

May 19, 2021

Canada's headline inflation rate jumped in April

- Headline CPI rose 3.4% year-over-year in April.
- Increase boosted by exceptionally low energy prices a year ago, but core price growth also rose.
- Firming demand to replace transitory factors as drivers of price growth later in 2021.

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Canada's headline inflation rate accelerated again in April to 3.4% above year-ago. The increase was led by a big, and long-expected, year-over-year gain in energy components (+32.7%), as prices rebounded fully from extremely low levels a year ago. And those weren't the only ones distorted by base effects. Lower year-ago comparables are also pushing up price growth for items like clothing and footwear (+1.8%), which saw an increase for the first time in a year. And higher homeowner replacement costs (the cost of a newly built home) from rising lumber prices continued to offset lower mortgage payments in the same month.

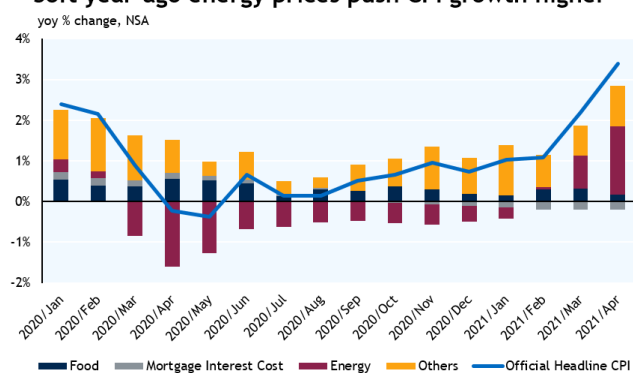
Underlying inflation pressures look to be firming, as 54.2% of goods and services within the CPI basket saw prices rising at a faster than 2% pace in April (on a 3-month rolling average basis), a marked increase from 50.4% in March. BoC's preferred core measures (median, trim, and common CPI) which exclude more volatile movements in prices all moved higher as well. Year-over-year CPI readings will start to slow in the near-term as we move past some of these transitory distortions. Supply chain constraints, sharply rising prices for some production inputs, and an expected surge in household demand once virus containment measures ease are expected to take over as key drivers of price growth later in 2021.

Canadian CPI Inflation

	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21
<i>m/m % change</i>					
All Items CPI	-0.2	0.6	0.5	0.5	0.5
Food	-0.2	0.9	0.4	-0.1	-0.1
Energy	1.9	1.5	4.0	4.4	1.7
All items ex-food & energy	-0.4	0.5	0.2	0.2	0.6
<i>y/y % change</i>					
All Items CPI	0.7	1.0	1.1	2.2	3.4
Food	1.1	1.0	1.8	1.8	0.9
Energy	-4.0	-2.7	2.4	19.1	32.7
All items ex-food & energy	1.1	1.4	0.8	0.9	1.8
BoC 'Core' Measures					
CPI-Trim	1.9	2.0	2.0	2.1	2.3
CPI-Median	2.0	2.1	2.1	2.1	2.3
CPI-Common	1.3	1.3	1.3	1.5	1.7

Source: Statistics Canada, RBC Economics

Soft year-ago energy prices push CPI growth higher



Claire Fan | Economist, RBC Economics | Royal Bank of Canada | T. (416) 974-3639
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