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Canadian CPI (Apr): No respite yet

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Consumer price index (% chg)	21:Q4	22:Q1	Feb	Mar	**Apr**
Year/year rate (unadjusted)	4.7	5.8	5.7	6.7	6.8
Monthly rate (unadjusted)	-	-	1.0	1.4	0.6
Monthly rate (SA)	-	-	0.8	1.0	0.7
Three-month rate (SAAR)	-	-	6.8	10.0	10.2
CPI-trim (year/year rate)	3.6	4.4	4.4	4.8	5.1
CPI-median (year/year rate)	3.0	3.5	3.6	4.0	4.4
CPI-common (year/year rate)	2.1	2.7	2.8	3.0	3.2

Source: Statistics Canada

- There's no respite yet for Canadian consumers when it comes to inflationary pressures. Headline CPI accelerated further to 6.8%, from 6.7% in the prior month and against consensus expectations for an unchanged reading. Moreover, with gasoline and agricultural prices still on the rise, headline inflation could well accelerate again in May before finally starting to slow in the second half of the year and into 2023.
- Food prices were a big factor behind today's CPI release, seeing a further 1.1% seasonally adjusted increase, and an 8.5% year-over-year rise. While gasoline prices were down slightly on the month, energy prices in general were modestly higher due to increase in other energy costs. With agricultural commodity prices on the rise again, and with pump prices increasing due to oil and wider refinery margins, both of these important elements of inflation won't ease as quickly as previously expected.
- However, food and energy prices haven't been the only culprits driving inflation recently. Indeed, seasonally adjusted prices excluding food and energy were up by a further 0.5% seasonally adjusted in April, which is clearly well above the trend consistent with a 2% annual inflation target. Moreover, the average of the Bank of Canada's three core measures also moved up to 4.2%, from 3.9% in the prior month.
- Owned accommodation costs were an important driver of inflation again in April. Unsurprisingly, given the increase in interest rate expectations seen since the start of the year, mortgage interest costs became a positive contributor to the monthly change in headline CPI for the first time since early 2020. That will obviously continue as interest rates move up further. However, April CPI also saw big monthly contributions still from homeowners' replacement costs and other owned accommodation expenses (mostly real estate agent fees), which should start to fade relatively soon given evidence of a slowing in housing market activity.
- On a more positive note for Canadian consumers, goods prices excluding food and energy rose by a more modest 0.3% in April, following some outsized gains in the prior three months, which could be a sign of some supply chain issues and delays following bridge blockades were starting to fade.
- Alongside the data release today, Statistics Canada also published a research note regarding the addition of used car prices to the CPI basket, which will happen next month at the same time as the annual basket weight change. At present, used car prices are proxied using prices for new vehicles, but actual used car prices will be used as an input from the May data onwards. Used car prices in Canada have a smaller weight than in the US (1.8% of basket vs 4.1%) and have not risen quite as much over the past year as they have stateside. Statistics Canada estimated that

March headline CPI would have been only 0.2%-pts stronger year-over-year if used car prices had already been separately accounted for in the CPI basket.

Implications & actions

Re: Economic forecast — Some like it hot, but not the Bank of Canada when it comes to inflation. The fact that inflation is pushing further above the Bank's MPR forecasts virtually guarantees another 50bp hike at its next meeting, and it could well follow that up with another outsized move to get the overnight rate to the bottom end of its neutral range (2-3%) quickly. However, after that, signs of a slowing in the domestic economy and home-grown inflationary pressures should slow down the pace of rate hikes, and we still suspect that the Bank won't have to take rates above 2.5% in order to slow growth enough to bring inflation down to its 2% target in 2023.

Re: Markets — Bond yields moved higher straight after the data release, but had generally retreated back to pre-8:30am levels after an hour, as investors judged that the slightly hotter than expected CPI release didn't add further to the already very hawkish expectations priced into financial markets.