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Canadian CPI (Jun): World Cup fails to kick inflation higher

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Consumer price index (% chg)	26:Q1	26:Q2	Apr	May	Jun
Year/year rate (unadjusted)	2.2	2.9	2.8	3.2	**2.8**
Monthly rate (unadjusted)	-	-	0.4	1.0	**-0.4**
Monthly rate (SA)	-	-	0.4	0.4	**-0.1**
Three-month rate (SAAR)	-	-	4.2	5.1	**2.7**
CPI-trim (year/year rate)	2.3	1.9	2.0	2.0	**1.8**
CPI-median (year/year rate)	2.4	2.0	2.1	2.1	**1.9**

Source: Statistics Canada

- Headline inflation decelerated in June thanks to lower gasoline prices and, despite some temporary price pressures related to the FIFA World Cup, core measures of inflation were generally subdued as well. Because of that we continue to see the Bank of Canada holding its overnight rate steady for the remainder of this year, even if headline inflation reaccelerates slightly in the months ahead due to recent move in global oil prices.
- The CPI index posted a 0.4% decline in June (-0.1% after seasonal adjustment), with the annual rate easing to 2.8% from 3.2% in the prior month (2.9% consensus). The deceleration was entirely due to lower gasoline prices during the month - something that has partly reversed so far in July. Excluding gasoline, CPI inflation held steady at 2.2%. Food prices were subdued on the month, with food purchased at stores declining on the month. However, food inflation is still 3.9% on a year-over-year basis.
- Excluding food and energy, prices rose by 0.3% seasonally adjusted on the month, with the annual rate accelerating a little more than expected to 1.8% (from 1.6% and versus 1.7% consensus). However, this appears to have been due to temporary price increases in select areas linked to the FIFA World Cup. Prices for traveller accommodation were up by slightly more than 10% year-over-year, driven largely by Ontario and BC where Canada's World Cup games were based. Travel tour and air transportation prices also accelerated year-over-year, which could also be a World Cup impact but also likely reflects higher fares as airlines passed through increases in fuel costs.
- Core measures of inflation that aren't as impacted by large shifts in one or two areas, such as CPI-Trim and CPI-Median, actually printed lower than expected in June to suggest that underlying price pressures remain quite muted. Indeed, the monthly moves in both were the weakest since December, and the annual rates of 1.8% and 1.9% were lower than consensus expectations and the softest since 2020.

Implications & actions

Re: Economic forecast — Headline inflation could well accelerate again next month to at least partly offset the deceleration seen in June, given that oil and gasoline prices have risen again. However, we expect underlying inflationary pressures to remain muted, and potentially even decelerate a little further in late summer/early fall as the temporary increases in some areas linked to the FIFA World Cup fade. The lack of any acceleration in underlying inflationary pressure will enable the Bank of Canada to remain on hold, allowing rates to be kept low enough to support the recovery that is underway within the Canadian economy.

Re: Markets — Canadian bond yields and the loonie both fell following the release as investors saw the softness in core measures of inflation as reducing the probability of a Bank of Canada rate hike this year.