

Canada Flash

Headline and core inflation edge upwards

Core CPI, by Bank of Canada (BoC) definition, increased in April by 0.4% and 2.1% MoM and YoY, respectively. Food, household furnishings, and clothing prices also surged 0.3pp, 0.5pp and 2.0pp respectively. Conversely, it appears 1Q12 energy prices pressures are attenuating given the declining gasoline, Brent, and natural gas prices. Surprisingly, even with declining energy prices, headline inflation increased 0.4% MoM and 2.0% YoY, an increase from 1.9%YoY in March. As evidenced in the aforementioned core component increases, domestic consumption remains robust. This consumer-driven growth could present upside risks to inflation in the short-run. Nonetheless, insofar as the energy prices continue to ease and core prices moderate over the coming months, there should be no impetus for sudden changes to the BoC's communication.

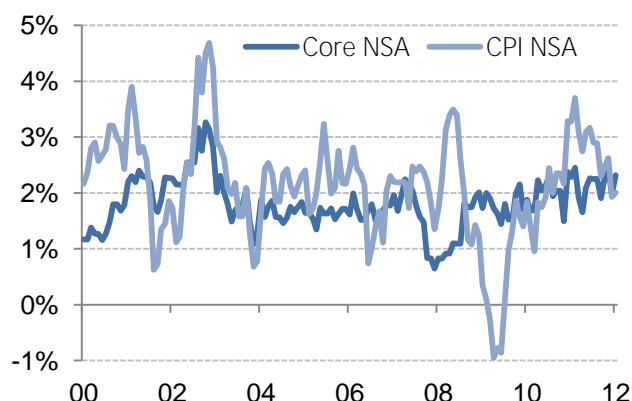
- **Energy prices decline, core components edge up**

In April, food, household furnishings, and clothing increased 2.5%, 2.6% and 2.4% YoY respectively, while the energy component eased to 1.1%YoY. Shelter, which had seen strong gains over the past months, eased. Although, the BoC has alluded to the upside risk to robust domestic consumption- largely fueled by consumer credit- this month's increase should not shift market's expectations for future inflation. However, escalating upticks in inflation would lead the BoC communication to become more hawkish.

- **Uptick in inflation, no cause for panic**

Given the uptick in April inflation and the slightly more hawkish BoC interest rate communication in April, markets could pull forward their expectations for an interest rate increase. However, assuming the uptick is temporary and given the likelihood of slower growth in 1Q12 and thus a larger output gap, we see no reason to believe that rates will increase in 2012. If an upside risk scenarios emerges, for example accelerating core prices, the probability of earlier rate increases would increase.

Chart 1
Canada Headline and Core Inflation
In YoY % Change, Not Seasonally-Adjusted



Source: Haver Analytics

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