

Economics

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July 20, 2022

Canadian CPI (June): A negative surprise, at last

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Consumer price index (% chg)	22:Q1	22:Q2	Apr	May	June
Year/year rate (unadjusted)	5.8	7.5	6.8	7.7	8.1
Monthly rate (unadjusted)	-	-	0.6	1.4	0.7
Monthly rate (SA)	-	-	0.9	1.1	0.6
Three-month rate (SAAR)	-	-	11.1	12.5	10.6
CPI-trim (year/year rate)	4.4	5.3	5.1	5.4	5.5
CPI-median (year/year rate)	3.8	4.8	4.5	4.9	4.9
CPI-common (year/year rate)	3.5	4.4	4.0	4.5	4.6

Source: Statistics Canada

- Another month, another decades-high Canadian inflation reading, but this time lower than anticipated. Headline CPI inflation increased 0.7% month-over-month in June to reach 8.1% year-over-year (consensus +0.9%m/m, 8.4%y/y). Broad inflationary pressures pushed the average of the Bank of Canada's core measures up slightly to 5% from 4.9% in May. As expected, gasoline prices continued their ascension in June and were the big driver of the monthly increase. But the good news is that, with the increase in food prices slowing on the month, CPI excluding energy only increased by a tick to 6% y/y. The Bank of Canada will certainly welcome this negative surprise, though they will get another CPI reading before the September rate decision.
- Building on the May surge, gasoline prices increased a further 6.2% m/m in June to once again be the largest contributor to the overall increase in CPI. In what proved to be an expensive month for Canadians wishing to travel by car, the price of passenger vehicles jumped 1.5% m/m to be the second largest contributor. The price of both new and used vehicles increased, by 1.6% and 1.3% respectively, though for the former this partly reflects a higher availability of newer models. Supply chain disruptions also continue to play a role.
- Food prices slowed considerably on the month, and the 0.1% monthly seasonally adjusted increase is much lower than what was seen in the US release last week. Annual inflation in CPI excluding food/energy increased by only a tick to 5.3%. Service inflation stayed elevated, buoyed by rapid increases in the price of services linked to travel such as traveller accommodation (+11.2% m/m) and air transportation (+6.4% m/m).
- The rapid cooling of the housing market is starting to impact inflation, with shelter cost decelerating. Other owned accommodation costs, which includes real estate agent fees and is linked to house prices, declined in June for the first time since August 2019. In addition, homeowners' replacement costs, while still increasing on a monthly basis, is moderating relative to a year ago. Higher interest rates are however showing up in mortgage interest costs, which jumped 1.4% in June, the largest monthly increase since September 1982.

Implications & actions

Re: Economic forecast — This first negative surprise on inflation in many months will be welcomed by the Bank of Canada. With gasoline prices expected to fall next month, we could finally have seen peak inflation. With the domestic

components of inflation evolving roughly as anticipated, particularly the deceleration in shelter costs, the uncertainty surrounding the speed at which inflation can come down remains largely linked to global drivers such as commodity prices and supply chain issues. The Bank will get another CPI reading before its September rate decision, and will still be deciding between 50 and 75 bps, but today's release may increase the chance they choose the smaller of the two steps. But for now, we still believe 75 bps is more likely.

Re: Markets — Bond yields fell after the release as the lower-than-expected reading relieves some pressure on the Bank of Canada.

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