

## Canadian CPI Sends A Dovish Signal To The BoC

### Canada, CPI, y/y %, March:

**Actual:** 1.6

**Scotia:** 2.0

**Consensus:** 1.8

**Prior:** Unrevised from 2.0

### Core inflation, y/y %, March:

**Common component:** 1.3 (prior 1.3% unrevised)

**Weighted Median:** 1.7 (prior 1.8%, revised down from 1.9%)

**Trimmed Mean:** 1.4 (prior 1.5%, revised down from 1.6%)

- Talk of a rate hike any time soon lacks credibility if anchored in the context of the Bank of Canada's inflation mandate as progress toward price stability faces the inconvenient fact that inflation is heading south. This latest batch of numbers shows that the temporary fillip to headline inflation is past its best before date, while core measures continue to drift lower on average alongside downward revisions. Canada 2 year yields fell a by about 1bps after the numbers and the C\$ depreciated slightly.
- The common component core CPI measure was unchanged at 1.3% y/y which remains a 21 year low. Not since July 1996 has this measure of inflation been this low; even during the GFC it fell from a peak of 2.7% y/y to 1.5%. Staff research at the BoC has shown that the common component measure of core CPI is the best correlated with measures of spare capacity on average over time, although this correlation broke down over recent years. I continue to believe the BoC seems to have prematurely backed away from its warnings over a year ago about how income growth would be under multi-year downward pressure following the collapse in commodity prices and that we are seeing the ongoing lagging effects in wages and prices.
- The other two core measures fell. Trimmed mean core CPI was revised down a tick to 1.5% from 1.6% in February and fell further to 1.4% y/y in March. Trimmed mean CPI is at the lowest since June 2015. Weighted median core CPI was revised down to 1.8% y/y in February and fell to 1.7% y/y in March and sits at its lowest since October 2015.
- In month-ago seasonally unadjusted terms, CPI inflation was up by only 0.2%. That's a lot weaker than expected given normal seasonal patterns. That said, some areas of classic seasonality were higher such as clothing and footwear prices that were up 2.4% m/m. Recreation and reading prices were up 1.5% m/m. This was offset by everything else. Prices fell in the transportation (due to a 1.1% m/m drop in gas prices) and household ops/furnishings (-0.2% m/m) categories. Prices were little changed in food, shelter, health and personal care categories while the 'sins' were up 0.3%.
- By province, regions posting higher than average year-ago inflation readings include BC (2.0% y/y), Ontario (+1.9% y/y), New Brunswick (2.8% y/y), New Brunswick (2.8%) and Newfoundland (3.8%) as the biggest outlier. Quebec (+0.9%) and Alberta (+1.3%) dragged the headline lower as did Saskatchewan (+0.6%) and Nova Scotia (+1.3%). Manitoba was average and PEI was a tick above.

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