Daily Economic Update

July 21, 2017

Canadian inflation showed some signs of stabilization in June

Price growth continued to moderate in June but with, perhaps, some early evidence of firming in underlying details. Headline CPI growth fell to its lowest level since October 2015 at 1.0% but held steady at 1.4% excluding the volatile food and energy components. That is still an admittedly very modest pace but marks the first month of the last five that the year-over-year rate of ex-food & energy prices has not moved lower. As well, two of the Bank of Canada's three preferred 'core' measures ticked higher in June although the 'CPI-Trim' measure held at a very low 1.2%.

Modest price growth continues to contrast sharply with what increasingly would otherwise look to be an economy that is operating very close to its long-run capacity. More recent comments from the Bank of Canada — including in justifying July's interest rate hike — have argued that sub-trend price growth is more a reflection of a number of transitory factors and the lagged impact of past weakness in the economy. Today's report is not likely to change that view significantly, particularly given a strong increase in the separately released May retail sales report this morning. While there is little consensus on what is behind recent slow price growth, a lack of consumer demand does not appear to be the problem. Consumer expenditures accounted for a record share of GDP last year and have continued to grow strongly over the first half of 2017.

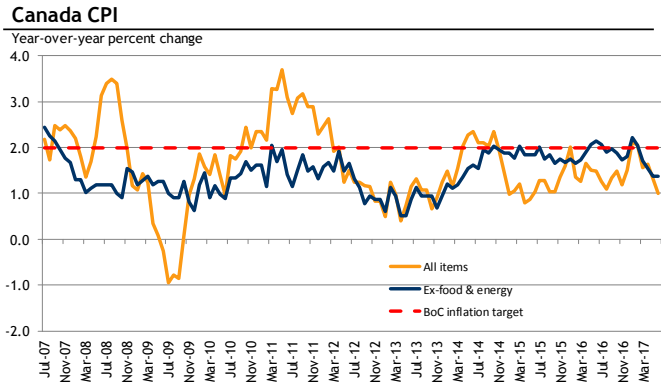
Highlights:

- The year-over-year rate of headline CPI inflation fell to its lowest level since October 2015 at 1.0%.
- Energy prices declined as the price of gasoline fell.
- Year-over-year food price growth inched back into positive territory for the first time last September.
- Excluding the food and energy components, annual price growth held steady at 1.4% marking the first time in five months the measure has not moved lower.
- Two of the Bank of Canada's three preferred core measures ticked higher but all remained below the bank's 2% inflation target

Canadian CPI Inflation

	Feb-17	Mar-17	Apr-17	May-17	Jun-17
	m/m % change				
All Items CPI	0.2	0.2	0.4	0.1	-0.1
Food	0.1	0.1	0.3	0.6	0.3
Energy	-3.0	-0.9	4.9	-3.4	-2.0
All items ex-food & energy	0.4	0.3	0.0	0.2	0.1
	y/y % change				
All Items CPI	2.0	1.6	1.6	1.3	1.0
Food	-2.3	-1.9	-1.1	-0.1	0.6
Energy	12.3	8.5	9.6	3.3	-1.3
All items ex-food & energy	2.0	1.7	1.5	1.4	1.4
BoC 'Core' Measures					
CPI-Trim	1.6	1.4	1.3	1.2	1.2
CPI-Median	1.8	1.7	1.6	1.5	1.6
CPI-Common	1.3	1.3	1.3	1.3	1.4

Source: Statistics Canada, RBC Economics



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