

Canadian Headline CPI Surges, but Core Inflation Remains Stable

Canada, CPI, y/y %, July:

Actual: 3.0

Consensus: 2.5

Prior: Unrevised from 2.5

Core inflation, y/y %, July:

Average: 2.0 (prior 2.0%)

Common component: 1.9 (prior 1.9%)

Weighted Median: 2.0 (prior 2.0%)

Trimmed Mean: 2.1 (prior 2.0%)

- Canadian inflation, at 3.0% y/y in July, expanded at its fastest pace since September 2011 and greatly exceeded consensus expectations owing to a surge in gasoline and air travel costs (chart 1).** Analysts' median projection of 2.5% y/y missed Statscan's reading by the widest margin since January 2017: among the economists surveyed, the highest projection called for a 2.6% y/y rise. **However, the average of the Bank of Canada's core inflation measures remained relatively stable at around 2.0% y/y.**
- Headline CPI is now running above our latest third-quarter forecast of 2.8% y/y and also significantly above the BoC's July MPR forecast of 2.5% y/y for Q3.** As transitory price pressures from climbing fuel costs fade, headline inflation should track down even as the average of the BoC's three core measures continues to rise slightly.
- The average of the BoC's core inflation measures has now sat at 2% y/y in five of the last six months.** The trimmed-mean core measure ticked higher from 2.0% y/y in June to 2.1% y/y in July, while the other two indices—which track the weighted median and the common price fluctuations separately—remained unchanged at 2.0% y/y and 1.9% y/y, respectively.
- On a month-on-month seasonally-adjusted basis, inflation rose by 0.45%, driven by strong increases in travel services (+4.0% m/m) and inter-city transportation (+3.9% m/m), likely spurred by higher fuel costs; gas prices at the pump rose by 2.8% m/m also.** Chart 2 on the next page shows the components with the highest and lowest m/m changes that together account for 40% of the consumption basket, and which are excluded when computing the trimmed-mean BoC core inflation measure. While prices for the middle 60% of the basket posted a healthy 0.25% increase in weighted terms between June and July, the excluded 40% of the CPI categories rose by a weighted average of 0.76% m/m, which implies significant, albeit temporary, inflationary pressures affecting a large portion of the consumption basket.

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Chart 1

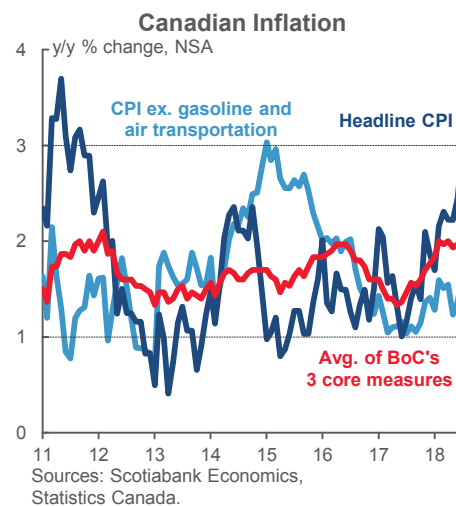
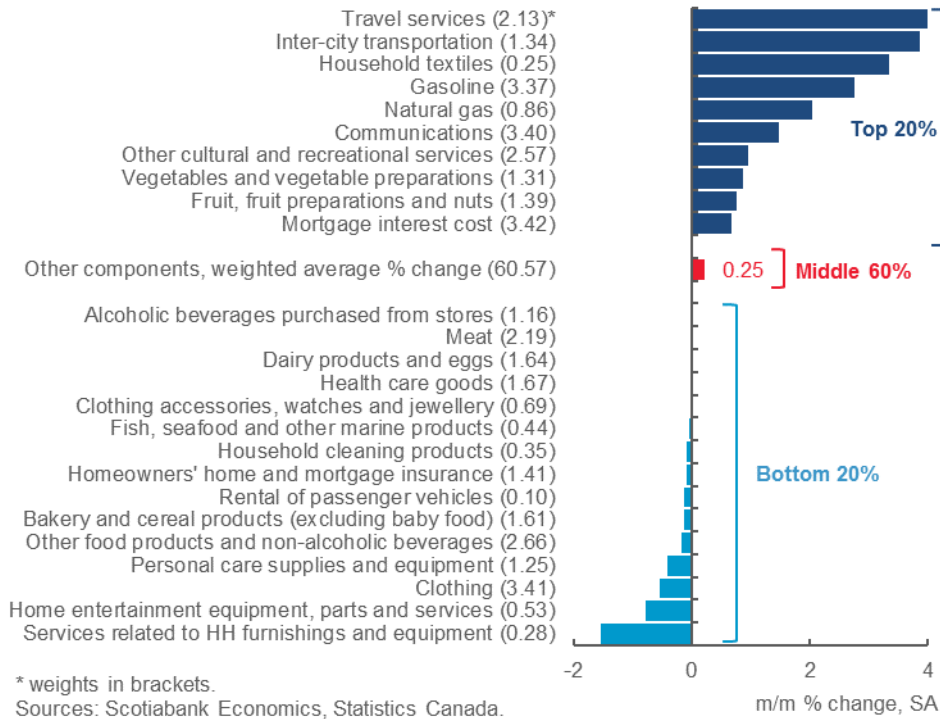


Chart 2

Canadian CPI: Top/Bottom 20% of CPI Basket with Highest/Lowest Month-on-Month Change in July



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