



Daily Economic Update

April 20, 2018

Canadian underlying inflation trends still generally firm in March

The tick higher in the headline CPI rate to 2.3% in March was softer than expected — although with little sign of softening in underlying trends that are still running around a 2% rate or higher. Energy prices rose about as expected given higher gasoline prices. Ex-food & energy price growth also ticked higher — albeit not quite as much as we expected — rising to 1.9% year-over-year from 1.8%. More recent trends have still been stronger than the latest year-over-year rates imply. Month-over-month gains in ex-food & energy prices have averaged 2.9% at an annualized rate over the last 6 months. That's the highest in 15 years. The Bank of Canada's measures of 'core' inflation still averaged right at the central bank's inflation objective at 2.0%, even with a small tick lower in the CPI-trim to 2.0% from 2.1%. More recent growth trends for those measures have also generally been firm at a slightly above-2% rate.

To be sure, economic growth has softened from the (unsustainable) 4% rate of growth a year ago. Nonetheless, for a 'data-dependant' Bank of Canada, the economy still looks to be operating around its long-run capacity limits, wages and inflation have firmed, and underlying economic activity still seems to be improving at a slightly 'above-potential' rate once looking through transitory near-term wiggles in the GDP data. Yet the overnight interest rate is still 175 basis points below its assumed long-run 'neutral' level. Looking through monthly/quarterly volatility, we think the economic data will continue to improve enough to justify further modest removal of what is still a significant amount of monetary policy stimulus in place at this point in the economic cycle.

Highlights:

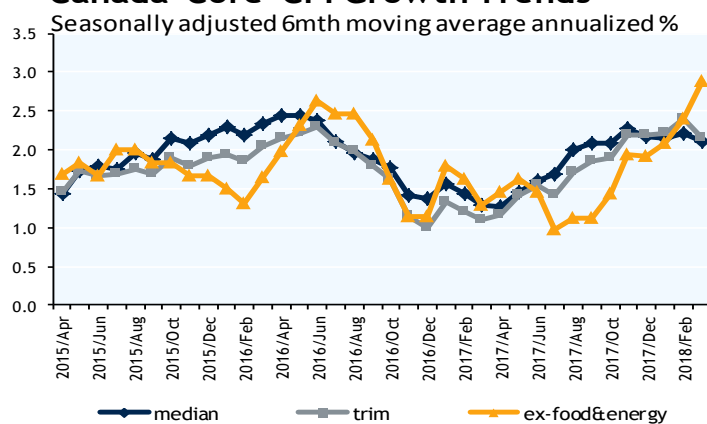
- Year-over-year headline CPI growth rose to 2.3% from 2.2% in February — although that was below market expectations for a 2.4% gain.
- Ex-food & energy price growth strengthened to 1.9% from 1.8% on a year-over-year basis.
- The Bank of Canada's preferred 'core' measures held at a 2.0% average in March although CPI-trim ticked down to 2.0% from 2.1% in February.

Canadian CPI Inflation

	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18
<i>m/m % change</i>					
All Items CPI	0.3	-0.4	0.7	0.6	0.3
Food	0.8	0.3	0.9	0.0	-0.3
Energy	4.1	-1.3	2.4	-0.3	1.2
All items ex-food & energy	0.0	-0.5	0.5	0.7	0.4
<i>y/y % change</i>					
All Items CPI	2.1	1.9	1.7	2.2	2.3
Food	1.6	2.0	2.3	2.1	1.7
Energy	7.6	4.5	2.4	5.3	7.5
All items ex-food & energy	1.8	1.7	1.5	1.8	1.9
BoC 'Core' Measures					
CPI-Trim	1.8	1.9	1.8	2.1	2.0
CPI-Median	1.9	1.9	1.9	2.1	2.1
CPI-Common	1.5	1.6	1.8	1.9	1.9

Source: Statistics Canada, RBC Economics

Canada 'Core' CPI Growth Trends



Source: Statistics Canada, RBC Economics calculations

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