Economic News

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CANADA

A sharper increase in the core index

HIGHLIGHTS

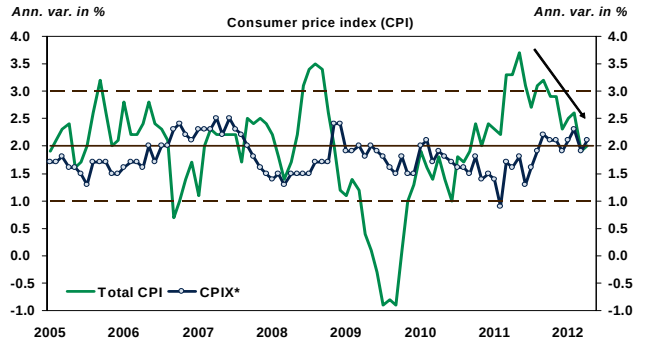
- Just as in March, the all-items consumer price index (CPI) rose by 0.4% in April.
- The main components that contributed to that monthly increase are gas (+3.2%), automotive vehicles (+1.3%), and home maintenance and repairs (+4.8%). Seasonal factors accounted for half of the total CPI monthly increase.
- Conversely, the main components showing a reduction are natural gas (-8.2%), furniture (-1.7%), mortgage interest costs (-0.4%) and women's apparel (-0.7%).
- The total annual inflation rate crept up from 1.9% to 2.0%.
- The Bank of Canada's core index (CPIX), which excludes eight volatile components, edged up by 0.4% in April after a 0.3% increase in March. Its annual change edged up from 1.9% to 2.1%.

COMMENTS

The year-over-year change in the CPI slipped below the Bank of Canada's (BoC) median target only very briefly. However, total inflation could quickly fall back below the target, although the general trend is unlikely to stray too far from it. Favourable underlying factors and subsiding energy prices will bring the all-items inflation down as early as May. Despite further monthly gains in gas prices, the annual change in energy prices have already fallen considerably, from 5.1% in March to 1.1% in April. This means that, for the first time since October 2009, energy prices have risen more slowly than total CPI, year to year. This slowdown is likely to continue.

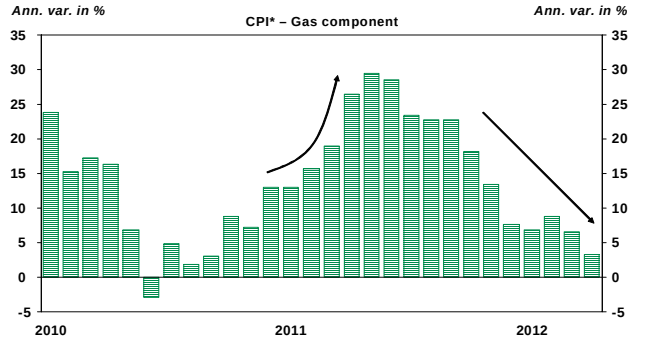
The CPIX shot up more than anticipated in April, double what the consensus had been predicting. We cannot take comfort by blaming seasonal factors, since the seasonally adjusted core CPI also rose by 0.4%. We will therefore need to keep an eye on future changes in the CPIX to gauge the scope of the upward pressure. Fortunately, in recent years, sharp monthly increases in the CPIX have generally been followed by similar decreases.

The annual inflation rate remains stable, close to the Bank of Canada's median target



* Bank of Canada's core index.
Sources: Statistics Canada and Desjardins, Economic Studies

Pressures from rising gas prices continue to fade



* Consumer price index.
Sources: Statistics Canada and Desjardins, Economic Studies

Implications: This surge in the median core index does not make the BoC's job any easier. However, the BoC still has some degree of latitude for managing its monetary policy, and international uncertainty argues in favour of keeping the target for the overnight rate at 1.00% for a few more quarters.

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