



# Economic Flash!

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Royce Mendes (416) 594-7354

## Canadian Inflation Makes No Progress in May

All Items (% chg)	17:Q4	18:Q1	Mar	Apr	May
<i>Year/Year Rate (Unadjusted)</i>	1.4	1.8	2.3	2.2	2.2
<i>Monthly Rate (Unadjusted)</i>			0.3	0.3	0.1
<i>Monthly Rate (SA)</i>			0.1	0.1	0.1
<i>Three-month Rate (SAAR)</i>			3.1	1.2	0.9
<i>CPI-Trim</i>	1.5	1.8	2.0	2.1	1.9
<i>CPI-Median</i>	1.5	1.6	1.9	1.9	1.9
<i>CPI-Common</i>	1.5	1.6	1.9	1.9	1.9

- Expectations for a steep rise in inflation were running high, but today's numbers came in miles below the street's consensus. The lack of hotter inflationary pressures owed to weakness across a handful of categories, but the Bank of Canada's core measures are still hovering around the 2% target. With just over two weeks until the Bank of Canada's rate announcement, there are still a number of events which could affect the decision.
- Headline CPI rose 0.1% NSA, against expectations for a 0.4% advance. That left inflation tracking 2.2% for the second month in a row, a far cry from the 2.6% the street had penciled in. Food prices provided a drag, losing 0.1% SA in May. But, while tough retail competition have kept prices at bay this year, the weakening Canadian dollar could see that change in the months ahead.
- Ex-food and energy didn't look pretty either, declining 0.1% SA in May. Household operations, furnishings & equipment declined a whopping 1.0% SA. A sizable drop in telephone services can be pinned on rising competition among wireless providers, but other components of that category also declined including both household furnishings and equipment. Clothing prices also showed up weak in May.
- While the average of the Bank of Canada's three core measures is now back below the 2% target, the undershoot is minor. The resilience of these core measures at a time when ex-food and energy inflation is tracking its slowest pace since January could be a reason for the Bank of Canada to remain confident about the economy's underlying inflationary pressures.

## Implications & Actions

**Re: Economic Forecast** – Inflation is still expected to heat up in the months ahead as core prices should show a little more vigour. Looking ahead, there are still a number of data releases which could shape the outlook for a July rate hike. Next week, monthly GDP and the BoC's Business Outlook Survey will be released, while employment data will be out the following week. We'll also get a chance to take Governor Poloz's temperature during his speech next Wednesday.

**Re: Markets** – The Canadian dollar is weaker and bond yields have declined following the twin misses on CPI and retail sales today.

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