April following a flat reading in the prior month, partly due to a rebound in travel tour prices following an unusually weak March. Rent prices also rose by the most since last November on a monthly basis (+0.7%), which is surprising given industry data suggesting asking rents are dropping in the largest cities. We expect renewed deceleration in the rent price component of CPI ahead.
- The Bank of Canada's preferred core measures of inflation (CPI-Trim, Median and CPI-X) all calculate price changes excluding the impact of indirect taxes and as a result weren't directly impacted by the carbon tax removal. CPI-Trim and CPI-median both accelerated above 3% on a year-over-year basis (3.1% and 3.2% respectively), although we have shown in the past that these measures can be impacted by broad changes in food prices given their heavy weight in the overall basket. The surprising reacceleration in rent inflation also appears to have played a role. The CPI-X measure of inflation increased by 0.4% SA m/m, but is tracking below the other core measures at 2.6% y/y.

Implications & actions

Re: Economic forecast — While headline inflation was in line with our forecast, core measures looked stronger than anticipated which puts a question mark over our forecast for a 25bp cut at the June meeting. That call now relies on next week's GDP data suggesting that the economy is tracking towards a contraction in Q2, which would be weaker than the Bank of Canada's less pessimistic "scenario 1" forecast within its April MPR. Without that evidence, policymakers could well elect to wait for more data before making further any further reductions in interest rates.

Re: Markets — The Canadian dollar and bond yields rose following today's data, as investors pared back expectations for an interest rate cut at the June meeting.