

Daily Economic Update

September 22, 2017

Canadian CPI inflation shows more signs of stabilization in August

There were further tentative signs in August that the puzzling recent underperformance of Canadian inflation measures is gradually coming to an end. To be sure, most of a pop higher in the year-over-year headline inflation rate to 1.4% in August was the result of higher gasoline prices — and the rate itself is still well-below the Bank of Canada’s 2% inflation target. The year-over-year rate excluding food & energy products held steady at 1.5% after posting its first increase in six months in July but two of the Bank of Canada’s preferred ‘core’ inflation measures—the CPI-trim and CPI-common — ticked up slightly with the third — the CPI-median — holding steady at a stronger 1.7%. Perhaps more telling, the underperformance in those core measures on a year-over-year basis seems to have been concentrated earlier in this year. Our calculations suggest the month-over-month increases in the CPI-trim and CPI-median rates, for example, have both averaged over a 2% annualized rate over the last three months. That is the first time that has happened since June 2016.

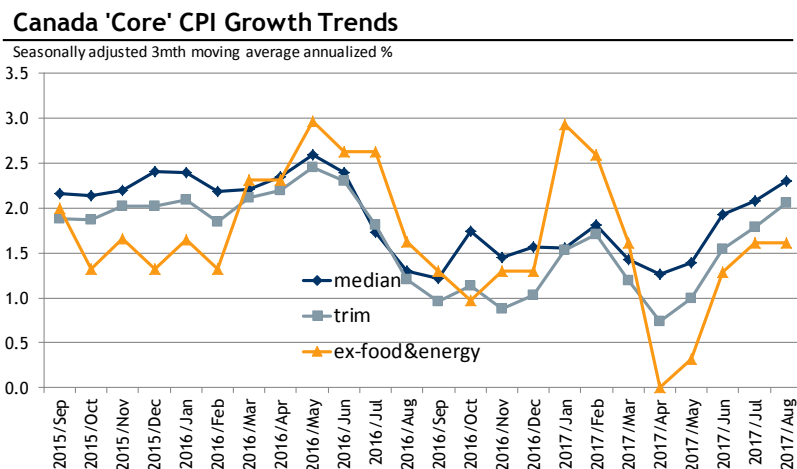
It remains difficult to argue that the underperformance of core measures of inflation over the last year in Canada is related to a lack of consumer demand given strong household spending and what look like relatively tight labour markets. That suggests other likely transitory, but frustratingly difficult-to-identify, factors have been at play. Today’s report provides tentative evidence this underperformance is easing, consistent with our view that price growth closer to the Bank of Canada’s 2% target will gradually reassert itself. We expect that will allow the Bank to continue to hike rates at a gradual pace to lean against strong economic growth, even if current inflation pressures aren’t yet forcing policymakers’ hands.

Highlights:

- The year-over-year rate of headline CPI inflation rose to 1.4% from 1.2% in July — largely because of an increase in energy prices.
- 2 of 3 of the Bank of Canada’s preferred ‘core’ measures ticked higher
- Year-over-year price growth excluding food & energy prices held steady at 1.5%.

Canadian CPI Inflation					
	Apr-17	May-17	Jun-17	Jul-17	Aug-17
<i>m/m % change</i>					
All Items CPI	0.4	0.1	-0.1	0.0	0.1
Food	0.3	0.6	0.3	0.3	-0.3
Energy	4.9	-3.4	-2.0	-0.6	1.8
All items ex-food & energy	0.0	0.2	0.1	0.0	0.0
<i>y/y % change</i>					
All Items CPI	1.6	1.3	1.0	1.2	1.4
Food	-1.1	-0.1	0.6	0.6	0.9
Energy	9.6	3.3	-1.3	0.3	2.3
All items ex-food & energy	1.5	1.4	1.4	1.5	1.5
BoC 'Core' Measures					
CPI-Trim	1.3	1.2	1.2	1.3	1.4
CPI-Median	1.6	1.5	1.5	1.7	1.7
CPI-Common	1.3	1.3	1.4	1.4	1.5

Source: Statistics Canada, RBC Economics



Source: Statistics Canada, RBC Economics Research calculations

Nathan Janzen, Senior Economist, (416) 974-0579, nathan.janzen@rbc.com

For more economic research, visit our web site at www.rbc.com/economics

The material contained in this report is the property of Royal Bank of Canada and may not be reproduced in any way, in whole or in part, without express authorization of the copyright holder in writing. The statements and statistics contained herein have been prepared by RBC Economics Research based on information from sources considered to be reliable. We make no representation or warranty, express or implied, as to its accuracy or completeness. This publication is for the information of investors and business persons and does not constitute an offer to sell or a solicitation to buy securities.